

2022 COVID-19 Intergovernmental Funding Update

Date: May 10, 2022

To: City Council

From: City Manager and Chief Financial Officer and Treasurer

Wards: All

SUMMARY

This report provides an update to City Council on funding received or committed from the Federal and Provincial Governments since the approval of the City's 2022 Operating Budget, providing support towards the City's \$1.4 billion in anticipated added costs and revenue losses in 2022 as a direct result of the COVID-19 pandemic.

At its meeting of April 6 and 7, 2022, City Council considered Item MM42.33 which included a report from the City Manager, and Chief Financial Officer and Treasurer that identified \$478 million in secured COVID-19 support funding; and committed to reporting back to Council in May 2022 with further actions that may be required to ensure the City maintains a balanced 2022 Operating Budget while preserving service levels across the City, in the absence of full funding commitments from other orders of government.

The City has continued to actively engage with Federal and Provincial counterparts at all levels to obtain funding support to address the remaining 2022 COVID-19 related funding gap. There has been one significant COVID-19 funding announcement from the provincial government since the April 6 and 7 Council meeting. The Ministry of Municipal Affairs and Housing provided confirmation on April 8, 2022 that the City of Toronto is eligible for Social Services Relief Fund Phase 5 funding in the amount of \$47.0 million for the purpose of supporting expenses to mitigate the continued impact of the COVID-19 pandemic on the homelessness sector.

An estimated \$525 million in COVID-19 funding has now been announced or secured to address COVID-19 impacts in 2022. As a result, the City's COVID-19 funding shortfall is now estimated at \$875 million or 62.5% of the \$1.4 billion in budgeted 2022 COVID-19 impacts.

The 2022 funding shortfall is further reduced to an estimated \$815 million when assuming provincial reimbursement of an estimated \$60 million in extraordinary COVID-19 related Public Health costs, consistent with prior Provincial assurances and experience.

As noted during the 2022 Budget process, the 2022 Operating Budget has been balanced based on the expectation of continued COVID-19 support funding from the Government of Canada and Province of Ontario. In the event that continued COVID-19 funding is not forthcoming or adequate to fully address the financial impacts arising from the pandemic, the City's capital program will be materially impacted through required one-time actions that cannot be repeated in future years that include pausing planned 2022 capital projects; and drawing from previously paused and set aside capital funding which would have otherwise funded the City's growing capital infrastructure needs.

As also noted during the 2022 Budget process, any delays in receiving funding commitments would impact the City's ability to award and deliver seasonal capital projects. Given the estimated remaining 2022 COVID-19 funding shortfall of \$815 million and timing constraints impacting capital delivery, it is critical that further intergovernmental COVID-19 funding commitments be received by the City this month, otherwise planned capital projects will be paused as early as the end of May. Furthermore, additional funding commitments secured later in the year may continue to have an adverse impact on the 2022 Capital Budget, including the need for project deferrals.

Absent any further intergovernmental COVID-19 funding support, a draw of up to \$515 million from the City's COVID-19 Backstop and a \$300 million reduction to the 2022 Capital Budget will be required to ensure the City maintains a balanced 2022 Operating Budget while addressing the financial impacts continuing to arise from the pandemic.

RECOMMENDATIONS

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

1. City Council receive this report for information.

FINANCIAL IMPACT

The City continues to experience significant and unprecedented financial impacts, both in the form of added costs and revenue losses as a direct result of the COVID-19 pandemic.

As reflected in the Council approved 2022 Operating Budget, it is anticipated that COVID-19 related financial impacts will total \$1.4 billion in 2022 across all City Programs and Agencies, with an estimated \$525 million in COVID-19 support funding secured to date, as reflected in Table 1 below. The anticipated transit funding amount is based on the federal government's publicly announced allocation method as detailed further in the section below and includes matching provincial funding.

Table 1: 2022 Anticipated COVID-19 Financial Impacts

Description \$Millions	2022 Budget	Estimated Fed/Prov Funding	Remaining 2022 Shortfall
COVID-19 Impacts			
Transit	561	438	123
Shelters	288	87	201
Other Municipal Pressures	491		491
Public Health	60		60
Total COVID-19 Impacts	1,400	525	875
Further Funding Assumptions			
Assumed Reimbursement of Public Health costs			(60)
Adjusted Remaining COVID-19 Funding Shortfall			815

Key 2022 COVID-19 Funding Commitments Received Following Budget Approval

Investments in Public Transit Systems Across Canada

The Government of Canada, on February 17, 2022, announced \$750 million in funding to help municipalities address transit shortfalls, to be matched by provinces and territories. This one-time payment was announced "to help cities maintain service levels despite decreased ridership as a result of the pandemic"¹.

The Federal Government noted that funding would be conditional on provincial and territorial governments matching the Federal contribution and accelerating their efforts to improve housing supply, in collaboration with municipalities.

Federal funding is being allocated to provinces and territories based on a formula that incorporates a mix of transit ridership (70 per cent weight) and population (30 per cent weight); and it is expected that Ontario will receive \$316 million of the \$750 million Federal investments.

¹ <https://www.canada.ca/en/departement-finance/news/2022/02/federal-government-announces-an-investment-in-public-transit-systems-across-canada.html>

Should the federal formula be applied to municipal allocations, it is estimated that the City of Toronto will be allocated approximately \$185.5 million of this funding, with a further \$185.5 million in matching provincial funding (\$371 million total).

With \$561 million in estimated transit related COVID-19 impacts in 2022 for the City of Toronto, Council has requested that the Federal and Provincial governments allocate these funds to Ontario municipalities on a needs-basis rather than the Federal formula that incorporates a mix of ridership and population, to ensure that these funds are better directed to proportionately support municipalities that are continuing to experience COVID-19 related transit impacts.

Safe Restart Agreement (SRA) Phase 3 Supplementary Funding

The Ministry of Transportation provided confirmation on March 22, 2022 that the City of Toronto is eligible for Phase 3 supplementary transit funding in the amount of \$67.3 million for the purpose of addressing its COVID-19 municipal transit impacts, incurred between January 1 and January 31, 2022.

Reaching Home Incremental Funding

As part of Federal Budget 2021, the Government of Canada announced incremental funding of \$567.2 million for Reaching Home, Canada's Homelessness Strategy over two years, beginning in 2022. This funding was announced "to help communities extend their response to COVID-19, including extending COVID-19 measures for those experiencing homelessness"².

- Toronto's confirmed incremental funding allocation is \$22.9 million in 2022-2023; as well as a further \$22.6 million in 2023-2024; and is intended to complement the City's current Reaching Home funding.

Social Services Relief Fund Phase 5

The Ministry of Municipal Affairs and Housing provided confirmation on April 8, 2022 (following the last report to Council on COVID-19 funding) that the City of Toronto is eligible for Social Services Relief Fund Phase 5 funding in the amount of \$47.0 million for the purpose of supporting expenses to mitigate the continued impact of the COVID-19 pandemic on the homelessness sector.

Other Funding Commitments and Secured Offsets

Additional funding commitments and offsets include:

- \$16.8 million in secured prior year COVID-19 support funding that was available for eligible shelter expenses incurred up to March 31, 2022 further offsets COVID-19 impacts, as reflected in the 2022 Budget process.
- \$60 million in anticipated Provincial reimbursement of extraordinary COVID-19 related Public Health costs consistent with prior Provincial assurances and experience.

² <https://www.budget.gc.ca/2021/report-rapport/p2-en.html#chap6>

Remaining 2022 COVID-19 Funding Shortfall and Capital Funding Risk

Further funding support from the Government of Canada and Province of Ontario for the estimated \$815 million in remaining 2022 COVID-19 funding shortfall continues to be uncertain.

Funding support continues to be critical to offset COVID-19 impacts on the City's Operating Budget. In the event that adequate funding is not forthcoming in 2022, profound, material and sustained impacts on the City's capital program will be unavoidable, and will likely include pausing state of good repair projects at the TTC, road rehabilitation across the City, parks rehabilitation projects, and construction and retrofits of City parks, community centres and other City buildings.

In the absence of any further Federal or Provincial funding commitments, the City's capital program will be impacted through required one-time actions that cannot be repeated in future years and include the continued pause of up to \$300 million in planned 2022 capital projects; and drawing from paused and set aside capital funding which would have otherwise funded the City's growing capital infrastructure needs.

Other Outstanding Federal and Provincial Funding Supports

In addition to the \$1.4 billion in COVID impacts noted above, the City has also been seeking reimbursement in 2022 for an estimated \$61 million in refugee response costs; and \$27 million in supportive housing costs.

- The Ministry of Municipal Affairs and Housing provided confirmation on May 3, 2022 that the City of Toronto is eligible for \$27.0 million in additional Social Services Relief Fund Phase 5 funding (above the \$47.0 million announced April 8, 2022) to support the extraordinary expansion of supportive housing in the City of Toronto through the City's 24-month Housing and Homelessness Recovery Plan.
- The City continues to seek reimbursement of Refugee Shelter Response costs expected in 2022 (estimated \$61 million) and incurred in 2021, which were estimated to total \$23.9 million when reported as part of the *Operating Variance Report for the Nine Months Ended September 30, 2021* and will be updated to reflect the final 2021 experience as part of year-end reporting.

DECISION HISTORY

At its meeting of April 6 and 7, 2022, City Council directed the City Manager and the Chief Financial Officer and Treasurer to continue to engage with the Federal and Provincial Governments to obtain funding commitments to fully address remaining COVID-19 related financial impacts anticipated in 2022; to obtain funding commitments for 2022 refugee response costs; and to obtain a firm commitment for the

reimbursement of Public Health COVID-19 response and vaccine roll out costs and 2022 supportive housing costs. In addition, City Council requested the Government of Canada and Government of Ontario to allocate the 2022 COVID-19-related operating support for Transit (Federal allocation and Provincial matching amounts) to Ontario municipalities on a needs-basis.

Item MM42.33:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.MM42.33>

At its meeting of February 17, 2022, City Council approved the 2022 Operating Budget, which included \$1.4 billion COVID-19 impacts and the expectation of continued COVID-19 support funding from the government of Canada and province of Ontario.

Item EX30.2: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.EX30.2>

At its meeting of February 17, 2022, during consideration of Item EX30.2, City Council considered the report from the City Manager and Chief Financial Officer and Treasurer dated February 11, 2022, on Intergovernmental Infrastructure Funding in the 2022-2031 Recommended Capital Budget and Plan.

<http://www.toronto.ca/legdocs/mmis/2022/ex/bgrd/backgroundfile-221824.pdf>

At its meeting of February 11, 2022, Executive Committee was provided with Budget Briefing Note #26 entitled, Continued COVID-19 Support Funding from Federal/ Provincial Governments – Capital Funding Risk.

<https://www.toronto.ca/legdocs/mmis/2022/ex/bgrd/backgroundfile-221883.pdf>

At its meeting of January 28, 2022, Budget Committee was provided with Budget Briefing Note #18 entitled, Continued COVID-19 Support Funding from Federal/ Provincial Governments – Potential Impacts of Inadequate 2022 Funding Support.

<https://www.toronto.ca/legdocs/mmis/2022/bu/bgrd/backgroundfile-175687.pdf>

COMMENTS

Capital Funding Risks

The 2022 Operating Budget was balanced based on the expectation of continued COVID-19 support funding from the government of Canada and Province of Ontario. It is currently estimated that \$525 million in 2022 COVID-19 support funding has been secured resulting in a remaining \$875 million COVID-19 funding shortfall in 2022.

When including further funding expectations of \$60 million for the anticipated Provincial reimbursement of extraordinary COVID-19 related Public Health costs, the remaining 2022 COVID-19 funding shortfall is further reduced to \$815 million.

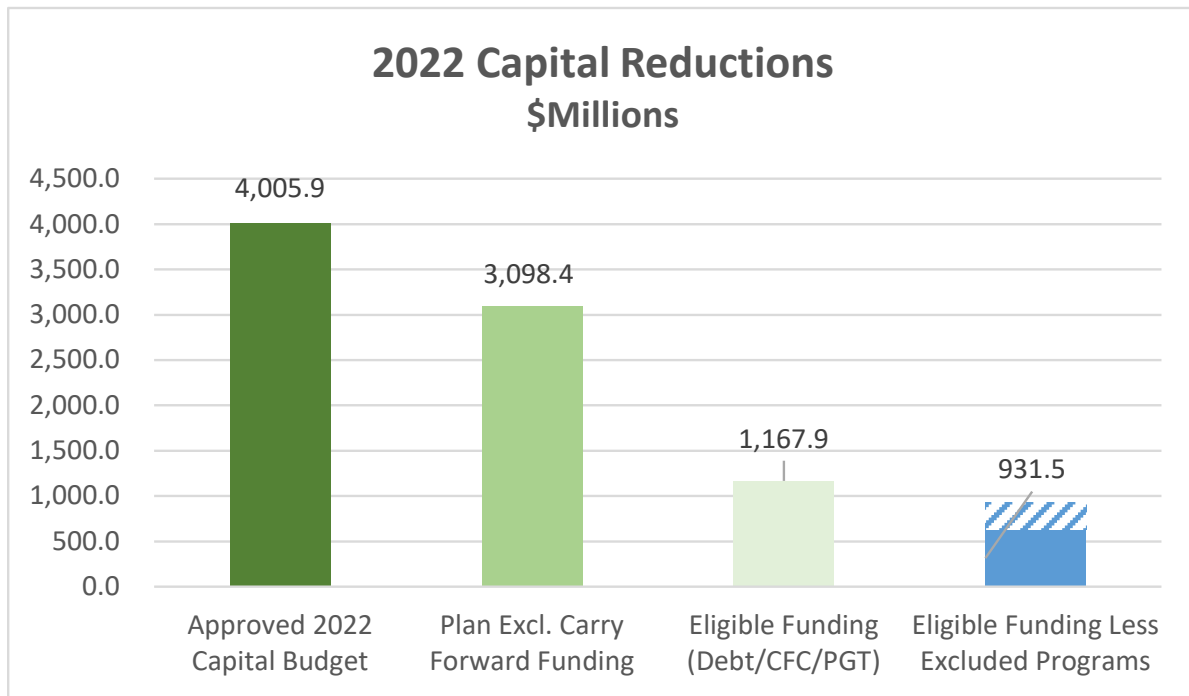
In the event that continued COVID-19 funding to address the remaining shortfall is not forthcoming and adequate to fully address the financial impacts arising from the pandemic, the City's capital program will be materially impacted through the following one-time actions that cannot be repeated in future years:

- \$300 million – pausing 2022 planned capital projects (2022 Capital Budget reduction); and
- \$515 million – capital funding paused and set aside at the onset of the pandemic, as approved by Council, which would have otherwise funded the City's growing capital infrastructure needs.
 - To ensure prudent financial management and in light of uncertain levels of funding support in future years, the City must retain a contingency amount to be in a position to address both unanticipated and prolonged COVID-19 financial impacts while contributing to COVID-19 response initiatives and social and economic recovery.

2022 Capital Budget Reduction

The potential reduction of up to \$300 million or 7.5% from the 2022 Capital Budget would be proportionately allocated across all City Programs and Agencies based on the level of Debt/Capital from Current (CFC) or Provincial Gas Tax funding within the 2022 Capital Budget.

Chart 1: Potential 2022 Capital Reductions



While \$300 million reflects 7.5% of the 2022 Capital Budget, a capital reduction to offset COVID-19 impacts on the City's operating budget presents numerous challenges and requires a 32% reduction from the \$932 million in remaining eligible funding when accounting for the following adjustments to the \$4.0 billion Council approved Capital Budget:

- Carry Forward Funding – Exclude targeted adjustments to project funding carried forward from 2021 to 2022 required to complete in progress or committed capital work;
- Eligible Funding – CFC and Provincial Gas Tax funding have been specifically identified for this requirement, as unlike other capital funding sources such as development charges or debenture financing, they can be leveraged to offset COVID-19 operating pressures with limited restrictions applying only to gas tax funding; and
- Excluded Capital Priorities – TCHC building repairs and Affordable Housing projects have been excluded from potential capital reductions to enable project commitments to continue to advance; resulting in only \$931.5 million in eligible capital funding available for use against \$300 million in possible capital reductions.

The potential reduction would predominantly impact the City's capital investments for Toronto Transit Commission (TTC); Transportation Services; Parks, Forestry & Recreation; and Corporate Real Estate Management, which combined, reflect \$236.0 million or nearly 80% of the total potential 2022 Capital Budget reduction.

- Capital reductions in Programs and Agencies budgets would predominantly impact funding available to address state of good repair requirements.
- Appendix A details the potential 2022 Capital Budget reduction allocation by Program/Agency.

Further Impacts on Capital Priorities

\$1.08 billion in one-time funding otherwise directed to capital priorities has been retained as a COVID-19 backstop. Use of the backstop will have implications to the City's Capital Plan as these funds are ultimately intended to be re-directed to current or future-year capital priorities, with expected allocations towards unfunded capital needs.

- This backstop was the most critical component of the 2022 Budget to ensure a balanced budget.
- The backstop, coupled with the potential \$300 million reduction to the 2022 Capital Budget enabled the City to approve an operating budget that expected Federal and Provincial funding support of \$1.4 billion to offset anticipated COVID-19 impacts, without any formal funding commitments.
- Without a COVID-19 backstop or adequate Federal and Provincial COVID-19 funding commitments, the City would have no choice but to approve a balanced budget that would require budget offsets, service reductions or increased revenues totalling \$1.4 billion to address the financial impact resulting from the pandemic.

While the City may now need to leverage \$515 million of this backstop to offset anticipated 2022 COVID-19 impacts if no further funding commitments are forthcoming,

it is critical that the backstop continue to be preserved to the greatest extent possible to mitigate immediate challenges in the preparation of the 2023 and future year Operating Budgets.

- The reality is that impacts of COVID-19 will be experienced for years to come.
- As part of the 2022 Budget process, staff estimated \$550 million to \$1.1 billion in COVID-19 impacts that are expected to continue into 2023.
- Moving forward, an inadequate backstop with no funding commitments for continued COVID-19 impacts into 2023 and future years would require staff to recommend future budgets that include significant and material cuts to City services and property tax hikes above inflation.

Potential Capital Project Reductions - Timing

Further funding commitments in the amount of \$815 million from the Government of Canada and Province of Ontario are required to ensure there are no impacts on the City's 2022 Capital Budget.

Any further delays in receiving these commitments will impact the City's ability to award and deliver seasonal capital projects. An initial review of the \$300 million in potentially impacted 2022 capital project identified timing constraints associated with the ability to deliver capital this year, as follows:

- 55% or \$166 million will require confirmation of COVID-19 funding commitments by the end of May to be able to proceed in 2022 due to seasonality;
- 16% or \$49 million require funding confirmation by Summer;
- 13% or \$40 million require funding confirmation by Fall; and
- 15% or \$45 million timing of funding confirmation is not applicable, although delayed confirmation will impact 2022 spend rates.

While we will continue to review opportunities to leverage any expected capital under-spending, options may be limited due to recent increased cost escalation experienced in capital delivery and we are now approaching a time where pausing planned capital projects will be imminent if continued COVID-19 intergovernmental funding to address the remaining \$815 million shortfall is not forthcoming and adequate to fully address the financial impacts arising from the pandemic.

Non-COVID-19 Related Funding Requirements

Refugee Shelter Response

The City's 2022 Budget anticipates that up to an additional \$61 million will be required to continue to provide Refugee Shelter Response service. The City has requested the Federal Government to provide financial support to address interim shelter pressures resulting from increased arrivals of refugee claimants. This would continue federal support which has been previously provided to Toronto.

Supportive Housing

The 2022 Budget requires \$27 million in provincial funding for supportive housing. This funding is required in 2022 and is expected to be \$48 million/year ongoing starting in 2023, to ensure that supportive housing units, some under construction now can house vulnerable individuals from the shelter system.

The Ministry of Municipal Affairs and Housing provided confirmation on May 3, 2022 that the City of Toronto is eligible for \$27.0 million in additional Social Services Relief Fund Phase 5 funding to support the extraordinary expansion of supportive housing in the City of Toronto through the City's 24-month Housing and Homelessness Recovery Plan

CONTACT

Stephen Conforti, Executive Director, Financial Planning
Stephen.Conforti@toronto.ca 416-397-4229

Karen Jones, Director, Intergovernmental and Agency Relations
Karen.Jones@toronto.ca 416-397-4429

SIGNATURE

Chris Murray
City Manager

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A - Potential 2022 Capital Budget Reduction by Program/Agency

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Program \$000s	2022 Capital Budget (Excl C/Fwd)	2022 Debt/CFC and PGT Funding*	Capital Backstop	% of Capital Budget
Children's Services	7,617	1,540	(496)	6.5%
Economic Development and Culture	19,138	11,750	(3,783)	19.8%
Parks, Forestry & Recreation	162,509	86,138	(27,738)	17.1%
Seniors Services and Long-Term Care	9,473	0	0	0.0%
Shelter, Support & Housing Administration	23,106	22,106	(4,621)	20.0%
Toronto Housing Corporation	160,000	109,000	0	0.0%
Toronto Employment & Social Services	2,636	2,636	(527)	20.0%
Court Services	308	0	0	0.0%
Housing Secretariat	166,997	117,760	0	0.0%
Toronto Paramedic Services	9,218	7,642	(1,844)	20.0%
Community and Social Services Total	561,002	358,572	(39,009)	7.0%
City Planning	5,136	2,615	(842)	16.4%
Fire Services	6,051	3,785	(1,210)	20.0%
Transportation Services	361,096	278,211	(87,021)	24.1%
Waterfront Revitalization Initiative	98,078	4,010	(1,291)	1.3%
Infrastructure and Development Services Total	470,361	288,621	(90,365)	19.2%
311 Toronto	671	671	(134)	20.0%
Corporate Real Estate Management	170,901	143,247	(34,180)	20.0%
Environment and Energy	27,190	0	0	0.0%
Fleet Services	84,348	0	0	0.0%
Chief Information Security Office	5,966	6,886	(1,193)	20.0%
Technology Services	40,964	20,066	(6,462)	15.8%
Corporate Services Total	330,040	170,870	(41,969)	12.7%
Office of the CFO and Treasurer	0	0	0	N/A
Office of the Controller	56,383	54,988	(11,277)	20.0%
Finance and Treasury Services Total	56,383	54,988	(11,277)	20.0%
City Clerk's Office	4,750	3,765	(950)	20.0%
Corporate Initiatives	960	400	(129)	13.4%
Other City Services Total	5,710	4,165	(1,079)	18.9%
Exhibition Place	20,005	15,455	(4,001)	20.0%
TO Live	20,998	20,998	(4,200)	20.0%
Toronto & Region Conservation Authority	25,860	9,478	0	0.0%
Toronto Police Service	60,527	30,679	(9,879)	16.3%
Toronto Public Health	4,111	3,912	(822)	20.0%
Toronto Public Library	38,448	27,757	(7,690)	20.0%
Toronto Zoo	13,450	13,450	(2,690)	20.0%
Yonge-Dundas Square	100	100	0	0.0%
Toronto Transit Commission (Including Expansion Projects)	1,484,322	168,832	(87,021)	5.9%
Transit Studies	7,093	0	0	0.0%
Agencies Total	1,674,914	290,661	(116,302)	6.9%
2022 Capital Budget Absent Carry Forward Funding	3,098,410	1,167,876	(300,000)	-9.7%
Total 2022 Capital Budget Includes Carry Forward Funding	4,005,879	1,456,640	(300,000)	-7.5%

*PGT Funding is only reflected in the TTC Budget