

Tax Supported 2022 Operating Budget and 2022-2031 Capital Budget and Plan

Date: January 13, 2022
To: Budget Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report presents the City of Toronto Staff Recommended Tax Supported 2022 Operating Budget and 2022 – 2031 Capital Budget and Plan and seeks City Council approval for the Non Program accounts, which are not included in Program/Agency Budget Notes.

The 2022 Operating Budget and the 2022 – 2031 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.

City budgets pre-pandemic identified the need to establish financial sustainability for the City through measures such as cost controls, revenue stabilization and intergovernmental strategies. The health and economic crisis brought on by the COVID-19 pandemic has magnified these issues. As a result, the City faces unprecedented pressures and increased service needs. The City implemented a range of mitigation measures and spending restraints to offset the financial gap created by the pandemic.

As the pandemic continues and uncertainty persists, the City seeks to balance the increased demand for service with its pre-existing objectives of fiscal responsibility.

The development of the 2022 Operating Budget was guided by four key principles, as follows:

- Manage COVID-19 impact and recovery;
- Preserve existing services (consistent with health guidelines & legislative requirements);
- Keeping property taxes affordable; and
- Building a prosperous Toronto with a focus on equity; climate action; and health & well-being.

The development of the 2022-2031 Capital Budget was guided by four further key principles, as follows:

- Continuation to invest in Council approved projects and priorities including climate action and housing;
- Reflect partnerships with other levels of government;
- Achievability and affordability of the Capital Plan; and
- Modernization and business transformation.

The City's fiscal pressures will continue to be significant into 2023 and beyond as the impacts of the pandemic will continue to be experienced as Toronto is an economic driver for the province and country. Toronto's rapid recovery from the economic impacts of COVID-19 is critical. The City delivers essential services to residents and businesses helping them to achieve prosperity. These impacts extend to and benefit the entire Canadian population.

RECOMMENDATIONS

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

1. City Council approve the 2022 Staff Recommended Operating Budget for Corporate Accounts of \$2.153 billion gross and (\$1.261) billion net revenue comprised of the following accounts:

<u>Accounts:</u>	Gross Expenditure. <u>(\$000s)</u>	Revenue <u>(\$000s)</u>	Net Exp. / (Revenue) <u>(\$000s)</u>
Capital & Corporate Financing	1,094,299.8	232,908.2	861,391.6

<u>Accounts:</u>	Gross Expenditure. <u>(\$000s)</u>	Revenue <u>(\$000s)</u>	Net Exp. / (Revenue) <u>(\$000s)</u>
Non-Program Expenditures	807,897.6	206,193.3	601,704.3
Non-Program Revenues	250,431.5	2,974,302.1	(2,723,870.6)
Total Non-Program Budget	2,152,628.9	3,413,403.6	(1,260,774.7)

2. City Council approve the associated staff complement of 394 operating positions for Non-Program (Parking Tags), consistent with 2021 approved levels;
3. City Council approve one-time funding of \$6.780 million in 2022 to fund one-time costs in Toronto Community Housing Corporation not expected to recur in future years;
4. City Council approve budgeted funding of \$26.842 million in 2022 to the Toronto Community Housing Corporation to offset COVID-related operating pressures, subject to final 2022 COVID-19 impacts and secured COVID-19 funding supports;
5. City Council approve the 2022 sinking fund levies of \$416.279 million in respect of the City's capital financing requirements;
6. City Council direct that, commencing in 2022, cost of living adjustments (COLA) for non-union and management employees be reinstated and set at a rate commensurate with the Local 79 and Local 416 COLA adjustments (1 percent in 2022), or at the average rate thereof if the two COLA adjustments are not same in a future year;
7. 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 \$192.890 million;
8. 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;

9. City Council approve the contribution of any annual debt service cost underspending to the Debt Servicing Stabilization Reserve to mitigate any future debt service cost pressure;
10. City Council approve the contribution of any annual MLTT specific surplus to the City's Capital Program in the form of either a contribution to the Capital Financing Reserve or to replace existing or planned debt funding, resulting in increased capital funding capacity for use as part of future year capital budgeting processes;
11. City Council approve 2022 Staff Recommended Capital Budget for Corporate Initiatives with cash flows and future year commitments totaling \$3.355 million (including \$1.835 million of carry forward) as detailed by project in appendix 2.1.1.
12. City Council, in approving the 2022-2031 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.
13. City Council approve contributions and withdrawals to/from reserves in Corporate Accounts as indicated in Appendix 3.
14. City Council authorize the Mayor (or as an alternate to the Mayor, either the Deputy Mayor or the Chair of the Budget Committee) and the Chief Financial Officer and Treasurer, during 2022, to enter into agreements for the sale, or the issuance and sale, of debentures, and revenue bonds and for entering into bank loan agreements, upon such terms and conditions, including price, as they deem expedient, for the purposes of borrowing money to obtain or provide long-term financing of any capital work, in an annual amount not to exceed \$2.0 billion per year provided that such debt issue is in compliance with the Council approved existing debt guidelines.
15. City Council amend Municipal Code Chapter 30, Debenture and other Borrowing, to reflect Recommendation 14 above, and authority be granted for the introduction of the necessary Bills in Council to give effect to the foregoing.

FINANCIAL IMPACT

Staff Recommended Tax Supported 2022 Operating Budget and 2022-2031 Capital Budget and Plan Summary

This report seeks Council approval of the 2022 Corporate Accounts Budget for expenditures and revenues totalling \$2.153 billion and \$3.413 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 \$3.355 million (including \$1.835 million of carry forward) 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 2022 Operating Budget and 2022-2031 Capital Budget and Plan

Total Tax Supported Budget & Plan (\$M)	Operating Budget		Capital Budget & Plan			
	2022		2022		2023-2031	
Programs	Gross	Net*	Gross	Debt	Gross	Debt
City Operations	6,308	2,714	1,423	877	15,446	7,815
City Agencies	4,565	3,192	1,675	197	11,985	1,694
Corporate & Capital Financing	2,153	(1,261)				
Total Budget	13,026	4,645	3,098	1,074	27,431	9,509

*Excludes special dedicated levy

2022 Staff Recommended Tax Supported Operating Budget Overview

The 2022 Staff Recommended Tax Supported Operating Budget is \$13.026 billion gross and \$4.645 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 \$54 million in new or enhanced investments.

Continuous and new investments include a \$1.4 billion to manage COVID-19 through continued partnerships with the Government of Canada, and \$135.0 million to support building a prosperous Toronto including \$71 million in equity initiatives, \$35 million in a safe a livable city and \$29 million in modernization. These have been offset with \$494 million in savings through City-led mitigation strategies.

The Staff Recommended Operating budget primarily allocates funds to social programs (29.0%), TTC services (17.2%), and emergency services (15.9%), with the funding coming from property taxes (35.7%), Federal and Provincial revenues, which includes continued COVID-19 support (31.3%), Land Transfer Tax (7.3%), TTC fares which remain lower than pre-pandemic levels (6.1%) and Fee and Fine revenues (6.1%).

2022-2031 Staff Recommended Capital Budget and Plan Overview

The 2022-2031 Staff Recommended Capital Plan focuses on investments in transit funding (\$13.4 billion), transportation (\$5.4 billion), environment (\$3.4 billion) and housing (\$3.3 billion and a further \$4.7 billion in incentives); and includes increased investments for new capital projects such as trails & pathways, park development and community centres and special facilities as well as the Toronto Zoo, Children's Service and Exhibition Place. The 10 Year Capital Plan also includes new investments in mobility, housing, modernization and transformation and has applied a lens that ensures considerations of infrastructure investment involve a climate focus as part of the decision making process climate change emergency.

The Staff Recommended 10 Year Capital Budget and Plan addresses achievability and affordability, continues to allocate funds generated from the increase to the City Building Fund, addresses recent Council commitments and reflects government partnerships.

DECISION HISTORY

At its meeting on January 30, 2019, City Council adopted the report authorizing the amendment of the Municipal Code Chapter 30, Debenture and other Borrowing authorizing the Mayor to enter into agreements for the sale, or the issuance and sale, of debentures, and revenue bonds, and for entering into bank loan agreements, for the purposes of borrowing money to obtain or provide long-term financing of any capital, in an annual amount not to exceed \$1.0 billion per year; and authorized the Chief Financial Officer and Treasurer to temporarily borrow amounts that the City considers necessary to meet expenses of the City for the year, provided the total amount so borrowed plus the principal amount of any outstanding temporary borrowings together with all accrued interest thereon at any time will not exceed \$500 million per year; or temporarily borrow for capital works pending the issuance of debentures or entering into bank loans, in an amount not to exceed \$500 million per year.

[Agenda Item History - 2019.EX1.8 \(toronto.ca\)](#)

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.

[Agenda Item History - 2020.CC23.3 \(toronto.ca\)](#)

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.
[Agenda Item History - 2020.CC24.2 \(toronto.ca\)](#)

At its meeting on April 7th, 2021, City Council adopted the COVID-19 Recovery and Rebuild Update. This report was the eighth COVID-19 response and recovery update from the City Manager since April 2020. The report provided information and updates from the first quarter of 2021 on public health and emergency response actions, recovery actions, renewed intergovernmental strategy, recovery communication strategy, and how to coordinate all recovery actions in order to build a better City.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX22.1>

At its meeting on July 14th, 2021, City Council adopted the COVID-19 July 2021 update. This report was the ninth COVID-19 response and recovery update from the City Manager since April 2020. The report outlined the City's priorities on both short-term response and sustainable recovery.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX25.2>

At its meeting on November 9th, 2021, City Council adopted the City Manager's October 2021 COVID-19 Recovery and Rebuild update and authorized the City Manager and/or any other relevant City Official, in consultation with the Chief Financial Officer and Treasurer, to apply for and receive funding, and negotiate, enter into and execute any agreements required in respect of receiving such funding, including any amendments and extensions thereto, with the Government of Canada, the Province of Ontario, their respective agencies/partners, or other funding partners until the February 2 and 3, 2022 meeting of City Council.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX27.1>

At its meeting on December 15th, 2021, City Council adopted the report requesting the Government of Canada and the Ontario Government to provide funding commitments to address the City's COVID-19 related financial impacts in 2022 and 2023; to allocate COVID-19 related support to municipal governments on a needs basis, including recently announced provincial operating funding for public transit systems; and to request the Ontario Government to 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).
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.CC38.1>

COMMENTS

COVID-19 Financial Impacts

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

Toronto has been a world leader in responding to and addressing impacts from the COVID-19 pandemic, which has demanded a significant City response that has disproportionately impacted municipalities with large transit systems, shelter services and Public Health services.

In 2022, it is expected that the City will continue to incur \$1.4 billion in COVID-19 related financial impacts based on data available today. The three major areas that continue to be impacted are the TTC (\$561 million); Shelters (\$288 million) and various Corporate Revenues (\$266 million) such as Parking Authority revenues, the Municipal Accommodation Tax and the Toronto Hydro dividend. The City will also continue its commitment to:

- Delivering critical and responsive City services during the pandemic, including the significant investments noted in transit to keep our city moving and support equity; and to Shelter Services to provide additional spaces for physical distancing;
- Investing in public health, including the largest and most successful vaccination campaign in the country and in Toronto's history;
- Accelerating transformational work to deliver affordable and supportive housing;
- Supporting Toronto's economic recovery with an emphasis on small businesses;
- Transforming how and when we interact with residents and businesses through expanded digital services and modernization to deliver services 24/7 (e.g. 311, Concept to Keys (C2K) development application intake); and
- Managing the City's long-term financial sustainability (e.g. City Building Fund, sustainability framework for debt and borrowing).

As the City continues to respond to the COVID-19 pandemic, there are also investments aimed to support in Toronto's recovery:

- Unprecedented and continued support for small businesses (small business property tax subclass, ShowLoveTO shop local campaign, Commercial Space Rehabilitation Grant Program, CafeTO and more); and
- Continuing the City's ongoing COVID-19 vaccination campaign, the largest in Toronto's history and one of the most successful in a major global urban centre.

Achieving success and prosperity for the City will require:

- Hiring critical staff positions to deliver the programs and services necessary to respond to pandemic and recruiting, retraining and retaining skilled staff to deliver recovery strategies;
- Investments in Equity and Indigenous Reconciliation; and
- Climate action to build climate resilience and reduce GHG emissions.

These recovery programs are being developed and delivered with an equity and indigenous reconciliation focus to support Toronto communities hardest hit by the pandemic.

Intergovernmental Strategies and Support

Investments from the Government of Canada and the Province of Ontario remain critical to support public health efforts and limit the spread of the pandemic; sustain vital services such as Transit and Shelters, and supports for equity-deserving groups; and 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.

The economy as a whole cannot fully recover from this pandemic until Toronto's economy recovers. When prosperity is the shared goal of all governments, recovery can be successfully planned, implemented and realized. A collective response, with aligned federal, provincial, and City approaches, will be critical in leading Toronto on a sustained path as the City continues to respond to, and recover from, COVID-19.

To ensure the continued COVID-19 response and facilitate recovery efforts, the 2022 Recommended Operating Budget for Non-Program Revenues includes \$1.4 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 approximately \$2.8 billion in pandemic response funding to address COVID-19 impacts experienced in 2020 and 2021.
- 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.
- Continued support from Government of Canada and Province of Ontario is critical to offset anticipated remaining 2022 COVID-19 financial impacts.
- The City is optimistic that continued 2022 funding is forthcoming from the Provincial and Federal governments. If provincial and federal government funding is not fully received, the City will be required to redirect available and eligible capital funding to maintain a balanced budget, which will result in a significant impact to the City's ability to proceed with capital & infrastructure projects; depending on total 2022 COVID-19 impacts the level of provincial and federal government funding received, there may also be a required in-year adjustment to City services.

Corporate Recommendations

Toronto Community Housing One-Time Funding

The 2022 Recommended Operating Budget includes one-time funding from Non-Program Expenditures towards Toronto Community Housing (TCHC) for 2022 expected COVID-19 impacts (\$26.8 million) and further costs that are not expected to occur in future years (\$6.8 million); in addition to the annual TCHC subsidy that is reflected in the Shelter, Support and Housing Administration 2022 Operating Budget.

Approval of 2022 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 2022 sinking fund levies of \$416,278,518 in respect of the City's capital financing requirements.

Cost of Living Adjustment

Cost of Living Adjustment (COLA) and pay for performance increases were suspended over the past 2 years for non-union and management staff as a cost mitigation measure while the City responded to and managed the impacts arising from the pandemic. Most other Ontario municipalities did not take similar measures.

While this action has achieved cost savings to help address financial pressures resulting from COVID-19, the sustained suspension of COLA would result in challenges and risks as it relates to resourcing and supporting delivery of services and COVID-19 response.

The 2022 Recommended Operating Budget reflects a 1% COLA increase for all City staff, consistent with the rate included in Local 79 and Local 416 COLA adjustments.

Reserve / Capital Contributions

Ongoing investment in the City's Capital Program is necessary to support state of good repair needs, while also ensuring investments to build or acquire assets to meet health and safety, legislative and growth requirements are achieved.

In an effort to expand capital funding capacity, it is recommended that any annual debt service cost underspending be contributed to the Debt Servicing Stabilization Reserve to mitigate any future debt service cost pressure; and any annual MLTT specific surplus be directed to the City's Capital Program in the form of either a contribution to the Capital Financing Reserve or to replace existing or planned debt funding, resulting in increased capital funding capacity for use as part of future year capital budgeting processes.

Debt Charges and Borrowing Authority

The debt charges associated with previous and new borrowings are contained in the Capital and Corporate Financing/Non-Program section of the Operating Budget. Debt charges are affected by past levels of borrowing, interest rates on new debt issuance, the amount of debt issued, and the term of the debt.

With the continued growth of the City's Capital Program and utilization, it is recommended that City Council approve an increase to the upper limit of the annual borrowing authority for the year 2022 from \$1.0 billion to \$2.0 billion.

This authority will not impact adherence to the existing Council approved debt guidelines that are maintained in each year of the 10-Year Capital Plan; and is consistent with annual debt and recoverable debt funding amounts included in the Recommended 2022 – 2031 Capital Budget and Plan.

The recommended amendment to the current borrowing authority for long-term debt financing from \$1.0 billion to \$2.0 billion for 2022 will maintain financial flexibility and support approved capital priorities that utilize recoverable debt. This authority will be reviewed again in 2023 as part of the recommendations to the Incoming Council.

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SIGNATURE

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ATTACHMENTS

Appendix 1: 2022 Staff Recommended Operating Budget

- Appendix 1.1.1 - 2022 Gross Expenditure Budget
- 1.1.2 - 2022 Revenue Budget
- 1.1.3 - 2022 Net Expenditure Budget
- 1.1.4 - 2022 Total New and Enhanced Service Investments

Appendix 2: 2022-2031 Staff Recommended Capital Budget

- Appendix 2.1.1 - 2022 Cash Flow & Future Year Commitments for Corporate Initiatives

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