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2022 CAPITAL BUDGET BRIEFING NOTE
Continued COVID-19 Support Funding from Federal/Provincial Governments – Potential Impacts of Inadequate 2022 Funding Support

Issue/Background:

At its meeting of January 20, 2022, the City Budget Committee requested that the City Manager, in consultation with the Chief Financial Officer and Treasurer, to provide a briefing note on the contingency plan in the event that the remaining $1.4 billion in required COVID-19 relief funding is not received from the Provincial and/or Federal governments, including:

a. the impact on the City's capital plan;
b. the resulting economic impact to the City, regional, and national economy, including impact on jobs; and
c. ramifications for the City's 2023 budget, if there are projected continuing COVID-19 financial impacts beyond 2022.

Key Points:

COVID-19 Financial Impacts

Since the onset of the COVID-19 pandemic 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, the City has had to create a contingency plan to be proactive in the event other orders of Government do not provide assistance.

The 2022 Operating Budget includes $1.4 billion in anticipated COVID-19 related costs and revenue losses, predominantly attributed to reduced transit ridership, added costs for shelter and long-term care services and extraordinary public health costs.

As of the time of the 2022 budget launch, the support from the government of Canada and province of Ontario is uncertain. Funding support continues to be critical to offset COVID 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 include the cancellation of 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.

Municipal Budget Requirements

Municipalities are legislatively required to have a balanced budget; are prohibited to finance operations or budget for a deficit; nor do they possess a revenue structure that would support deficit budgeting even if permissible. In short, municipalities benefit from predictable operating revenues to fund predictable operational expenses.

Financial impacts arising from the pandemic have challenged municipal budgeting, presenting significant costs and revenue losses without viable and sustainable funding offsets.

The City continues to anticipate COVID funding assistance from the federal and provincial governments given various statements made throughout the pandemic, however without a funding commitment for 2022 the City is required to establish a COVID backstop to enable the City to maintain a balanced budget in the event adequate COVID support funding is not forthcoming.

The City's COVID backstop, detailed in this briefing note, has been established at the expense of the City's capital program, reflecting a combination of required 2022 capital budget reductions and the continuation of holding back capital funding that otherwise would have supported the City's growing infrastructure investment requirements.

This backstop has been the most critical component of the 2022 budget, without a COVID-19 backstop or a formal funding commitment from the federal and provincial governments, the staff recommend budget would have required budget offsets totalling $1.4 billion from estimated COVID-19 impacts. Given the magnitude of the COVID-19 impact (including in particular on Transit revenues and Shelter costs), the 2022 staff recommended budget would have included significant cuts to existing services and service levels, coupled with significant property tax increases beyond the current staff recommended increase (i.e. 1% increase generates approximately $35M, 40% increase would generate $1.4B).

The absence of financial support from the federal or provincial governments puts at risk the City's commitment to COVID-19 response initiatives and the economic and social recovery investments that will be needed to support economic recovery in addition to jeopardizing the City's capital plan investments.

Continued COVID-19 Support Funding from Federal/Provincial Governments

From March 2020 to December 2021, the City has received approximately $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 direct result of the pandemic. Additionally, a further $107.3 million was received that the City has flowed to community agencies.

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.

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. Commitments are required in the short term to avoid a reduction in the City's capital program, 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.

Contingency plan in the event that $1.4 billion in required COVID-19 relief funding is not received from the Provincial and/or Federal Governments

The 2022 Operating Budget is balanced based on the expectation of continued COVID-19 support funding from the government of Canada and province of Ontario. To date only $19 million in 2022 COVID-19 support funding has been secured reflecting a portion of 2021 Shelter funding eligible for use until March 31, 2022, requiring an overall 2022 contingency to offset up to $1.380 billion in COVID impacts.

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 the following required unsustainable actions:

- $300 million – Cancellation of 2022 planned capital projects (2022 Capital Budget Reduction); and
- $1.08 billion – of paused and set aside capital funding which would have funded state of good repair projects.

It is important to note that while COVID-19 financial impacts are expected to continue into future years, the proposed capital reduction is a one-time solution and not sustainable. Planned investments in capital will need to continue in 2023 so as not to further challenge the City's state of good repair (SOGR) backlog that is already expected to grow from $7.4 billion in 2022 to $16.3 billion by 2031, prior to any contemplated reductions to the City's capital program.

2022 Capital Budget Reduction – A reduction of up to $300 million or 7.5% from the 2022 Recommended Capital Budget.

- The potential reduction to the 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 Recommended Capital Budget.
- The reduction would predominantly impact the City's investments in state of good repair of City infrastructure, with the most significant impacts residing in the capital budgets for TTC; Transportation Services; Parks, Forestry & Recreation;

and Corporate Real Estate Management (i.e. investments in repairs and retrofits of City buildings).

- The preliminary 2022 Capital Budget reduction allocation by Program/Agency has been developed and staff are engaging impacted Programs and Agencies to identified potentially impacted 2022 state of good repair projects.

Intended Capital Funding – Allocation of a further $1.08 billion in one-time funding intended for capital use, which has been set aside and not yet applied to address the City's growing capital needs, specifically state of good repair projects.

- City staff would be required to leverage funds from capital work paused in 2020 during the onset of the pandemic; 2021 MLTT over performance otherwise directed to capital; and indirectly apply one-time funding made available for the purpose of funding municipal infrastructure and capacity building under the Canada Community-Building Fund (formerly Federal Gas Tax).
    - The Canada Community-Building Fund is eligible for capital purposes only, requiring staff to apply these funds against existing budgeted capital work, then redirecting existing capital funding eligible for use against COVID-19 related operating impacts.
- Lastly, further reserve draws would be needed from the City's remaining uncommitted City reserve balances, which currently only total $264 million, equal to 1.75% of total city 2022 operating budgets.
    - These funds are otherwise available for emergency purposes and/or allocations against expected future capital needs; and have also already been identified as a contingency in the event that federal funding is not forthcoming for 2021 and 2022 refugee response costs of up to $85 million or provincial funding for 2022 supportive housing requirements of $27 million.
- Use of the above contingency would reflect one-time funding, that is not sufficient to address the full 2022 anticipated COVID-19 impacts or ongoing impacts in future years. Furthermore, in a pre-pandemic environment these funds were intended to be invested in the City's capital program to address growing, critical capital infrastructure needs.
- To ensure the City can maintain a balanced budget without further COVID-19 support funding, these funds cannot be used for any other purpose at this time. These funds are ultimately intended to be re-directed to current or future-year capital plans, provided the City is successful in securing permanent funding support for 2022 and future year COVID related financial pressures from the government of Canada and province of Ontario.
- If the City were required to apply this contingency funding with no funding commitments for continued COVID impacts into 2023 and future years, the City would be required to recommend future budgets that include significant and material cuts to City services and property tax hikes above inflation, as further detailed in this briefing note under 2023 budget impacts.

Implications of Reduced Capital Funding

Staff are hopeful that the City will continue to receive support from the government of Canada and province of Ontario without the need to impact the 2022 Capital Budget or City funding otherwise intended to support the capital program.

This is critical as the Capital Budget both addresses City infrastructure needs, including the expected growth in our State-of-Good Repair backlog but also supports the economy through significant investments and job growth.

As reported by the City's Economic Development and Culture division as part of last year's budget process, a 2017 survey by the Centre for Spatial Economics commissioned by the Ontario Government estimated that an increase in public infrastructure spending (non-residential building construction, engineering construction, and capital outlays on machinery & equipment) generates a mid-range estimate of roughly 9 jobs per $1 million expenditure.

The 2022 one-time reduction in capital expenditures and funding intended for capital infrastructure investments will have an impact on job growth, with $1.4 billion in reduced capital expected to impact 12,600 jobs, negatively effecting the Toronto, Ontario and Canadian economy.

Furthermore, the City has taken significant steps of its own over recent budgets to put the City in a better position to direct increased capital funding towards infrastructure repair needs. Through the creation of the City Building fund with a 1.5% dedicated property tax increase recommended in 2022 (resulting in a total residential property tax increase of 4.4%) and further increases planned annually until 2025, which will funds $7.2 billion in capital investments; growth in annual contributions from current (CFC) funding; leveraging operational savings to support capital investments; and the surplus allocation policy, the City has increased SOGR funding across all programs with key investments reflected in TTC base capital funding and TCHC building repairs.

Despite concentrated actions to increase SOGR funding, the City's SOGR backlog is still expected to grow from $7.4 billion in 2022 to $16.3 billion by 2031.

Decreasing the 2022 Capital Budget and redirecting one-time capital funding towards ongoing COVID-19 impacts will materially affect the City's capital program, impacting the City's ability to support capital infrastructure maintenance requirements; potentially impacting services supported by City infrastructure; result in added reactive maintenance costs in future operating budgets; and cancelling investments that include project components that help advance the City's climate goals, jeopardizing the nations GHG emissions reduction targets under the Paris agreement.

2023 Budget Impacts

COVID-19 financial impacts are expected to continue into 2023 and future years. Preliminary estimates assume continued impacts of between $550 million to $1.1 billion in 2023 alone.

The City will be in a precarious position in the event that COVID-19 financial impacts continue in 2023 without either a funding commitment from the federal or provincial governments or the retention of a secured COVID-19 backstop.

As previously noted, the backstop plays a critical role in ensuring the continuation of City services in the absence of a federal or provincial funding commitment.

As the City is required to approve a balanced budget, contingency funding has enabled staff to recommend a 2022 budget that continues to respond to COVID-19 impacts, builds for post-pandemic recovery and preserve existing City services; while COVID-19 funding supports continue to be sought.

Without a COVID-19 backstop or a formal funding commitment in 2023, the staff recommend budget would require offsets to the $550 million to $1.1 billion in estimated COVID-19 impacts.

If the existing backstop is applied against 2022 COVID pressures, and the City does not receive 2023 funding assistance, the City will be required to recommend a 2023 budget that includes reductions or cancellations of COVID-19 response initiatives; material cuts to existing services and service levels, significant property tax hikes (as a point of reference a residential increase of 31% would generate $1.1 billion in added revenue); and continued reductions to the City's capital budget and the loss of up to 9,900 resulting jobs, impacting the Toronto, Ontario and Canadian economies.

These actions, that would be needed to maintain a balanced budget and financial sustainability during the pandemic, would have a detrimental impact locally, provincially and nationally, stunting nationally recovery efforts and impacting the prosperity and well-being of Torontonians.

Potential Capital Project Reductions - Timing

Funding commitments from the government of Canada and province of Ontario are required to ensure there are no impact on the City’s 2022 Capital Budget.

Any delays in receiving these commitments towards the end of Q1 of 2022 will impact the City's ability to award and deliver seasonal capital projects. The result would be the cancellation of capital projects experienced as early as April 1, 2022.

Final Note

The 2022 Operating Budget expects continued COVID-19 support funding from the government of Canada and province of Ontario.

In the event that continued federal and provincial COVID-19 funding is not adequate to fully address the financial impacts arising from the pandemic in 2022, the City's Capital Program will be materially impacted through a reduced 2022 Capital Budget and a redirection of one-time funding otherwise intended to address capital needs. This will result in impacts to; future years services, tax rates, capital plan and jobs creation.

A reduction to capital funding will result in further increases to the City's State-of-Good Repair backlog but will also have significant economic impacts through a reduction in capital investments and associated job growth. More than 75% of these reductions will result in the cancellation of 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.

The reality is the impacts of COVID-19 will be felt by the City for years to come. The City must be realistic and mindful of anticipated COVID-19 related financial impacts into 2023 and future years. It is critical that the City retains sufficient reserve balances to be in a position to address both unanticipated and prolonged COVID-19 financial impacts while significantly contributing to COVID-19 response initiatives and social and economic recovery.

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