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2022 CAPITAL BUDGET BRIEFING NOTE

Continued COVID-19 Support Funding from Federal/Provincial Governments – Capital Funding Risk

Issue/Background:

The City's Budget Committee was provided with Budget Briefing Note 18 titled "Continued COVID-19 Support Funding from Federal/Provincial Governments - Potential Impacts of Inadequate 2022 Funding Support" detailing 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 the impact on the City's capital plan; the resulting economic impact to the City, regional, and national economy, including impact on jobs; and ramifications for the City's 2023 budget, if there are projected continuing COVID-19 financial impacts beyond 2022.

Briefing Note #18 is available through the link below:

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

At its meeting of February 7, 2022, the City Budget Committee requested that the City Manager, in consultation with the Chief Financial Officer and Treasurer provide a budget briefing note to the February 11, 2022 meeting of the Executive Committee on further analysis on Budget Briefing Note 18, outlining the anticipated impact on each division and agency's capital budgets.

From March 2020 to the end of 2021, the City received nearly \$2.8 billion in COVID-19 related emergency funding commitments from other governments. To date, the City has identified mitigation measures and spending restraints equal to \$1.6 billion to address additional pressures and support the continuance of service delivery, including \$583 million in 2022. The City will continue to monitor the 2022 budgeted COVID-19 assumptions throughout the year and leverage any potential mitigation efforts available.

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

the path to recovery from the financial implications of COVID-19 will take years to overcome completely, particularly as transit ridership is not expected to immediately return to pre-COVID-19 levels.

As previously noted in Briefing Note #18, 2022 COVID-19 funding support from the government of Canada and province of Ontario remains 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 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, which will have a significant impact on the City's progress towards climate goals; job growth and employment; community development and quality of life.

Capital Funding Risks

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 – Paused and set aside capital funding 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 significantly 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 Recommended 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 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.

- Based on initial contingency planning across these four program areas, 2022 capital reductions, if necessary are expected to have the following impacts:
 - **Toronto Transit Commission (\$87.0 million):** Reduced investments in aging infrastructure such as subway and surface track; signal systems; tunnels; and building structures that would increase the state of good repair backlog and put the TTC system reliability at risk.
 - **Transportation Services (\$87.0 million):** Reduced investments in aging infrastructure, including road rehabilitation (i.e. 66 centreline km), bridges and sidewalks; and pedestrian, signals and safety initiatives.
 - **Corporate Real Estate Management (\$34.2 million):** Reduced investments towards aging infrastructure within City facilities, emergency services facilities, yards and Civic Centres, negatively impacting project objectives and City priorities related to legislative requirements, modernizing government and achieving long-term climate goals related to resiliency and GHG emission reductions.
 - **Parks, Forestry and Recreation (\$27.7 million):** Reduced investments in aging infrastructure and accessibility improvements across all asset categories such as community centres; pools; arenas; washroom/fieldhouses; trails; waterplay areas; and tennis courts.
 - Capital reductions in all other Programs and Agencies would predominantly impact funding available to address state of good repair requirements.
- Table 1 in Appendix A details the potential 2022 Capital Budget reduction allocation by Program/Agency.

Further Impacts on Capital Priorities

As noted, \$1.08 billion in one-time funding otherwise directed to capital priorities has been held back as a COVID-19 backstop.

- 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 or increased revenues 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. a 1% increase generates approximately \$35M, a 40% increase would generate \$1.4B).

Allocation of the backstop to address 2022 COVID impact would present immediate challenges in the preparation of the 2023 Operating Budget and future years. The reality is that impacts of COVID-19 will be experienced for years to come. Should the City be

required to use the backstop, the City's ability to respond to unanticipated COVID-19 pressures in 2023 and beyond will be limited. The City must ensure it has the financial flexibility to weather any COVID-19 pressures in future years to ensure response and recovery.

Use of the backstop will also 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 priorities such as:

- **Toronto Transit Commission:** Increase contribution for subway train procurement; purchase of additional eBuses; and Bus lane implementation to help meet net zero 2040 goals.
- **Transportation Services:** Opportunities to address critical and growing road rehabilitation needs; with every additional \$100 million in additional capital investment enabling the City to reconstruct 76 lane km of major roadway.
- **Corporate Real Estate Management:** Additional investments towards the net zero carbon plan which includes retrofit projects such as fuel switching and other GHG reducing measures at City facilities, as the strategy is to replace GHG producing building components with non-GHG producing (or near zero producing) building components.
- **Parks, Forestry and Recreation:** Increase SOGR investments to proactively reduce backlog as part of the Facilities Master Plan, helping to ensure existing parks, indoor and outdoor community recreation facilities, arenas, pools, continue to meet industry and health and safety standards; and investments towards the first ten Priority Investment Areas across Toronto as part of the Ravine Strategy Implementation Plan.

It is important to note that while COVID-19 financial impacts are expected to continue into future years, these potential capital reduction options are a one-time solution and are not sustainable. 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 municipalities lack the legal authority and revenue raising capacity that has allowed the federal and provincial governments to absorb COVID-19 financial shocks.

Economic Implications of Reduced Capital Funding

As expressed in the previous briefing note, 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 affecting the Toronto, Ontario and Canadian economy including impacts in the construction industry.

Potential Capital Project Reductions - Timing

Funding commitments 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 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 and deferral 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. The City requires \$1.4 billion in critical COVID-19 relief funding for 2022, coupled with additional ongoing funding support expected for refugee costs from the federal government (\$61 million) and continuation of supportive housing initiatives committed to by the provincial government in 2021 (\$27 million).

In addition to 2022 financial pressures, the City continues to seek outstanding financial support committed to in 2021 including:

- 2021 COVID-19 related transit pressures of \$74.5 million. Separate from the remaining \$74.5 million gap, the City also awaits expected 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 leveraged for transit impacts experienced in 2021 following the initial March 31, 2021 funding timeframe.
- 2021 refugee response funding of \$20.3 million. The City's 2021 budget included requests to the Government of Canada to provide funding for services which are the responsibility of other governments, including funding to provide temporary shelter accommodation to refugee individuals and families. The City is still awaiting confirmation and receipt of \$20.3 million for 2021 expenditures. This is in addition to the financial pressures that arise from programs that are mandated or formally cost shared with other governments.

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.

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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Date: February 9, 2022

Appendix A

Potential 2022 Capital Budget Reduction by Program/Agency

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