

2022 COVID-19 Intergovernmental Funding Update

Date: April 5, 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.

As reflected in the 2022 Operating Budget, minimal COVID-19 support funding had been confirmed as of budget approval on February 17, 2022, specifically with \$16.8 million in committed prior year COVID-19 support funding that was available for eligible Shelter expenses incurred up to March 31, 2022.

The City has continued to actively engage with Federal and Provincial counterparts at all levels following approval of the 2022 Operating Budget, to obtain funding support to address the remaining 2022 COVID-19 related funding gap.

There have been three significant COVID-19 funding announcements from the federal and provincial governments following the City's budget approval, comprised of the following:

1. The City anticipates to receive an estimated \$185.5 million of the \$750 million investment announced by the federal government in support of municipalities facing transit operating shortfalls to help maintain service levels despite decreased ridership as a result of the pandemic. The allocation was estimated based on a formula that accounts for ridership and population as was outlined in the original federal announcement. This funding program requires a matching contribution by the Province, and the City's ultimate portion could potentially be greater than anticipated if the allocation were to be needs based reflecting actual COVID-19 impacts as opposed to a formula based allocation;
2. \$67.3 million in Safe Restart Agreement Phase 3 Supplementary Funding for transit related COVID-19 impacts experienced in January 2022; and
3. The City of Toronto has been allocated \$22.9 million for 2022/2023, with a further \$22.6 million available for 2023/2024 under 'the Government of Canada's

previously announced incremental funding of \$567.2 million for Reaching Home, Canada's Homelessness Strategy.

The 2022 Operating Budget includes \$1.4 billion in COVID-19 pressures, as detailed during the 2022 budget process. An estimated \$478 million in COVID-19 funding has been announced or secured to date through a combination of the above announcements, coupled with 2021 shelter funding that is available for eligible expenses in Q1 2022. As a result, the City's COVID-19 funding shortfall is now estimated at \$922 million (down 33% since February 17, 2022).

The 2022 funding shortfall is further reduced to an estimated \$837 million when assuming provincial reimbursement of an estimated \$60 million in extraordinary COVID-19 related Public Health costs; and factoring \$25 million in favourable TTC ridership revenue variance experienced in 2022 as of mid-March, based on a stronger than expected Omicron recovery in February and March.

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 unsustainable actions that include the cancellation of 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.

As also noted during the 2022 Budget process, any delays in receiving funding commitments towards the end of Q1 of 2022 would impact the City's ability to award and deliver seasonal capital projects. The result would be the cancellation and deferral of capital projects experienced by late May.

Given the estimated remaining 2022 COVID-19 funding shortfall of \$837 million and timing constraints impacting capital delivery, it is recommended that City Council request the Federal and Provincial governments to allocate COVID-19 operating support for transit on a needs-basis to ensure that these funds are better directed to proportionately support municipalities that are continuing to experience COVID-19 related transit impacts. Absent any further intergovernmental COVID-19 funding support, the City Manager and the Chief Financial Officer and Treasurer will report back in May 2022 detailing \$300 million in recommended reductions to the 2022 Capital Budget and a draw of up to \$537 million from the City's COVID-19 Backstop, 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 request 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, to ensure that these funds proportionately support municipalities that are continuing to experience COVID-19 related impacts.
2. City Council direct the City Manager and the Chief Financial Officer 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, and authorize the City Manager to receive funds and to negotiate, enter into and execute any required agreements in respect of any such funding commitments.

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 \$478 million in COVID-19 support funding secured to date, as reflected in Table 1 below. The anticipated transit funding amount assumes the provincial government will provide a matching contribution and is based on the federal government's publicly announced allocation method as detailed further in the section below.

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	40	248
Other Municipal Pressures	491		491
Public Health	60		60
Total COVID-19 Impacts	1,400	478	922

Further Funding Assumptions	
Reimbursement of Public Health costs Favourable Transit Ridership Revenue (YTD)	(85)
Adjusted Remaining COVID-19 Funding Shortfall	837

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, it is recommended 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.

- Additional SRA Phase 3 supplementary funding was also confirmed to address the 2021 transit related COVID-19 funding shortfall that had been remaining. As a result, no remaining COVID-19 funding shortfalls exist for the 2021 Budget.

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.

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.
- \$25 million in preliminary favourable TTC ridership revenue variance based on initial review of experiences in 2022 as of mid-March, following a stronger than expected recovery from the impacts if Omicron in February and March.

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 \$837 million in remaining 2022 COVID-19 funding shortfall is 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 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.

In the absence of any further Federal or Provincial funding commitments, the City Manager and Chief Financial Officer will report in May 2022 with recommended reductions to the 2022 Capital Budget totalling \$300 million and a further draw of up to \$537 million from the City's COVID-19 Backstop, to ensure the City maintains a balanced 2022 Operating Budget while addressing the financial impacts continuing to arise from the pandemic.

Other Outstanding Federal and Provincial Funding Supports

In addition to the \$1.4 billion in COVID impacts noted above, the City is also seeking reimbursement in 2022 for an estimated \$60 million in refugee response costs; and \$27 million in supportive housing costs.

- The City also continues to seek reimbursement of Refugee Shelter Response costs 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 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 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 \$478 million in 2022 COVID-19 support funding has been secured resulting in a remaining \$922 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 and \$25 million in preliminary favourable TTC ridership revenue based on initial review of experiences in 2022 as of mid-March, the remaining 2022 COVID-19 funding shortfall is further reduced to \$837 million.

In the event that continued COVID-19 funding to address the remaining shortfall 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 one-time actions that are not sustainable:

- \$300 million – cancellation of 2022 planned capital projects (2022 Capital Budget reduction); and
- \$537 million – 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 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. 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.

- 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.
- Capital reductions in Programs and Agencies budgets would predominantly impact funding available to address state of good repair requirements.

- Table 2 in 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.
- 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 \$537 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 \$837 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. We are now approaching a time where a decision needs to be made regarding the cancellation and deferral of capital projects and staff will accordingly report back in May 2022 on necessary actions.

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 City has received past assurance from the Province (Letter from Ministry of Municipal Affairs and Housing received April 7, 2021) with the City's 2021 supportive housing costs funded by the Province, with continued and sustainable funding required going forward.

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Appendix A

Table 2 - 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