

Tax Supported 2023 Operating Budget and 2023-2032 Capital Budget and Plan

Date: January 10, 2023
To: Budget Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report presents the City of Toronto Tax Supported 2023 Operating Budget and 2023 – 2032 Capital Budget and Plan and seeks approval for the Non-Program accounts, which are not included in the respective Program/Agency Budget Notes.

The Tax Supported 2023 Operating Budget and the 2023 – 2032 Capital Budget and Plan enable 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 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, which includes the misalignment of revenues and responsibilities. These impacts have been disproportionately felt by the City of Toronto given the size and level of service offered in our transit system and shelter services, which reflect the program areas experiencing the greatest financial impact from the pandemic.

The 2023 Operating Budget seeks to balance the increased service needs with its pre-existing objectives of fiscal responsibility and has been prepared based on a collaborative process with the Mayor, which prioritizes the following key focus areas:

- Maintain front-line services
- Emergency services and public safety
- Transit and transit obligations
- Housing
- Economic recovery
- Manage affordability
- Address COVID-19 impacts
- Legislative requirements

The 2023 – 2032 Capital Budget and Plan has been prepared to address the following priorities and challenges:

- Investment in priorities such as:
 - Transit;
 - Housing; and
 - Advancing the City's climate action goals.
- Challenges arising from:
 - Global supply chain disruption and cost escalation;
 - Specialized labour challenges; and
 - Increased cost of borrowing.

As in previous years, the City is faced with affordability challenges as a result of growth, demand for services and rising costs; however, prevailing economic conditions exerted additional and unique pressures for the 2023 budget. There are significant cost escalations driven by external factors, such as high inflation levels, supply chain constraints, and the financial effects of the COVID-19 pandemic. Layered on top of that are the City's legislative requirements, increased demand for shelter services, emergency services and refugee response, as well as funding priorities of the transit expansion projects. Ability to deliver on all of the focus areas, while trying to maintain property taxes within an affordable range for the taxpayers was a challenge for the City this year. Ultimately, the tabled budget is balanced while maintaining front-line services, managing affordability and continuing to make key investments in transit, housing, public safety and infrastructure.

RECOMMENDATIONS

The City Manager and the Chief Financial Officer and Treasurer have tabled that:

1. The 2023 Operating Budget for Corporate Accounts of \$2.235 billion gross and (\$1.023) 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	1,205,852.7	284,650.1	921,202.6
Non-Program Expenditures	713,293.4	245,263.4	468,030.1
Non-Program Revenues	316,192.6	2,728,114.7	(2,411,922.1)
Total Non-Program Budget	2,235,338.7	3,258,028.1	(1,022,689.4)

- The above includes a 2023 budgeted staff complement for Parking Tag Operations of 394 operating positions, as well as 150 operating positions associated with Implementation of Bill 109, the More Homes for Everyone Act, 2022 ([EX1.4](#)).
2. One-time funding of \$23.027 million in 2023 to fund one-time costs in Toronto Community Housing Corporation not expected to recur in future years.
 3. Further funding of \$10.754 million in 2023 to the Toronto Community Housing Corporation to offset COVID–related operating pressures.
 4. The contribution of \$251.784 million to the City Building Reserve Fund from the dedicated City Building levy for priority transit and housing capital projects.
 5. The contribution of \$40.699 million to the Scarborough Transit Reserve Fund from the dedicated special property tax levy, in support of commitments to transit investments.
 6. The 2023 Capital Budget for Corporate Initiatives with cash flows and future year commitments totaling \$0.888 million representing carry forward amounts from prior years, as detailed in appendix 2.1.
 7. The contributions and withdrawals to/from reserves in Corporate Accounts as indicated in Appendix 3.
 8. The 2023 Operating Budget for Association of Community Centres of \$9.989 million gross and \$9.693 million net, with 87 positions as detailed in the Appendix 4.

9. The 2023 Operating Budget for Arena Boards of Management of \$10.228 million gross, \$10.294 million revenue and (\$0.066) million net revenue, with 68 positions as detailed in the Appendix 5.
10. The continuation of the existing Solid Waste Rebates for Low Income Seniors, Disabled and Multi-Residential customers as outlined in Appendix 6.
11. The transfer of \$12.474 million gross and \$0 net upon approval of the 2023 Budget, funded by the Development Application Review Reserve Fund (XR1307), from Corporate Accounts to the 2023 Operating Budget of the following programs for the Implementation of Bill 109, the More Homes for Everyone Act, 2022.

Program	Gross (\$M)	Proposed Positions
City Planning	\$6.487	74
Engineering & Construction Services	\$0.755	5
Transportation Services	\$1.729	19
Toronto Building	\$0.694	9
Parks, Forestry & Recreation	\$2.069	24
Legal Services	\$0.740	4
Total	\$12.474	135

12. To amend Corporate Accounts 2023 Operating Budget by a reduction of \$1.674 million fully funded by the Development Application Review Reserve Fund (XR1307), for a net zero impact and reduction of 15 positions for the Implementation of Bill 109, the More Homes for Everyone Act, 2022.
13. To amend Toronto Water's 2023 Operating Budget by \$1.674 million fully funded by the Development Application Review Reserve Fund (XR1307), for a net zero impact and addition of 15 positions for the Implementation of Bill 109, the More Homes for Everyone Act, 2022.

FINANCIAL IMPACT

Tax Supported 2023 Operating Budget and 2023 – 2032 Capital Budget and Plan Summary

This report seeks approval of the 2023 Corporate Accounts Budget for expenditures and revenues totalling \$2.235 billion and \$3.258 billion, respectively. Starting in 2023, the Corporate Accounts also include Association of Community Centres and Arena Boards of Management budgets.

The 2023 Corporate Accounts Budget includes increase to the Municipal Accommodation Tax (MAT) from 4% to 6% effective May 1, 2023. The recommendation reflecting this change will be included in a standalone report that will be presented at City Council's meeting on February 14th for Council's consideration. With this change the MAT is estimated to generate a total of \$42 million in net revenue in 2023.

Corporate Accounts, which include Capital and Corporate Financing, and Non-Program expenditures and revenues, form part of the City's overall Operating Budget and are detailed in Appendix 1.

This report also seeks authority for approval of corporate capital initiatives totalling \$0.888 million as detailed in Appendix 2.1.

On the capital side, Corporate Accounts are included under corporate capital initiatives for part of the City's overall 10-year capital program, as summarized below.

Table 1: Tax Supported 2023 Operating Budget and 2023-2032 Capital Budget and Plan

Total Tax-Supported Budget & Plan (\$M)	Operating Budget		Capital Budget & Plan			
	2023		2023		2024-2032	
Programs	Gross	Net*	Gross	Debt	Gross	Debt
City Operations	7,103	2,761	1,775	410	16,468**	7,462
City Agencies	4,788	3,170	1,348	84	12,866	2,020
Corporate Accts & Capital Financing	2,235	(1,023)	N/A			
Total Budget	14,127	4,908	3,123	494	29,334	9,482

*Excludes special dedicated levy

**Includes \$0.888 million for Corporate Capital Initiatives

Tax Supported 2023 Operating Budget Overview

The Tax Supported 2023 Operating Budget is \$14.127 billion gross and \$4.908 billion net. The budget addresses key priorities, which includes maintaining the front-line services, prioritizing emergency services and public safety, enhancing transit services and meeting the City's financial obligations, supporting the increased supply and safety

of housing, continuing to manage the financial impacts of COVID-19, and incorporates legislative requirements; while, maintaining a residential tax rate increase for City Operations below inflation.

Continuous and new investments to ensure transit remains safe, accessible, connected, and keeps people moving, public safety initiatives, and downtown economic recovery initiatives. The budget has been balanced with \$786 million in City-led offsets.

The 2023 Tax-Supported Operating budget primarily allocates funds to cost-shared social programs (31.7%), transit (16.9%), and emergency services (15.4%), with the funding coming from property taxes (34.7%), Federal and Provincial revenues (30.1%), which include required COVID-19 support and assumed support for Refugee Response as well as Supportive Housing.

2023 – 2032 Capital Budget and Plan Overview

The 2023 – 2032 Tax-Supported Capital Budget and Plan focuses on investments in Transit Funding (\$13.8 billion), Transportation (\$5.5 billion), and Housing (\$3.9 billion plus a further \$5.9 billion provided through foregone revenues and land incentives); and includes enhanced investments for capital projects such as transit fleet, rental development, parks and community recreation facilities, and library infrastructure. The 10-year Capital Plan has applied a lens that ensures consideration for climate focus as part of the decision making process.

The 2023 - 2032 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 December 14 and 15, 2022, City Council approved a report, dated November 22, 2022, from the Interim Deputy City Manager, Infrastructure and Development Services, regarding a comprehensive but phased approach to implementing Bill 109, the More Homes for Everyone Act, 2022, and related financial impact on the 2023 Operating Budget.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX1.4>

At its meeting on December 14 and 15, 2022, City Council adopted reports from the Chief Financial Officer and Treasurer on Capital and Operating Variance for the Nine Months Ended September 30, 2022 that outlines the current COVID-19 funding shortfall.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2023.EX1.6>

At its meeting on May 11 and 12, 2022, City Council was presented a report from the City Manager and the Chief Financial Officer and Treasurer with an update on the 2022 COVID-19 Intergovernmental Funding Update

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.EX34.14>

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.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.CC43.3>

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

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

<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

COVID-19 Financial Impacts

Since the onset of the COVID-19 pandemic in 2020, the City has prioritized the health and safety of Toronto residents. This unprecedented response added significant costs to the City's budget, including costs for the protection of vulnerable residents in long-term care homes and emergency shelters, while the City lost transit ridership and other revenues as people stayed home to protect their communities.

Funding support from the City's partners in the Government of Canada and the Province of Ontario continues to be critical to offset the extraordinary COVID-19 pandemic effects on the City's operating budget.

The 2023 Operating Budget was balanced based on the expectation of continued COVID-19 support funding from the Government of Canada and Province of Ontario with a total funding amount of \$933 million. The majority of the COVID impacts are

within TTC (\$366M), Shelters (\$317M) and Public Health (\$87M) that make up \$769 million or 83% of the total impacts. The City will also continue its commitment to:

- Delivering critical and responsive City services, 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;
- Managing the City's long-term financial sustainability (e.g. extension of the City Building Fund).

As the City continues to recover from 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),
- Support for downtown economic recovery, and
- Increased investments in emergency services and public safety initiatives.

Achieving success and prosperity for the City will require:

- Hiring critical staff positions to deliver the programs and services necessary to respond to pandemic recovery, 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.

Intergovernmental Strategies and Support

Investments from the Government of Canada and the Province of Ontario remain critical to support public health efforts and assist in the recovery from 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.

To ensure the continued COVID-19 recovery efforts, the 2023 Operating Budget for Non-Program Revenues includes \$0.9 billion in continued COVID-19 funding support from the Government of Canada and Province of Ontario.

- Through partnerships with the federal and provincial governments, the City secured approximately \$3.5 billion in pandemic response funding to address COVID-19 impacts experienced between 2020 and 2022, including assumed reimbursement of \$273 million in 2022.

- Of the \$3.5 billion in intergovernmental funding, approximately \$2.0 billion was received from the Ontario Government and almost \$1.5 billion from the Government of Canada, based on assumed federal and provincial allocations to Safe Restart Agreement funding.
- The City has continued to actively engage with Federal and Provincial counterparts at all levels to obtain funding support to address the 2023 COVID-19 related financial impacts.
- 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 2023 COVID-19 impacts the level of provincial and federal government funding received.

In addition to the required COVID-19 funding support, the City's 2023 Budget includes \$145 million in Federal and Provincial responsibilities for Refugee Response and Supportive Housing. In absence of sufficient funding, one-time emergency reserves will be depleted.

Toronto Community Housing One-Time Funding

The 2023 Operating Budget includes one-time funding from Non-Program Expenditures towards Toronto Community Housing Corporation (TCHC) for 2023 expected COVID-19 impacts (\$10.8 million) and further costs that are not expected to occur in future years (\$23 million), in addition to the annual TCHC subsidy that is reflected in the Housing Secretariat's 2023 Operating Budget.

Single Family Residential Low Income Relief Program

As part of the City's water rate structure, since January 1, 2008, City Council approved a "Toronto Water Rebate Program" for low-income seniors and low-income persons with disabilities who meet the eligibility criteria as prescribed in the Municipal Code, Chapter 849. In order to mitigate the impact of reductions to the Solid Waste Rebate on low income ratepayers, Solid Waste Management Services implemented a Single Family Residential Low Income Relief Program which was incorporated into the existing Toronto Water Rebate Program and as defined in Municipal Code, Chapter 844-30.1.

Solid Waste Management Services' Single Family Residential Low Income Relief Program applies to all eligible bin customers that currently receive a rebate which includes only small, medium, large bin and bag only customers and incorporates other Toronto Water Rebate Program criteria, such as income levels. Customers with a small, medium or large bin who are already enrolled in the Water Rebate Program are automatically enrolled in the Single Family Residential Low Income Relief Program.

As recommended, the Solid Waste Rebates for Low Income Seniors, Disabled and Multi-Residential customers are to continue as an on-going program.

Implementation of Bill 109, the More Homes for Everyone Act, 2022

On December 15, 2022, City Council approved 150 positions and \$14.148 million across various programs for the Implementation of Bill 109, the More Homes for Everyone Act, 2022. This decision has been budgeted in Corporate Accounts, and funded from the Development Application Review Reserve Fund (XR1307) and will be transferred to City Planning and other programs through budget adjustment included in the recommendations 12, 13 and 14 of this report.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX1.4>

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SIGNATURE

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ATTACHMENTS

Appendix 1: Tax Supported 2023 Operating Budget

- 1.1: 2023 Gross Expenditure Budget
- 1.2: 2023 Revenue Budget
- 1.3: 2023 Net Expenditure Budget
- 1.4: 2023 Total New and Enhanced Service Priorities

Appendix 2: 2023 – 2032 Capital Budget and Plan

- 2.1: 2023 Cash Flow & Future Year Commitments for Corporate Initiatives

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

Appendix 4: 2023 Operating Budget for Association of Community Centres

Appendix 5: 2023 Operating Budget for Arena Boards of Management

Appendix 6: Solid Waste Rebates