

2023 Financial Update and Outlook

Date: March 7, 2023

To: City Council

From: City Manager and Chief Financial Officer and Treasurer

Wards: All

SUMMARY

The purpose of this report is to provide a financial update and outlook to inform the City of Toronto's long-term financial planning and forthcoming updated Long-Term Financial Plan (LTFP).

Following the 2023 Budget, with the support of an independent third-party, the City has updated its financial model to assess the long-term fiscal risks anticipated in the next ten year period. This updated analysis expands on previous work completed by the City of Toronto and will help to inform future phases, including an updated LTFP to be presented to City Council later in 2023.

The updated financial model highlights the significant challenges that the City will face over the next ten years including both operating and capital budget pressures. The City currently has limited tools or strategies to address a challenge of this magnitude, demonstrating a need for enhanced analysis of potential options. For example, as reported in the September 30, 2022, quarterly updates, over 97% of the City's deferred revenues and reserve and reserve fund balances are fully committed, leaving just \$290 million available for emergency or one-time back-stop purposes.

Beyond immediate and urgent financial challenges the City faces, municipalities need a new fiscal framework to address ongoing challenges with predictable, long-term funding. The updated financial outlook will be used to inform intergovernmental discussions. Staff continue to engage with their intergovernmental counterparts to promote ongoing and sustainable funding support.

Further exploratory work to determine appropriate solutions and offsets will be completed throughout 2023, including an additional analysis of revenue tools as was requested by City Council.

RECOMMENDATIONS

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

1. City Council receive this report for information.

FINANCIAL IMPACT

Following the 2023 Budget, with the support of an independent third-party, the City has updated its financial model to assess the long-term fiscal risks anticipated in the next ten year period.

As will be further expanded on in the supplementary third-party report, the City of Toronto faces material fiscal risks over the next ten years, including a combination of increasing annual operating pressures; increasing debt servicing costs; and a growing list of capital needs.

Toronto is Canada's economic engine. The City has nearly \$50 billion in capital investments planned over the next 10 years, including investments in intergovernmental priorities such as housing, transit and climate action, which have a positive impact on job growth, economic activity and socioeconomic outcomes for the region and the province. In addition, on an annual and ongoing basis, the City of Toronto delivers key services which are extensions of federal and provincial responsibilities, reducing the financial burden for other governments and benefitting the greater region. The City of Toronto currently has limited tools and strategies to appropriately fund the size and scope of the services and investments it delivers which exceed the role and capacity of the City's primary revenue tool, property taxes.

For example, as of September 30, 2022, the City of Toronto had \$11.2 billion in deferred revenues and reserve and reserve fund balances. Of this amount, 97% is fully committed to legislated, contractually bound, or Council-directed commitments, or is required to support the City's 10-Year capital and operating plans. The remaining 2.6% (\$290 million) is available for emergency purposes such as extreme weather events or one-time backstop purposes in the event funding is not received for the City's refugee response efforts or supportive housing initiatives, which leaves the City with no flexibility to leverage reserves and reserve funds as a possible balancing strategy. Additional information can be found in two reports presented at the March 21st Executive Committee meeting: 'Deferred Revenues at September 30, 2022' and 'Reserve and Reserve Funds as at September 30, 2022'.

Further analysis and an assessment of options to address both operating and capital pressures will be brought forward in future reports for consideration and direction. This includes a report back scheduled for Q3 2023 with an updated assessment of revenue generating options available under the City of Toronto Act, as requested by City Council at its meeting of February 7, 2023 ([Item MM3.5](#)).

The updated financial outlook will also be leveraged to discuss and develop a new fiscal framework for municipalities with other orders of government, to address ongoing challenges with predictable, long-term funding.

DECISION HISTORY

At its meeting on February 17, 2022, City Council requested the City Manager and the Chief Financial Officer and Treasurer to provide an updated Long Term Fiscal Plan during the 2023 budget that includes recommendations to address the backlog of state of good repair, unfunded capital projects and other City Council plans and strategies.

Item EX30.1: <https://secure.toronto.ca/council/agenda-item.do?item=2022.EX30.1>

During the 2023 budget process, the City Manager committed to delivering an update during Q1/Q2 2023.

COMMENTS

As was demonstrated during the 2023 budget process, the City is facing significant and unprecedented financial challenges which has impacted both the 2023 operating and capital budgets. 2023 represents the fourth year of financial impacts of added costs and revenue losses associated with COVID-19. Like other jurisdictions around the world, the City of Toronto is challenged by rising inflation, which has resulted in cost escalations and economic impacts, increased interest rates which have impacted the cost of borrowing, global supply chain disruptions and specialized labour shortages. Coupled with growing demand for services and unanticipated legislative changes, the City of Toronto faced significant challenges in the development of the budget.

Looking ahead to future years, the City anticipates continued challenges in the development of the budget due to growing fiscal operating and capital risks.

The updated financial model, provided in the pending supplementary report, examines the anticipated fiscal risk in the next ten years and will help to inform the forthcoming LTFP as well as options and potential solutions to address the problem. In addition, the information will be leveraged for discussions with other orders of government regarding a new fiscal framework for municipalities to address ongoing challenges with predictable, long-term funding.

This updated analysis expands on previous work completed using the latest 2023 financial data available, and will help to inform future phases in support of financial sustainability for the City of Toronto. Further exploratory work will be completed throughout 2023 to present options to address the fiscal risks based on an assessment of impacts on expenditures, revenues and service priorities. This includes an additional analysis of revenue tools available, as requested by City Council, which is scheduled to be reported back on in Q3 of 2023.

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SIGNATURE

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