The City of Toronto

Financial Update and Outlook

20 March 2023

Contents

Notice

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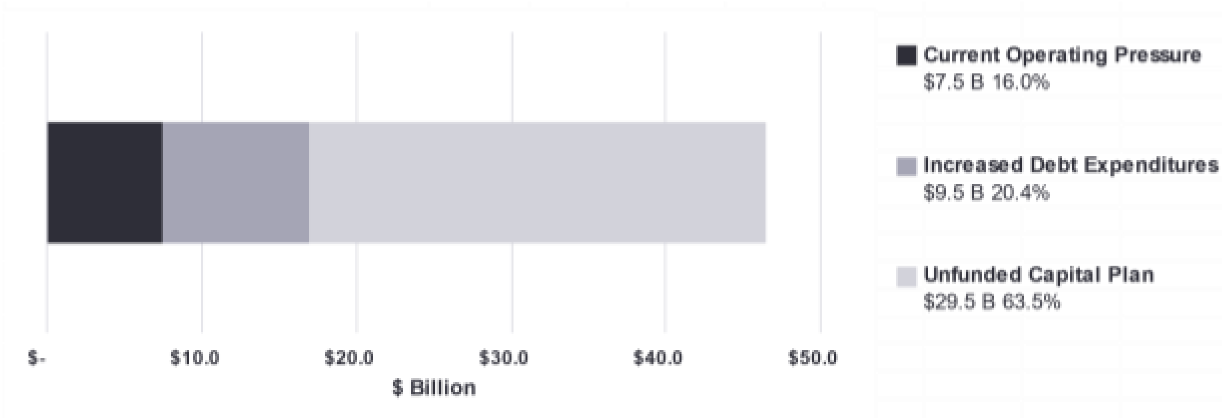
1. Executive Summary

Over the next 10 years, the City of Toronto faces known operating and capital fiscal pressures of $46.5 billion that, without serious attention from City Council to address, are likely to threaten the City of Toronto's fiscal stability and the sustainability of its service levels.

Unless the pressures outlined in this report are addressed promptly, they will present themselves in every forecast year and will become increasingly more difficult to manage over the 10-year period. The growth in pressure is driven primarily by the growing size of the unfunded capital program but also through incremental increases in operating expenditures and debt financing. By 2032, the forecast annual pressure will reach approximately $6 billion, an amount equivalent to over one-third of the City's $16.16 billion total operating budget for 2023.

Figure 1 – Ten Year Total Fiscal Pressure, $46.5 billion



While this report builds on the conclusions of previous reports on the City's long-term financial position, it is critically different in one respect: it looks at known operating and capital requirements linked to the City's current level of service delivery and/or to enhance those areas of service the City has already committed to. As such, it sets forth a more long-term understanding of the City's fiscal pressures than would an annual budget.

Further, although the financial analysis in this report extends over a 10-year period, the implications of the City's fiscal realities will be felt as early as 2024. In other words, the City will need to determine how to mitigate these financial pressures in the immediate term, including decisions relating to the budget following the next phase of work on the City's Long-Term Financial Plan (LTFP), which will be brought forward later this year.

The analysis presented in this report further confirms that the City cannot use reserves or deferred revenues as a balancing strategy to offset its short or long-term financial pressures. Over 97% of the City's $11.2 billion in deferred revenues and reserve fund balances are allocated to legislated, contractually bound, or Council-directed commitments, or are required to support the City's operating requirements and 10-year capital plan. This includes an emergency one-time provision to address COVID-19 related impacts, should full funding support not be received from other orders of government. The remaining 2.6%, or $290 million, is available for emergency purposes such as extreme weather events, or as a one-time back-stop purposes in the event required funding is not received for efforts such as refugee response or supportive housing.

Without meaningful action to address and reduce the $46.5 billion pressure, the future of Toronto as a great place to live, visit, and do business could be at risk. Service levels and capital assets could deteriorate over time and the City might be unable to realize the projects and commitments that speak to its ambition to be a vibrant, equitable, and inclusive world-class City in the ranks of some of the most celebrated cities around the globe.

Given the magnitude of the pressure, the City will need to consider and assess a range of options across all aspects of the City's finances. Further, the size and scope of the services and investments delivered by the City and the broad benefits provided to the region, province, and country should form the basis for enhanced fiscal cooperation between the three orders of government. This report provides one part of the foundation for the City to analyze and consider options, and engage in discussions with other governments as the next phase of work in the LTFP.

2. Context and Purpose of the Report

The purpose of this report is to provide a financial update to inform the City of Toronto's long-term financial planning, including its updated Long-Term Financial Plan (LTFP) coming later in 2023 and in-depth analysis of potential options for fiscal sustainability.

In February 2022, City Council requested the City Manager and the Chief Financial Officer and Treasurer to provide an updated Long Term Fiscal Plan[1] during the 2023 budget process that includes recommendations to address the backlog of state of good repair, unfunded capital projects, and other City Council plans and strategies.

This analysis of fiscal pressures is completed based on the assumption of broadly maintaining current service levels and treating the capital programs/plans on an as-is basis; any service level enhancements are restricted only to those specific commitments already approved by Council.

The report presents a summary of the City's updated financial position and the long-term operating and capital fiscal pressures forecast over a 10-year period.[2] It builds on the work of the City's approved 2023 budget and updates the work of previous long-term financial forecasts. All estimates of long-term financial requirements come directly or indirectly from City staff who maintain both operating and capital estimates as a matter of administrative responsibility to Council.

2.1. How this Report Differs from the City's Annual Budget

A long-term financial model is different from an annual budget. An annual budget presents a program and/or service-based view of that which is approved to be done in the fiscal year without necessarily reflecting the consequential multi-year impacts of those decisions.

Conversely, the modelling and outlook herein presents what is foreseen as the direction of future years' sources of funding and expenditures. This incorporates best estimates of future inflation and population dynamics. It is deliberately presented in aggregate, by funding source and expenditure category, rather than by program, to provide a clear view of financial information.

This financial update report is also different from City financial reports produced in past years. Its purpose is to outline all Council-approved and other known and quantifiable operating and capital pressures (such as the Unfunded Capital Program) the City currently faces over a 10-year horizon. This helps enable examination of the City's fiscal pressures, based on a "free cash flow model" (explained in Section 3). This approach examines all annualized sources of funding and expenditures within the same analytical frame. The "free cash flow model" is a well-established method used by businesses facing financial pressures to isolate basic financial relationships, as a prelude to developing workable options and

[1] The requested Long Term Fiscal Plan will be developed using this report as an input.

[2] All references to 10-year periods are defined to mean the 2023-2032 years.

solutions. Additional detail on the methodology for the development of the updated financial model and analysis is provided in Section 3 below.

It is critical to note that the analysis is structured to model pressures, as defined in Section 2.2 below, over the next 10 years, but it does not forecast or analyze the likelihood that such pressures will be realized, mitigated, or avoided. Whether these future pressures materialize is affected by choices Council can and will make over the next 10 years, in addition to the choices that other orders of government will make about their fiscal relationships with the City of Toronto. Further, these choices also impact the risks facing the City that could amplify or mitigate the pressures, depending on when they might occur and their magnitude.

2.2. Sources and Terminology

All data and/or sources of data come directly or indirectly from City of Toronto staff, unless otherwise indicated.

Throughout this report, the terms “pressure” and “risk” will be used and are intended to specify two distinct categories of fiscal events.

“Pressure” refers to projects, circumstances, and events that are currently known and quantifiable, and may impact City programs, services, and infrastructure in the future. Operating and capital pressures are reflected in this report and include:

- The City’s anticipated growth rate;
- Inflation rates, including their impact on Cost-Of-Living-Adjustments (COLA) to payroll expenses, and the costs of goods and services;
- Interest rates on borrowings and investments;
- Planned service expansions;
- Planned capital investments; and
- Identified expenditures, even if not yet approved by Council (and potentially never approved), i.e., the unfunded capital program and operational implications flowing from projects in that plan.

"Risk" refers to circumstances and events that are not currently valued or not currently known, and therefore not quantified or reflected in this report, but might impact City programs, services, and infrastructure in the future. These include:

- Impacts of climate change, including on mitigation and net-zero objectives;
- Impacts of future legislation and regulation; and,
- Changes in the local, provincial, national, and global economy, particularly as they impact the City's tax base and other revenues.

3. Methodology: Key Assumptions and Constraints in the Financial Modelling Analysis

The long-term financial model was initially built from the basis of the City's published and Council-approved 2022 budget. It was later updated to reflect projected spending adjustments made in 2022 to reflect economic necessities and then further updated to align with the approved 2023 budget. The model then applies inflation and population growth rates to project future years' sources of funding and expenditures.

The model includes the following high-level assumptions and inputs:

- The baseline position starts with the cash inflows and outflows associated with current levels of operation, the approved capital budget, and the identified unfunded capital and State of Good Repair (SOGR) budgets for the City including its agencies, boards, and commissions (ABCs)[3];
- The model projects these items forward for nine years, and then extends the capital plan for an additional five years to reflect the 'runout' of capital programs in flight at the end of year ten;[4]
- The model applies the City's inflation assumptions which are based on forecasts developed by Oxford Economics;
- The model acknowledges the City's legislative requirement to balance its operating budget on a yearly basis.

The economic environment facing the City throughout much of 2022 differed significantly from some of the underlying economic assumptions made as part of the 2022 budget process, particularly with respect to inflation and interest rates. The model assumes that the ramifications of higher inflation and interest rates are likely to be delayed until later in 2023 and/or into 2024 as collective bargaining agreements are renegotiated, new debt is issued or existing debt rolled over, and fixed price contracts expire.

These factors are expected to cause a 'delayed inflation wave' to hit the City, such that the high inflation experienced by consumers and suppliers in 2022 will impact the City's budget over a longer period. As a result, the financial model has been updated to reflect this change in inflation assumptions, in effect reducing the inflation assumptions for 2023 and 2024 while increasing the rate in 2025.

The model includes each of the three major budget components:

[3] Due to its size, TTC data is generally presented separately, with the City and all other ABCs being combined.

[4] The model was initially built in 2022 with the intent to forecast the 2022 budget to the 2023-2032 period. With the publication of the City's 2023 budget, EY adjusted the first year of the model to align to that budget and limited the forecast period to the following 9 years. The five subsequent years are not presented in this report.

1. **Operating sources of funding and expenditures**, both for City of Toronto and its ABCs, and including day-to-day management of assets and debt service costs (interest expenses and amortization of principal) associated with debt financing;
2. **Approved capital budget**, for the City of Toronto and the ABCs;
3. **Financing,** i.e., proceeds of debt issuance and debt repayment, including through sinking funds or other similar methods, for the approved capital projects.

The model also includes three components that do not appear in the City's budget on an annual basis:

4. **Committed future years' operating expenditures** that do not yet appear in the City's budget, most significantly the operation of the Crosstown and Finch Light Rail Transit (LRT) lines and other transit projects;
5. **Unfunded capital and SOGR expenditure estimates for the Toronto Transit Commission (TTC)**, presented separately due to its size; and
6. **Unfunded capital and SOGR expenditure estimates,** for the City and the other ABCs.

The model and this report present the data in line with work delivered by Ernst & Young (EY) in late 2019, the *Value Based Outcomes Review* (or VBOR), in which the City's revenues and expenses were analyzed and presented on a consolidated free cash flow basis. The free cash flow basis eliminates the extensive movement of funds between the City's operating, capital, and many reserve funds, and recognizes that ultimately, cash outlays for all operating or capital expenses must be paid out of aggregated City revenues.[5]

The analysis acknowledges the City's legislative requirement to balance its operating budget on a yearly basis. However, as will become evident below, continuing to balance the annual operating budget with small service adjustments, deferral of capital spending and the associated debt financing costs, and/or allocation of reserve funds, is difficult in each of the next ten years.

[5] The model does recognize any material legal restrictions, whereby certain revenues must be tied to certain expenses, i.e., not all revenues flow into a 'central pot' to be used at the City's discretion, and that certain sources of funding – primarily from other governments – are dependent on the City incurring its own expenses for which the funding is targeted.

3.1. Exclusions from the Updated Financial Model

There are several elements that are not included in the financial model or the analysis presented in this report. Each is explained below, but they are excluded because they have not been quantified at the time of this report. Additional exclusions include rate-based programs as they are self-funding.

Climate change

Some of the costs associated with limiting the impact of climate change are included in this report, as they are included in the City's operating budget and/or capital programs and plans.

Preliminary analysis based on data from a number of sources, including the City, the Financial Accountability Office of the Province of Ontario, and the Federation of Canadian Municipalities suggests that the incremental costs of climate change adaption may be in the range of $20 to $30 billion over a 10-year period.[6] Any estimate of incremental cost should be adjusted to eliminate the inevitable, but at this time incalculable, overlap with basic operations and maintenance, capital, and SOGR spending.

However, the incremental costs of adapting to climate change are not included because the development of climate change adaptation cost estimates requires extensive engineering and financial review that has not been completed by the City at this stage.

Electricity generation capacity

The analysis includes costs for converting and operating some City assets from fossil fuels to electricity, again because they are included in the City's budget and/or capital programs and plans, but assumes that the necessary power generation capability to achieve conversion – both for the City and for Ontario at large – will be delivered by the Province.

Environmental, Social, and Governance (ESG) and Equity

This report does not include any quantifiable analysis of the ESG and/or Equity implications of potential decisions, such as changes to capital programs or adjustments to services or service levels.

Approved but unfunded City strategies and plans

City Council has approved some long-term programs, plans, and/or strategies that do not have operating funds budgeted in 2023 nor are they in the approved 10-year capital plan.

[6] The Costing Climate Change Impacts to Public Infrastructure Project (CIPI) led to the methodology that has been used by the Financial Accountability Office (FAO) of Ontario to assess the costs of climate change on provincial and municipal infrastructure. See Financial Accountability Office of Ontario. (2021). Costing Climate Change Impacts to Public Infrastructure Project.

Unless stated otherwise, the future cost of any such program is not included in the model as there is no known cost data that can reliably be included. Such programs are different from examples such as the operation of the Crosstown and Finch LRT lines which, although not included in the 2023 budget, are in progress and have reliable estimated costs for 2024 and beyond.

Additional Exclusion: Rate Supported Programs (Toronto Parking Authority, Toronto Water, and Solid Waste Management Services)

The operating and capital budgets for these three programs are not included in the model as the operations for each program are required to be fully balanced with any surpluses used to fund capital. In addition, there are multi-year rate commitments to ensure revenues and expenses are appropriately managed. However, Appendix 1 of the report does provide a reconciliation of the total published budget figures to the data included in the model and the analyses in this report.

In summary, this financial update report is based on the best information and most reasonable assumptions available as of February 2023. It is important to observe that future policy decisions can and will impact the forecasts presented.

4. Understanding the Current Financial Reality: Defining the Long-Term Fiscal Pressures

4.1. Budget 2023: The Fiscal Baseline

On 15 February 2023, the 2023 Rate and Tax-Supported Operating Budget of $16.16 billion and the 2023 Capital Budget of $4.45 billion were deemed adopted by City Council. The City also introduced its largest-ever 10-Year Rate and Tax-Supported Capital Plan at $49.26 billion.[7]

The City's budget documents state that the 2023 operating and capital budgets support the City in maintaining frontline services (e.g., shelters, roads, long-term care, homes), managing affordability for residents, and investing in transit, housing, community safety, and infrastructure.[8]

Although the City balanced the 2023 Budget, which is required under the *Municipal Act, 2001*, the 2023 budget process was challenging in view of the current financial context, including but not limited to:

- Ongoing impacts related to the COVID-19 pandemic;
- Rising inflation and interest rates;
- Supply chain disruptions and labour shortages in several fields;
- Increasing demand for services; and,
- Unanticipated legislative changes (such as Bill 23).

As a result of these factors, the City faced an opening operating budget pressure for 2023 of $1.9 billion:

- Base budget pressure: $786 million
- COVID-19 pressures: $933 million
- Supportive housing and refugee response: $145 million

As in prior years, the City implemented a range of spending restraints and measures to offset these pressures, which were largely driven by the pandemic, and economic volatility in global markets. These City-led mitigation strategies, including a property tax increase of

[7] Of the $16.16 billion operating budget, $11.39 billion is reflected in this report with the remaining $4.77 billion relating to Rate-Supported operating expenditures ($2.04 billion), flow-throughs (the City acting as an agent for other orders of government) and transfers to/from reserves. Similarly, the one and ten-year capital programs of $4.45 and $49.26 billion include $1.33 and $17.03 billion respectively relating to Rate-Supported programs. This model also includes $1.32 billion of capital carry-forwards from 2022 to 2023.
[8] City of Toronto. (2023). 2023 Budget Launch Presentation; City of Toronto. (2023). News Release. "City of Toronto 2023 budget protects frontline services, invests in housing, community safety, transit, parks and emergency services."

5.5% for residential properties, resulted in the elimination of the $786 million base budget pressure.

The 2023 operating budget is balanced as required by legislation. This balance assumes that the City will receive $1.08 billion in funding from the Government of Canada and the Province of Ontario to address the ongoing impacts relating to the COVID-19 pandemic, refugee shelter response, and supportive housing. When combined with the 2022 pandemic-related shortfall of $484 million, for which federal/provincial funding support is expected but not yet received, the required funding from other orders of government totals $1.56 billion. This amount presents an additional fiscal risk which is not included in this model or analysis as it is assumed the funding will be received. In the absence of full funding support, the City would be required to leverage its one-time emergency provision for these purposes.

The 2023 Budget also included a 1.5% increase to the City Building Levy to support $6.1 billion in transit and housing investments in the 10-Year Capital Plan.[9]

According to the City's 2023 budget documents, it is forecasting a 2024 opening operating pressure of $1.5 to $1.7 billion; these figures include $0.72 – $0.93 billion of COVID-19 impacts. Excluding those impacts results in a City-projected opening pressure for 2024 of $0.74 billion which aligns with the forecast presented herein.

4.2. The City's Unique Role and Challenges

The City of Toronto is the largest municipality in the broader Greater Toronto and Hamilton Area (GTHA) region and the economic engine of Canada. Similar to other metropolitan regions, GTHA municipalities and their communities are part of an integrated economic, social, and ecological 'ecosystem', in which municipalities play an important role, along with other governments, public institutions, businesses, and civil society organizations. The City of Toronto delivers and invests in programs, services, and infrastructure that are critical to the continuing success of this integrated 'ecosystem', and benefit residents and businesses in Toronto as well as the GTHA region, the province, and the nation.

The issue of the City funding a significant share of the costs to deliver programs, services, and infrastructure that deliver broad benefits beyond the City's borders is not a new issue and has been brought forward in previous reports to Council.[10]

On an annual and ongoing basis, the City directly invests approximately $1.1 billion, or 22%, of the City's annual property tax revenues, in extensions of federal and provincial responsibilities, such as housing, social services, and health services. The City makes such

[9] Further information on the 2023 Budget can be found in the City's budget documents available at toronto.ca/city-government/budget-finances/city-budget/.

[10] See, for example, City of Toronto. (2018). The City of Toronto Long-Term Financial Plan.

investments in a manner it believes helps to reduce the financial burden for other governments[11].

However, the City's ability to continue to fund these services with broad regional application and benefit will be increasingly strained and, if not addressed, might no longer be viable depending on prioritization choices that will need to be made in the near future.

4.3. 10-Year Forecast of Operating Pressures

The financial modelling identifies a total of approximately $16.9 billion in operating pressures over the 2024-2032 period, as the City's 2023 operating budget is balanced.

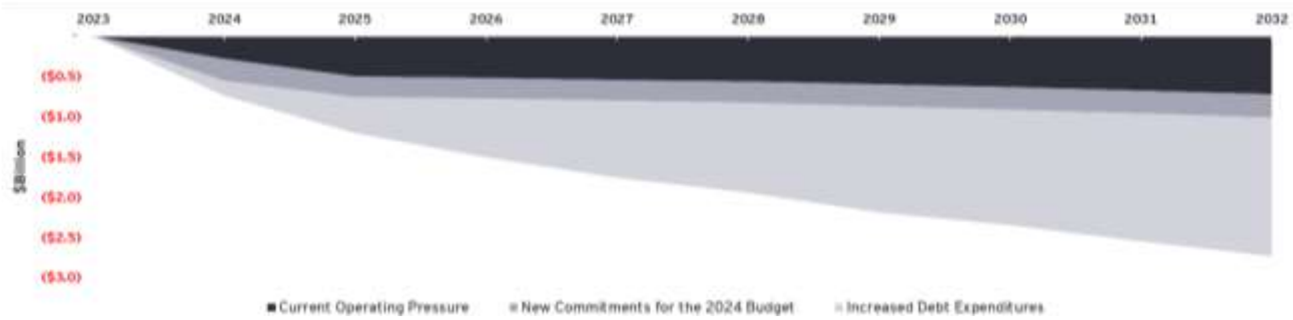
This $16.9 billion pressure breaks down into three components:

1. Pressures from items in the City's 2023 operating budget (such as inflationary pressures) - $5.0 billion
2. Pressures from new commitments for the 2024 operating budget - $2.4 billion
3. Pressures from the financing costs and repayment of debt issued in 2023 and beyond - $9.5 billion

The annualized view of these pressures is shown in Figure 2 below, along with additional details of the latter two components. These pressures increase on annual basis from $0.7B in 2024 to $2.7B in 2032, a 286% increase.

[11] City of Toronto. (2023). 2023 Budget Launch Presentation.

Figure 2 – Total Operating Pressure, $16.9 billion



$ Billion	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023-2032
Current Operating Pressure	-	($0.3)	($0.5)	($0.5)	($0.5)	($0.6)	($0.6)	($0.6)	($0.7)	($0.7)	($5.0)
New Commitments for the 2024 Budget	-	($0.3)	($0.2)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($2.4)
Increased Debt Expenditures	-	($0.2)	($0.5)	($0.7)	($1.0)	($1.1)	($1.3)	($1.4)	($1.6)	($1.7)	($9.5)
Annual Operating Pressure	**-**	**($0.7)**	**($1.2)**	**($1.5)**	**($1.8)**	**($1.9)**	**($2.2)**	**($2.3)**	**($2.5)**	**($2.7)**	**($16.9)**
Cumulative Operating Pressure	**-**	**($0.7)**	**($1.9)**	**($3.4)**	**($5.2)**	**($7.1)**	**($9.3)**	**($11.7)**	**($14.2)**	**($16.9)**	

New Commitments for the 2024 Budget

The City's 2023 operating budget does not include new services that will become fully operational in 2024 or beyond but have already been committed. These items total approximately $2.4 billion over the 10-year period, with transit items, such as the Crosstown and Finch LRT, representing about 1/3 of this amount, and are therefore shown as contributing to pressure beginning in 2024.

Increased Debt Expenditures

The projection reflects the cost of additional debt planned to be issued in 2023 and beyond to fund the approved 10-year capital plan. This line item thus reflects the debt service costs associated with the new debt, including the repayment thereof, driven by additional capital expenditures.

As shown in Figure A1.1 in Appendix 1, the key driver of the current operating pressure is that the Compound Annual Growth Rate (CAGR) of expenditures is exceeding that of sources of funding by about 2.0% per year, beginning in 2024. This leads to the City starting each year with a pressure in the range $0.2 billion[12], prior to considering any new or incremental services or addressing unexpected circumstances. Further, due to compounding, this risk level grows each year as the budget itself grows.

[12] This figure of $0.2 billion is not contradictory to the 2024 pressure of $0.7 billion shown in Figure 2. The former is a mathematical calculation of the impact of expenditures growing at an average rate 2% faster than sources of funding; the modelled and City-published pressure in 2024 of $0.7 billion reflects specific known funding source and expenditure items and thus embeds the calculated $0.2 billion amount.

4.4. Approved 10-Year Tax-Supported Capital Plan

The approved (i.e., funded) 10-year tax supported capital plan does not immediately present a fiscal pressure as the sources of funding fully balance the cost of the projects in the approved plan, each totaling $33.6 billion. While the capital plan is theoretically "balanced", there are at least four major factors that may impact the approved plan:

1. The cost of a given project exceeds the current estimate, without incremental external funding to offset the higher cost. Cost-sharing "contribution agreements" and similar grants from the governments of Canada and Ontario typically do not cover unforeseen costs, leaving the City responsible for any cost increases.
2. The inability of financial markets to accommodate some portion of the City's debt requirements at the interest rate(s) currently forecast; for example, the funding itself may be at risk and/or the cost of financing the debt maybe greater (or lesser) than forecast. While the City's debentures and credit rating continue to attract investors, the 'going rate' for good-quality public debt has been rising steadily.
3. External funding sources, such as Development Charges or federal/provincial funding, do not materialize as expected. Recent changes to Development Charges legislation and pressure to grant exemptions might impact projected development-related revenues. Changes to development charges and parkland levies resulting from the Province of Ontario's Bill 23 could result in an estimated $230 million annual loss in revenue for the City of Toronto (per City estimates), reducing funding available for the 10-year Capital Plan by more than $2.3 billion. However, consistent with provincial announcements and associated discussions, the current 10-year Capital Plan assumes full reimbursement of $2.3 billion at this stage.
4. New legislation or regulation, beyond the control of the City, mandates that additional projects be taken on and/or that existing projects incorporate new 'features' at higher cost. In an environment where provincial and federal authorities are not required to cost or underwrite the financial impact of their actions on municipalities, it becomes easier to impose conditions on projects and programs by the way of so-called 'unfunded mandates', either directly on municipalities or arising from general application legislation.

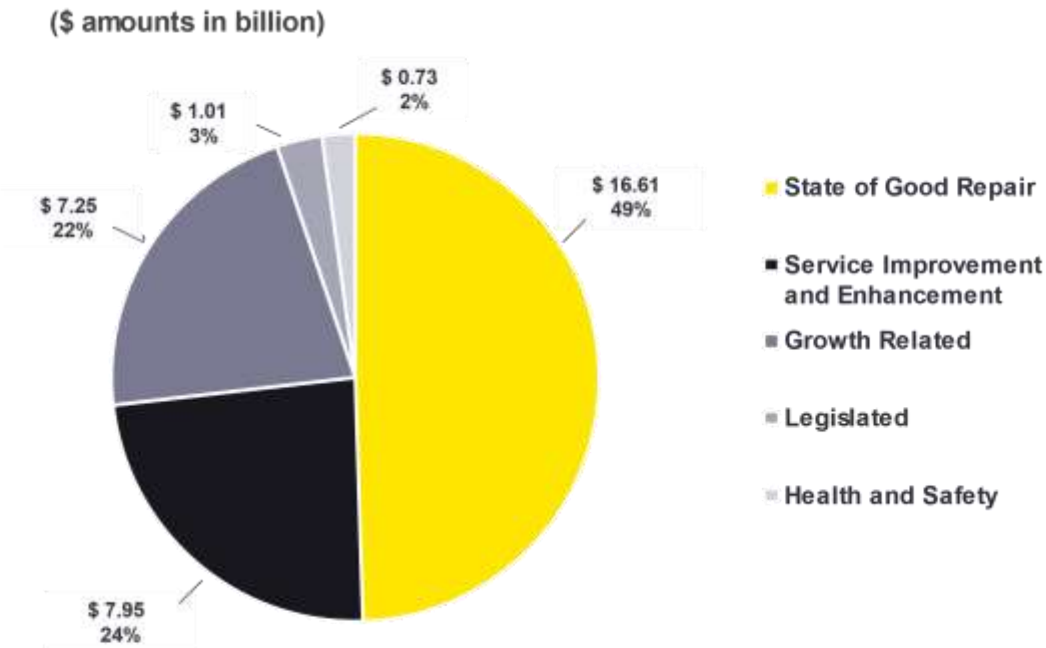
The City's approved tax supported capital plan is $33.6 billion over 10 years (2023-2032) and encompasses five categories of capital projects prioritized as follows:

1. Health and Safety;
2. Legislated;
3. State of Good Repair;
4. Growth Related; and
5. Service Improvement and Enhancement.

Figures 3 and 4 below respectively present the approved capital projects by category and the funding sources for the aggregate approved capital plan. Figure 5 illustrates the annual cash outlays for all approved capital projects over the next 10 years, as well as the Top 20 projects[13]. Appendix 2 provides a list of the 'top 10' projects in the approved capital plan for each of the TTC and the City with its other ABCs.

The TTC represents $13.9 billion of the approved/funded capital plan while City divisions and the other ABCs represent the balance of $19.7 billion.

Figure 3 – Approved Capital Projects by Category



[13] The 'Top 20 projects' refers to the 10 largest TTC projects plus the 10 largest non-TTC projects.

Figure 4 – Sources of Funding for the Approved Capital Plan

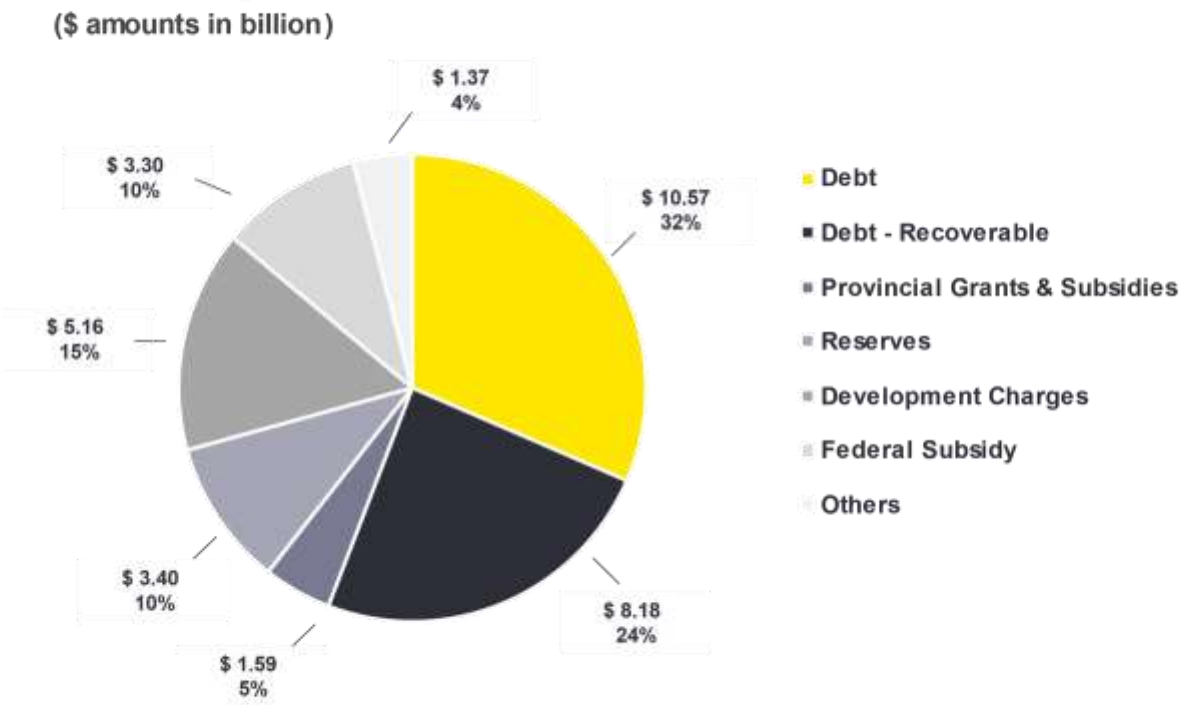
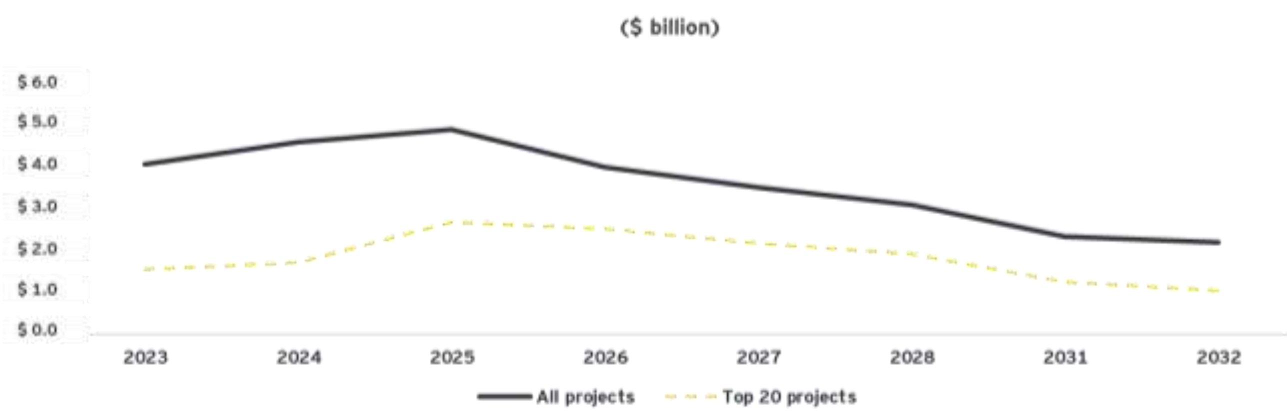


Figure 5 – Annualized Approved Capital Plan Expenditures



4.5 Unfunded Capital Program

The most significant component of the total fiscal pressure is the net $29.5 billion unfunded capital program. The unfunded capital program reflects those projects that have not (yet) been approved by Council; in other words, the unfunded capital program can be seen as a list of projects that staff recommend be undertaken to maintain service levels, asset integrity, and/or SOGR, but that Council has not yet approved, primarily due to a lack of identified or eligible funding. Should Council decide to approve and fund a given project, that project is transferred to the Approved Capital Plan.

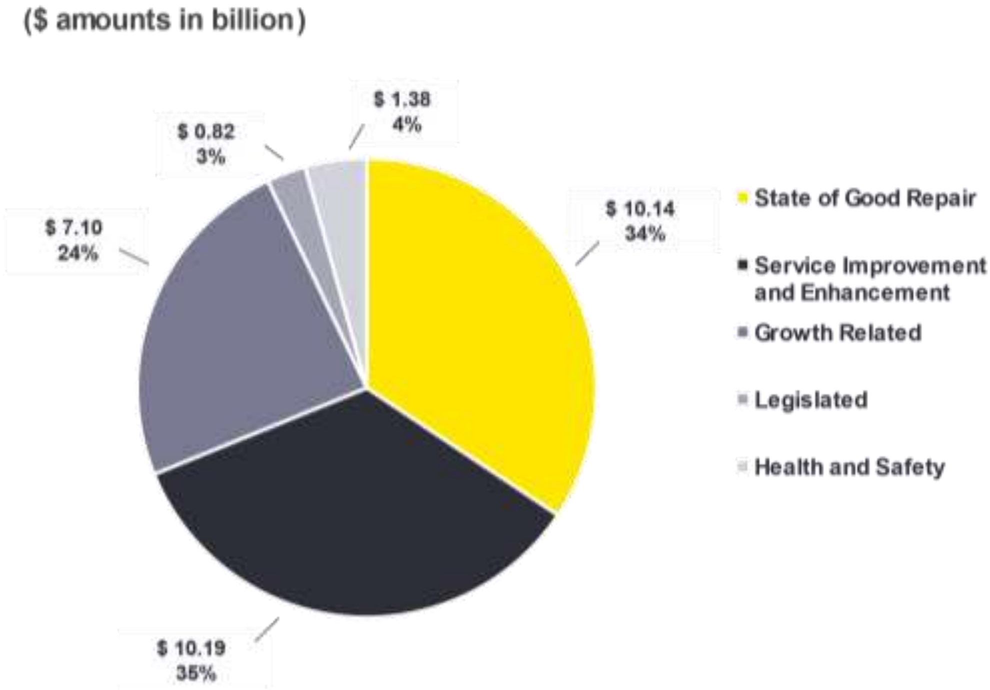
In addition to the $29.7 billion of projects formally identified by the City during the 2023 budget process, the model also assumes $1 billion of estimated inflationary impacts across all projects and $3.2 billion of other financial impacts based on information available.

The unfunded capital program thus totals $33.9 billion in gross cash outlays, offset by $3.9 billion of anticipated Development Charges (DCs) and external funding of $0.5 billion. This results in a net unfunded capital program of $29.5 billion over 10 years, as shown in Figure 6 below, followed by a category view in Figure 7.

Figure 6 – Unfunded Capital Program

Unfunded Capital Program in 2023 ($ in billion)**:**	
TTC and Other Transit	$16.9
Other Tax-Supported	$12.8
Sub-Total	**$29.7**
Additions:	
Inflation	$1.0
Other Initiatives/Assumptions	$3.2
Sub-Total	**$4.2**
Gross Unfunded Capital Program	**$33.9**
Less expected funding:	
External Funding	($0.5)
Development Charges	($3.9)
Sub-Total	**($4.4)**
Net Unfunded Capital Program (and Pressure)	**$29.5**

Figure 7 – Unfunded Capital Program by Category



Within the net unfunded capital program, the TTC represents $16.0 billion or just over 54% of the total costs, and all other City units comprise the balance. Taking a different lens, SOGR and Service Improvement and Enhancement projects each represent just over 34% of the net unfunded capital program, totaling over $20 billion, with Growth Related projects adding another 24%, or $7 billion. The details are shown in Figure 8 below:

Figure 8 – Unfunded Capital Program

	Gross Unfunded Capital Program							
Unfunded Capital Program (Amount in Billion)	Health and Safety	Legislated	State of Good Repair	Growth Related	Service Improvement and Enhancement	Total	External funding & DC	Unfunded
TTC	$ -	$ 0.05	$ 5.96	$ 5.28	$ 5.63	$ 16.91	($ 0.90)	$ 16.01
Non-TTC	$ 1.28	$ 0.77	$ 5.09	$ 4.73	$ 5.17	$ 17.04	($ 3.52)	$ 13.53
Gross unfunded capital program	**$ 1.28**	**$ 0.82**	**$ 11.05**	**$ 10.01**	**$ 10.79**	**$ 33.95**	**($ 4.42)**	**$ 29.53**
External funding	$ -	$ -	($ 0.48)	$ -	$ -	($ 0.48)		
Development Charges (DC)	$ -	$ -	($ 0.43)	($ 2.91)	($ 0.60)	($ 3.94)		
Total net of external funding & DC	$ 1.28	$ 0.82	$ 10.14	$ 7.10	$ 10.19	$ 29.53		
% of Total	**4%**	**3%**	**34%**	**24%**	**35%**	**100%**		

While the unfunded program includes some $881 million of gross spending in 2023, the City's budget does not include funding for these projects, and that pressure will need to be considered in future years.[14]

In addition, as with the approved capital plan, there are a number of risks not reflected in the model that could impact this analysis, including:

1. The cost of a given project exceeds the current estimate, without incremental external funding to offset the higher cost;
2. Further deferrals or cancellations of unfunded capital projects can lead to greater risk and higher costs in future years;
3. External funding sources, such as DCs or provincial and/or federal funding do not materialize as expected;
4. New legislation or regulation from other orders of government that impacts project design and specifications.

[14] The Unfunded 10-year Capital Program had about $881 million of desired project spending in 2023. As those items were not approved by Council, they remain in the Unfunded Capital Program. But since they are unfunded, by definition, spending on these cannot happen in 2023, and therefore, the dollars will eventually be added to 2024 and/or other years.

5. The City's Reserve Capacity

As of September 30, 2022, the City had $11.2 billion in deferred revenues and reserve and reserve fund balances. Of this, 97.4% 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. This includes an emergency one-time provision to address COVID-19 related impacts, should full funding support not be received from other orders of government. The remaining 2.6%, or $290 million, is available for emergency purposes such as extreme weather events, or as a one-time back-stop purposes in the event required funding is not received for efforts such as refugee response or supportive housing.

5.1. Reserves

The City has instituted a new reserve management approach in recent years aimed at establishing a prudent approach to maintaining a sustainable reserve balance. The City's reserve balances are a reflection of contributions over a number of years.

Pressures related to the COVID-19 pandemic in particular have presented challenges to the City's finances, including the ability to replenish the City's reserves.

Currently, the City maintains a number of reserve funds, with a balance of $4.85 billion as of September 30, 2022. However, more than 94% of these funds are "committed to future Council directed activities that include capital and operating expenditures and rate-based activities."[15] This includes a one-time backstop strategy to meet COVID-19 pressures in 2023, should the provincial and federal funding support assumed in the City's balanced 2023 budget not be received.

The remaining 6%, or $290 million, of reserves are available to respond to unanticipated events or circumstances, emergencies, or to offset unexpected decreases in other funding sources. However, it represents less than 1.5% of total cash outflows approved for 2023. By contrast, the Province of Ontario has a contingency fund and reserves equal to about 2.9% of estimated spending, which it budgets for and replenishes on an annual basis.[16]

An alternative way of considering the City's as-yet uncommitted reserves is that they provide a fiscal cushion equal to about one week of the City's operating expenditures. Further, this one-week cushion may overstate reality, as almost exactly one-half of the uncommitted reserves have been set aside to fund refugee response and supportive housing costs should federal and provincial funding not be received as expected in 2023.

In essence, drawing-down reserves may help address an individual year's budget pressure, but it makes future budget years more challenging. Therefore, based on the current reserve management policies adopted by Council, the City does not have financial reserves to offset

[15] City of Toronto. (2023). EX3.5 – City of Toronto Reserves and Reserve Funds as at September 30, 2022, p.6.
[16] Review of the Pre-Election 2022 Multi-Year Fiscal Plan (auditor.on.ca); Expenditure Estimates for the Treasury Board Secretariat (2022-23) | ontario.ca

the fiscal pressures identified in this report.

5.2. Deferred Revenues

The City also recognized approximately $6.37 billion of deferred revenues on its financial statements as of September 30, 2022. These deferred revenues represent "monies from external parties [that] are obligated to [be] set aside for specific purposes outlined in Provincial legislation, third party agreements, or for goods and services that will be provided in the future,"[17] such as development charges and growth-related funding tools. Deferred revenues are fully committed based on contractual obligations to spend the monies received on specific projects.

Therefore, the City cannot use deferred revenues as a means of addressing the fiscal pressures identified in this report.

[17] City of Toronto. (2023). EX3.6 – Deferred Revenue Report at September 30, 2022 and Administrative Amendments to Obligatory Reserve Fund, p.1.

6. Summary: Toronto's Fiscal Future

The modeling indicates a total 10-year cash pressure of $46.5 billion. The pressures are not concentrated in any single aspect of the budget but encompass operating and capital aspects of City finances, as demonstrated in Figure 9:

1. Almost two-thirds, or 63%, stems from the unfunded capital program, with about 54% of this amount related to the TTC;
2. About one-sixth, or 16%, stems from annual operating expenditures in excess of operating sources of funding; and
3. Just over one-fifth, or 20%, stems from the cost of increased debt and the repayment of new debt issues.

Whether and to what extent these future pressures materialize is affected by decisions Council will make. It will also be affected by the decisions that other governments will make about their fiscal relationships with the City.

Figure 9 – Ten Year Total Fiscal Pressure, $46.5 billion

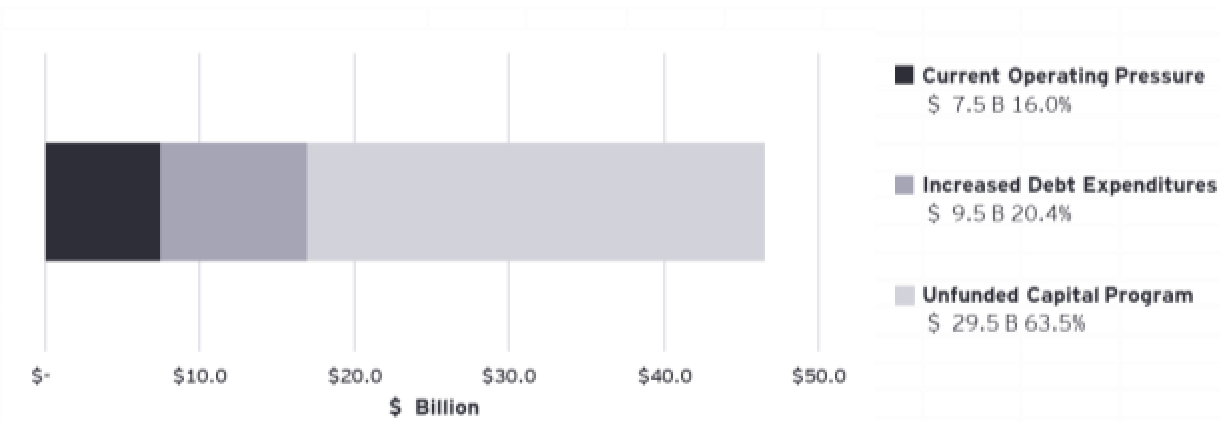
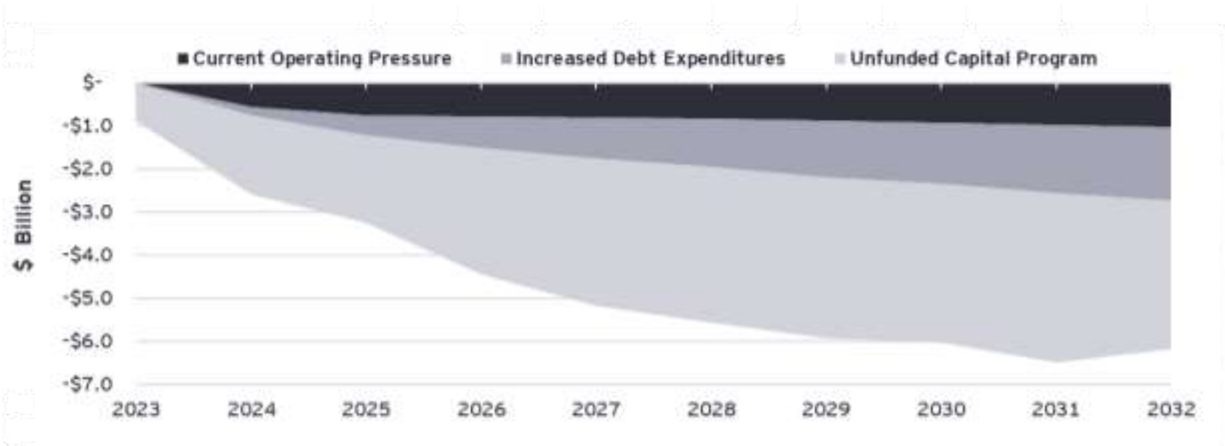


Figure 10 demonstrates the "snowballing" of fiscal pressures over the 10-year forecast. The pressure starts at $880 million in 2023, which reflects the unfunded capital program that, as noted earlier, is by definition being deferred – in whole or part - to 2024 and/or future years. As the figure indicates, the City's annual fiscal pressures increase from 2023 to 2032, driven mostly by the growing size of the unfunded capital program, although there are year-to-year fluctuations within that program. In addition, the pressures from current or annual operations and debt expenditures increase throughout the model period; by 2032, the fiscal pressure grows to approximately $6 billion.

Figure 10 – Annual View of 10 Year Fiscal Pressure, $46.5 billion



$ Billion	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
Current Operating Pressure	$ -	$ 0.55	$ 0.75	$ 0.77	$ 0.80	$ 0.83	$ 0.87	$ 0.91	$ 0.96	$ 1.01	$ 7.46
Increased Debt Expenditures	$ -	$ 0.18	$ 0.45	$ 0.73	$ 0.96	$ 1.12	$ 1.32	$ 1.43	$ 1.59	$ 1.72	$ 9.49
Unfunded Capital Program	$ 0.88	$ 1.84	$ 2.03	$ 2.93	$ 3.41	$ 3.63	$ 3.75	$ 3.69	$ 3.95	$ 3.44	$29.53
Total	**$ 0.88**	**$ 2.58**	**$ 3.23**	**$ 4.43**	**$ 5.16**	**$ 5.57**	**$ 5.94**	**$ 6.03**	**$ 6.50**	**$ 6.17**	**$46.48**

The annual shortfall is smaller in the earlier years and growing over the 10-year period, strongly indicating that the City's challenges are not temporary in nature. In fact, the annual budget adjustments to alleviate operating pressures simply add to the worsening pressure in the later years, as capital and SOGR projects are further deferred.

6.1. Alignment with EY's 2019 Value Based Outcomes Review (VBOR)

In 2019, the VBOR report identified a cumulative 10-year cash shortfall of $9.4 billion. This report identifies total pressure as $46.5 billion, with the following items accounting for the bulk of the $37.1 billion difference between the two reports:

1. The scope of the VBOR report did not include the unfunded capital program, which is currently estimated at a net of $16.0 billion for the TTC and $13.5 billion for the rest of the City;
2. The current analysis reflects additional debt planned to be issued in respect of the approved capital program and the impact of significantly higher inflation rates than were forecast in 2019.

7. Conclusion: Risks and Implications of the Financial Forecast

On its current path, the City faces significant fiscal pressure of $46.5 billion over the next decade. Analysis indicates that unless action is taken to address this fiscal pressure, the City faces worsening pressures and risks every year for the next 10 years. This implies significant challenge to manage known pressures over that period, let alone tackle potentially unknown risks or new service investments that may arise.

The findings of this financial update reiterate and build on the conclusions of its predecessor reports regarding the City's long-term financial outlook.[18] This report illustrates the near-term nature of known pressures, and that these are being manifested in this term of Council and, importantly, will need to be managed starting with the 2024 annual budget process.

In view of financial pressures, the legislative requirement that Ontario municipalities must deliver balanced budgets, and the mismatch between ambitions and historical revenue-generating practices,[19] it will be increasingly difficult for the City to:

- Continue to provide all current services at current levels;
- Meet growth-related increases in service demands;
- Maintain capital assets in a State of Good Repair;
- Implement planned service enhancements and expansions, such as social housing and new transit lines; and/or
- Invest in addressing emerging threats, such as cyber security and climate change adaptation and mitigation.

This analysis provides the foundation for the City to explore and evaluate options to mitigate, address, and reduce fiscal pressures as a next phase of work, which may include a review of City programs and services, revenue sources, and assets. It is critical to recognize that there is not a single solution that can successfully address the City's immediate and longer-term financial position.

The City is already taking some steps in this regard. In February 2023, City Council requested City staff complete an updated analysis of revenue-generating options available to the city under the *City of Toronto Act, 2006* including a feasibility study of a commercial parking levy. At the same time, there is also a reasonable basis for other orders of government to play an enhanced role in supporting the City, commensurate with the significant benefits the City's programs, services, and assets deliver for the GTHA, Ontario, and Canada as a

[18] See, for example, The City of Toronto Long-Term Financial Plan (2018), Values-Based Outcomes Review (2019), The City's Long-Term Financial Direction (2016), City of Toronto Long-Term Financial Direction Update (2016), Asset Optimization Review – Toronto Hydro Corporation and Toronto Parking Authority (2016), The City's Immediate and Longer-Term Revenue Strategy Direction (2016).

[19] This assumes the City continues to limit property tax revenue growth to no more than the rate of inflation.

whole. Further, the City delivers many key services that are extensions of federal and provincial responsibilities to meet critical needs in the community.

In sum, the potential options and solutions will need to be wide-ranging and explored across all aspects of City finances to support the City in charting a path toward long-term financial sustainability.

8. Appendices

Appendix 1 – Operating Sources of Funding and Expenditures

Appendix 1 presents two views of the operating pressures, Figure A1.1 being the annual summary of sources of funding and expenditures and Figure A1.2 being the cumulative growth of that annual pressure.

To reconcile the financial model with the City's published 2023 operating budget of $16.16 billion, see below:

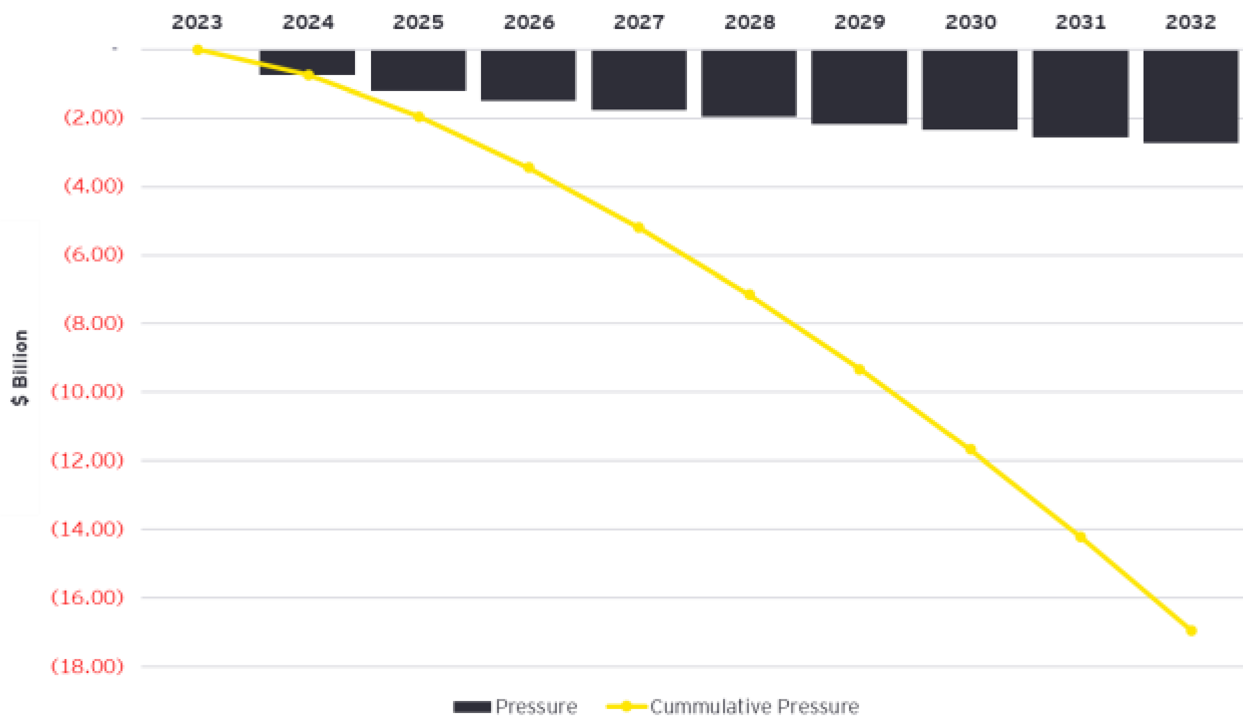
- $11.39 billion is shown in Figure A1.1;
- $2.04 billion is excluded as it is related to Rate-Supported operating expenditures;
- $2.73 billion is excluded as it is related to flow-through revenues and expenditures (the City acting as an agent for other orders of government), and transfers to/from reserves (internal movement of funds with a net-zero effect, e.g., special levy for the Scarborough subway).

The City's budget package presents the same data on a program-by-program basis, but the financial modelling does not project future years' sources of funding or expenditures on a program-specific basis.

Figure A1.1 - Operating Sources of Funding and Expenditures

Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	CAGR (2023-2032)
Operating Sources of Funding (Amount in Billion)											
Property Taxes	$ 5.39	$ 5.61	$ 5.83	$ 6.00	$ 6.17	$ 6.34	$ 6.51	$ 6.68	$ 6.85	$ 7.03	2.99%
Fares and Fees	$ 1.56	$ 1.58	$ 2.14	$ 2.21	$ 2.28	$ 2.36	$ 2.43	$ 2.51	$ 2.59	$ 2.68	6.18%
Transfers from Other Governments	$ 1.41	$ 1.37	$ 1.48	$ 1.52	$ 1.55	$ 1.58	$ 1.62	$ 1.66	$ 1.69	$ 1.73	2.30%
Municipal Land Transfer Tax	$ 1.04	$ 1.07	$ 1.09	$ 1.12	$ 1.14	$ 1.17	$ 1.20	$ 1.23	$ 1.26	$ 1.29	2.40%
Miscellaneous & Other Revenues	$ 0.61	$ 0.63	$ 0.65	$ 0.68	$ 0.70	$ 0.73	$ 0.75	$ 0.78	$ 0.80	$ 0.83	3.51%
Transfers From Capital	$ 0.21	$ 0.20	$ 0.21	$ 0.21	$ 0.22	$ 0.23	$ 0.23	$ 0.24	$ 0.25	$ 0.26	2.27%
COVID Transfers	$ 0.93	$ 0.80	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-100.00%
Interest & Investment Income	$ 0.23	$ 0.07	$ 0.09	$ 0.09	$ 0.10	$ 0.11	$ 0.11	$ 0.11	$ 0.11	$ 0.11	-7.54%
Total	**$ 11.39**	**$ 11.33**	**$ 11.48**	**$ 11.82**	**$ 12.17**	**$ 12.52**	**$ 12.86**	**$ 13.21**	**$ 13.56**	**$ 13.92**	**2.26%**
Year	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**CAGR (2023-2032)**
Operating Sources of Expenditures (Amount in Billion)											
Salaries and Benefits	$ 6.58	$ 7.11	$ 7.31	$ 7.54	$ 7.77	$ 8.01	$ 8.25	$ 8.50	$ 8.75	$ 9.01	3.55%
Contributions And Transfers	$ 1.53	$ 1.41	$ 1.47	$ 1.51	$ 1.56	$ 1.61	$ 1.65	$ 1.70	$ 1.75	$ 1.80	1.81%
Services & Rent	$ 0.79	$ 0.82	$ 0.85	$ 0.88	$ 0.91	$ 0.94	$ 0.97	$ 1.01	$ 1.04	$ 1.08	3.56%
Materials & Supplies	$ 0.77	$ 0.80	$ 0.83	$ 0.86	$ 0.90	$ 0.93	$ 0.96	$ 1.00	$ 1.03	$ 1.07	3.68%
Debt Repayments	$ 0.54	$ 0.62	$ 0.69	$ 0.78	$ 0.87	$ 0.90	$ 0.99	$ 1.02	$ 1.08	$ 1.13	8.50%
Debt Charges - Interest	$ 0.17	$ 0.29	$ 0.48	$ 0.66	$ 0.81	$ 0.94	$ 1.04	$ 1.13	$ 1.22	$ 1.30	25.12%
Contracted Services	$ 0.70	$ 0.72	$ 0.73	$ 0.75	$ 0.77	$ 0.78	$ 0.80	$ 0.82	$ 0.84	$ 0.86	2.22%
Other	$ 0.30	$ 0.31	$ 0.32	$ 0.33	$ 0.34	$ 0.36	$ 0.37	$ 0.38	$ 0.39	$ 0.41	3.58%
Total	**$ 11.39**	**$ 12.06**	**$ 12.69**	**$ 13.32**	**$ 13.93**	**$ 14.46**	**$ 15.04**	**$ 15.55**	**$ 16.11**	**$ 16.65**	**4.32%**
Pressure	**-**	**($ 0.74)**	**($ 1.20)**	**($ 1.50)**	**($ 1.76)**	**($ 1.94)**	**($ 2.18)**	**($ 2.35)**	**($ 2.55)**	**($ 2.73)**	**($ 16.95)**

Figure A1.2 – Accumulation of the Annual Operating Pressure



Appendix 2 – Approved/Funded Capital Projects

The 10 largest projects in the funded capital plan for the TTC total $8.86 billion, while the total funded capital plan for TTC projects is $13.88 billion.

Figure A2.1 – TTC 10-Year Funded Capital Plan

TTC: Funded Capital Plan (Amount in Billion)	Health and Safety	Legislated	State of Good Repair	Growth Related	Service Improvement and Enhancement	Total	Start Year	End Year
Preliminary SmartTrack Estimates (CCI111)	$ -	$ -	$ -	$ 1.47	$ -	$ 1.47	2023	2028
Line 1 Capacity Enhancement	$ -	$ -	$ -	$ -	$ 1.39	$ 1.39	2023	2032
Yonge Bloor Capacity Improvements	$ -	$ -	$ -	$ -	$ 1.38	$ 1.38	2023	2032
Line 2 Capacity Enhancement	$ -	$ -	$ -	$ -	$ 0.85	$ 0.85	2023	2032
Purchase of Subway Cars	$ -	$ -	$ 0.56	$ 0.25	$ -	$ 0.81	2023	2032
ATC Resignalling	$ -	$ -	$ 0.68	$ -	$ -	$ 0.68	2023	2032
Purchases of Buses	$ -	$ -	$ 0.63	$ -	$ 0.01	$ 0.63	2023	2032
Easier Access Phase II & III	$ -	$ 0.58	$ -	$ -	$ -	$ 0.58	2023	2027
Other Bldgs & Structures Projects	$ 0.09	$ 0.03	$ 0.31	$ 0.06	$ 0.04	$ 0.54	2023	2032
Bus Overhaul Program	$ -	$ -	$ 0.51	$ -	$ -	$ 0.51	2023	2032
Sub-Total of Top 10 Projects	$ 0.09	$ 0.61	$ 2.70	$ 1.78	$ 3.66	$ 8.86		
Other TTC	$ 0.19	$ 0.19	$ 3.97	$ 0.42	$ 0.25	$ 5.02	2023	2032
Total	$ 0.29	$ 0.80	$ 6.67	$ 2.20	$ 3.91	$ 13.88		
% of Total	2.1%	5.8%	48.1%	15.9%	28.2%	100.0%		

The 10 largest projects in the funded capital plan for all City divisions and other ABC's total $8.80 billion, while the total funded capital plan for non-TTC projects is $19.68 billion.

Figure A2.2 - All City divisions and other ABC's 10-Year Funded Capital Plan

Other: Funded Capital Plan (Amount in Billion)	Health and Safety	Legislated	State of Good Repair	Growth Related	Service Improvement and Enhancement	Total	Start Year	End Year
F. G. Gardiner Rehabilitation Program	$ -	$ -	$ 1.89	$ -	$ -	$ 1.89	2023	2030
TCHC Building Repair Capital	$ -	$ -	$ 1.57	$ -	$ -	$ 1.57	2023	2032
Community Centres	$ -	$ -	$ 0.11	$ 1.11	$ 0.10	$ 1.32	2023	2032
Housing Now	$ -	$ -	$ -	$ 0.84	($ 0.19)	$ 0.65	2023	2032
Local Road Rehabilitation	$ -	$ -	$ 0.63	$ -	$ -	$ 0.63	2023	2032
Major Road Rehabilitation	$ -	$ -	$ 0.63	$ -	$ -	$ 0.63	2023	2032
George Street Revitalization (GSR)	$ -	$ -	$ -	$ -	$ 0.58	$ 0.58	2023	2027
City Bridge Rehabilitation	$ 0.13	$ -	$ 0.41	$ -	$ -	$ 0.54	2023	2032
Rental Development	$ -	$ -	$ -	$ 0.52	$ -	$ 0.52	2023	2032
Real Estate Services	$ 0.00	$ -	$ 0.02	$ -	$ 0.46	$ 0.48	2023	2032
Sub-Total of Top 10 Projects	$ 0.13	$ -	$ 5.25	$ 2.47	$ 0.95	$ 8.80		
Other Non-TTC	$ 0.31	$ 0.21	$ 4.69	$ 2.58	$ 3.09	$ 10.88	2023	2032
Total	$ 0.45	$ 0.21	$ 9.94	$ 5.05	$ 4.04	$ 19.68		
% of Total	2.3%	1.1%	50.5%	25.7%	20.5%	100.0%		

Appendix 3 – Unfunded Capital Projects

The "top 10" projects in the unfunded capital program are shown in Figure A3.1 below, aggregated to present the data more effectively.

Figure A3.1 – Total Unfunded Capital Program

Top 10 Projects - Unfunded Capital Program (Amount in million)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
Transit Expansion Initiatives (CCI100)	$ -	$ 17	$ 89	$ 119	$ 253	$ 361	$ 542	$ 573	$ 722	$ 573	$ 3,248
Other Bldgs & Structures Projects	$ -	$ 104	$ 105	$ 194	$ 251	$ 253	$ 202	$ 242	$ 618	$ 532	$ 2,501
Line 1 Capacity Enhancement	$ -	$ -	$ -	$ 273	$ 468	$ 205	$ 393	$ 496	$ 261	$ 309	$ 2,405
Port Lands Infrastructure and Public Realm	$ -	$ 127	$ 142	$ 155	$ 168	$ 145	$ 208	$ 485	$ 418	$ 138	$ 1,986
Waterfront Transit	$ 246	$ 382	$ 280	$ 173	$ 175	$ 200	$ 200	$ 200	$ 102	$ -	$ 1,957
Purchases of Buses	$ 52	$ 75	$ 143	$ 143	$ 223	$ 229	$ 221	$ 261	$ 267	$ 272	$ 1,886
Purchase of Subway Cars	$ -	$ 181	$ 57	$ 71	$ 188	$ 237	$ 264	$ 291	$ 297	$ 33	$ 1,619
TCHC Development Capital Projects	$ -	$ 33	$ 81	$ 330	$ 238	$ 252	$ 142	$ 11	$ 90	$ 217	$ 1,394
Local Road Rehabilitation	$ -	$ 41	$ 52	$ 113	$ 150	$ 159	$ 201	$ 212	$ 223	$ 233	$ 1,383
Structural/Building Envelope	$ 74	$ 146	$ 154	$ 165	$ 183	$ 191	$ 185	$ 59	$ 61	$ 64	$ 1,282
Total of top 10 projects	**$ 372**	**$ 1,106**	**$ 1,102**	**$ 1,736**	**$ 2,298**	**$ 2,232**	**$ 2,558**	**$ 2,828**	**$ 3,058**	**$ 2,371**	**$ 19,661**
Other projects	$ 89	$ 506	$ 1,078	$ 1,270	$ 1,272	$ 1,529	$ 1,404	$ 1,009	$ 990	$ 942	$ 10,090
2023 additional projects	$ 420	$ 420	$ 420	$ 420	$ 420	$ 420	$ 420	$ 420	$ 420	$ 420	$ 4,200
Total Unfunded Capital Program	**$ 881**	**$ 2,032**	**$ 2,600**	**$ 3,426**	**$ 3,990**	**$ 4,181**	**$ 4,382**	**$ 4,257**	**$ 4,469**	**$ 3,733**	**$ 33,950**

The 'Top 10' projects represent just under 60% of the gross unfunded plan, with all other projects – including projects recently added, as noted above – comprising the balance. This table is presented on a gross, rather than net, basis as the limited known funding sources have not yet been allocated to specific projects.

The large increases in the annual cost of the plan from 2023 to 2027 reflect a number of new projects hoped to be launched in those years as well as the deferral of some projects from prior years to future ones.