Fixing the Problem: Addressing the City's Immediate and Long-Term Financial Pressures

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1 Executive Summary

1.1 The City's financial pressures

Over the next 10 years, the City of Toronto faces combined operating and capital fiscal pressures of $46.5 billion that, without serious attention from City Council to address, are likely to threaten the City's fiscal stability and its ability to maintain the level of services that the people of Toronto have come to expect.

These pressures come from three main areas:

- $29.5 billion, or 63%, originates from the unfunded capital program;
- $7.5 billion, or 16%, originates from annual operating expenditures in excess of operating sources of funding; and
- $9.5 billion, or 20%, originates from the cost of increased debt and the repayment of new debt issues.

Toronto's forecasted pressures cannot be solved immediately, but they do need to be addressed immediately as the City is projecting an opening pressure of $1.5 - $1.7 billion for the 2024 budget process. These pressures will continue to grow each year and will become increasingly difficult to manage if left unaddressed. Like a car accelerating toward a crowded intersection, not applying the brakes early enough will have predictable and grave consequences.

These consequences for the City will likely include the deterioration of service levels and capital assets that will impact how residents, businesses and visitors experience the City. Further, the City will not be able to move forward with key commitments and strategies that speak to Toronto's vision of being a diverse, equitable and world class city. A decline in Toronto will also have consequences beyond City borders. Given the importance of Toronto's contribution to the Canadian economy, a decline in Toronto can be expected to have negative social and economic impacts on the region, the province, and the country.

1.2 The time for change is now

This report identifies and analyzes options for the City that can mitigate and reduce these fiscal pressures.

Although this analysis was initially intended to focus on long-term solutions to address the 10-year $46.5 billion pressure, the City's imminent challenge for the 2024 budget process means that solutions must also be advanced in the short term, within the next six months.

As noted in the 2023 Financial Update and Outlook report, and the associated staff report, presented to Council in March 2023, there is no single solution that can address the City's financial challenges.[1] As a famous airline executive once observed, a 100% improvement in an organization is rarely a matter of one or two changes but more often a matter of fifty 2% changes. Although a long-term solution for Toronto will involve many changes, in the context of the City's current and forecasted financial challenges, those changes must be what is known as "material." This means that actions must make a significant and sustainable contribution to addressing the City's $1.5 - $1.7 billion gap in 2024 and its longer-term $46.5 billion pressure.

[1] City of Toronto. Financial Update and Outlook. March 20, 2023 ("The March 2023 Report").

Although there has been considerable public debate over the years about whether the City of Toronto has a “revenue” problem or a “spending” problem, the reality is that the solutions required must come from and address all aspects of the City’s finances, including revenue, operating and capital expenditures, City-owned assets, and funding and agreements with other levels of government.

This term of Council will need to make decisions that can contribute materially to reducing the projected fiscal pressure and ensure that Toronto can continue to deliver high quality services to community members and work towards its ambitions for the future. These decisions are imminent. As part of the 2024 budget process, Council will need to decide how to address the forecasted $1.5 - $1.7 billion shortfall in order to balance the budget as required by provincial legislation. This balancing exercise may include consideration of a combination of a substantial tax increase, use of other revenue tools, reduced service levels, and deferrals of planned capital projects, among other options.

Further, Council’s decisions regarding the City’s financial future must consider and advance the best interests of Toronto as a whole. Municipal legislation is designed to place emphasis on local interests – wards, Community Council areas, and neighbourhoods. By the same token, municipal Councils are designed to respond to and represent local concerns. Sometimes, however, the local representative role of Council can be a barrier to taking an overarching perspective on City-wide and regional issues. Provincial legislation provides that the City is a legal person – a body corporate – for which members of Council have a collective and shared responsibility. Protecting and preserving the City’s social, fiscal and economic viability is a primary trust borne by all members of Council and by every member of municipal staff. It is this responsibility that must be at the forefront of the City’s decisions on how to best address its immediate and long-term financial challenges.

1.3 Approaches to supporting financial sustainability

Toronto’s fiscal pressures, both operating and capital, are the result of decisions and actions taken by multiple councils over many years, compounded by actions and decisions of other levels of government, and even further by circumstances – such as pandemics - far beyond the City’s control. Circumstances that evolve over years and decades, such as Toronto’s $46.5-billion pressure, cannot be addressed overnight and will require a comprehensive, disciplined and coordinated effort to solve. The analysis presented in this report outlines two primary approaches, each of which encompass potential options for further consideration and analysis by the City, subject to decisions by the Mayor and Council:

1. **Options to reduce the City’s $46.5-billion pressure over the next 10 years across all aspects of the City’s finances,** including:
    - Increasing revenues from property tax and new and existing revenue tools;
    - Reducing operating expenditures through 10 potential options, summarized according to the following groupings:
        - *Reducing the cost-of-service delivery* through enforcement and improvement in contract compliance, innovative procurement processes, and indefinite deferral of the operation of the Eglinton Crosstown LRT and Finch West LRT (Lines 5 and 6) upon construction completion and pending any new funding arrangement or fiscal framework with the province that better meets the City’s transit needs;
        - *Improving productivity*, including increased digitization of services, updated time and attendance and rostering practices, and the expansion of shared services

across the City and its Agencies, Boards, and Commissions (ABCs);

  - *Reducing foregone revenues* through elimination of development charges exemptions, reconsideration of concessionary (including free) pricing for some City programs, re-evaluation of the City's existing grant-funding programs and reducing or eliminating property tax-related financial incentives.

- Conducting a review and prioritization of the City's funded 10-Year Capital Plan and unfunded capital program;
- Considering the optimization of City assets, including surplus assets, including real estate, underutilized assets owned by TTC and Toronto Parking Authority, and other assets like Toronto Hydro; and,
- Collaborating with the provincial and federal governments to develop a new fiscal framework that better reflects the size and scope of the services and investments delivered by the City of Toronto and the benefits provided to the region, province and nation as a whole.

2. **Options to enhance City decision-making processes to support long-term financial sustainability and mitigate against further growth of the City's projected fiscal pressure.**

   The institutions and processes of the City's financial management require Council discipline, commitment, and improvement. This includes consideration of impacts of all policy proposals on the consolidated immediate and long-term financial position of the City prior to decisions on such proposals by the Mayor and Council. Corresponding policies should be instituted such that fiscal sustainability is made transparent and is respected and complied with in all Mayor and Council decisions.

By advancing these two approaches, and the options within, the City can chart a path to financial sustainability, both in the immediate term and over the next 10 years.

1.4 Addressing the City's immediate and long-term fiscal pressures

2024: Immediate needs and opportunities

In the short term, the City has few options to make inroads into its 2024 budget pressure, currently estimated at about $1.5 - $1.7 billion.

First, as is widely known, property taxes are both the City's largest and most predictable revenue source, as well as being the revenue tool most directly in the City's control. Increasing Toronto's property tax rates to levels comparable to other municipalities in the Greater Toronto and Hamilton Area (GTHA) – approximately a 10-12% increase over and above the rate of inflation – would provide an additional $500 million per year, as outlined in Section 3 of this Report.

Second, the incremental revenue options proposed in this report can deliver significant revenues beginning in 2024, if promptly adopted by the Mayor and Council and implemented by the City. While perhaps the City will not be able to achieve the full revenue potential in 2024 due to factors such as the selection of options, timing of launch, and the possibility of phasing in each source, the impact on the fiscal pressure can be material.

Third, two of the ten operating expenditure business cases could deliver benefits in 2024, specifically in the areas of procurement and the indefinite deferral of the opening of the new Eglinton Crosstown and Finch West LRT lines. First, an expansion of innovative procurement practices would achieve $72 - $108 million in annual savings once fully implemented. Second, the long-awaited public launch and operation of the two LRT lines will increase the fiscal pressure on the City by $106 million in 2024.[2] It was never foreseen that these new operating costs would begin in circumstances when the City had such limited capacity to afford them. Deferring the launch of these two transit lines could reduce the 2024 pressure by up to $106 million. It is important to note that these cost avoidance options are all subject to legal review and decisions by the Mayor and Council.

2025 and beyond: Time expands the opportunities available to the City

Assuming that property tax rate increases are implemented as outlined herein, the City will be in a position to generate approximately $500 million per year of additional revenue, sufficient to significantly impact its fiscal pressure. The other 29 new revenue tools, if agreed to and implemented, could generate several hundred million dollars per year over and above incremental property tax revenues, although it is acknowledged that it is unlikely that they would all be implemented.

Further, should the City also advance the full range of expenditure opportunities, the total impact on the fiscal pressure would increase to $0.9 - $1.2 billion per year at maturity. This amount could almost cover the value of the City's operating pressure, including both core operations and the incremental debt-related expenditures noted in the March 2023 report.

Expressed differently, the City could largely manage the equivalent value of its operating pressure through property tax increases and implementing all of the expenditure management opportunities by 2025 or 2026, with the assumption that the required actions – whether by the City or other governments – are approved and actioned this year. In addition, implementing at least some of the new revenue tools described in Section 3.2.2, specifically the more significant ones, could fully alleviate the operating pressure, but this would require provincial support both through legislation and coordination.

This scenario leaves the substantial unfunded capital program – amounting to $29.5 billion or 63% of the total $46.5 billion – as the prime fiscal pressure to be addressed. As this report indicates, in general, cancellation and/or deferral of projects is not an optimal solution, as it can lead to greater risks and increased costs in the future. This should not, however, preclude the City from reconsidering non-critical projects in view of Toronto's severe financial challenges, such as those in the service-improvement category or expansion projects such as future transit lines.

Addressing the capital side of the fiscal pressure thus likely requires some combination of both additional operating surpluses, changes to the management and portfolio of capital projects, alternative funding/delivery models for those projects, and direct support from the provincial and financial government.

It also means that although the options outlined in this report do not include specific service level reductions, every City program and service must be examined as to whether changes, including reductions to existing service levels and elimination of planned and/or desired service enhancements, need to be made. The size and severity of the City's financial pressure means that there is no City asset, program, or service that should be excluded from detailed review and evaluation.

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[2] Toronto Transit Commission (TTC). 2023 TTC Conventional and Wheel-Trans Operating Budgets. January 9, 2023, p. 21.

Fixing the Problem

Ultimately, the City must take measures to begin to pave its own path towards sustainability. This includes making difficult choices about existing and future service levels, instituting financial discipline in policy decisions, and further advancing some or all of the opportunities in this report. Although this report makes clear that the City's financial challenges are not entirely its own to solve, the provincial and federal governments will expect the City to maximize its existing tools and powers and do all that it can before they provide support, whether that be in the form of enhanced funding, new revenue tools, or a realignment of service responsibilities.

2 Introduction

2.1 Context of the Report

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*. Following the 2023 budget, the City updated its financial model to assess the long-term fiscal risks anticipated over the next 10 years and inform the development of an updated Long-Term Financial Plan (LTFP). The first phase of the LTFP was adopted by Council in March 2023.

The updated model outlines the significant long-term financial challenges facing the City, as well as the immediate-term impacts that will be realized as early as the 2024 budget, if meaningful action is not taken to address the City's operating and capital pressures. The size and scope of these pressures are outlined below.

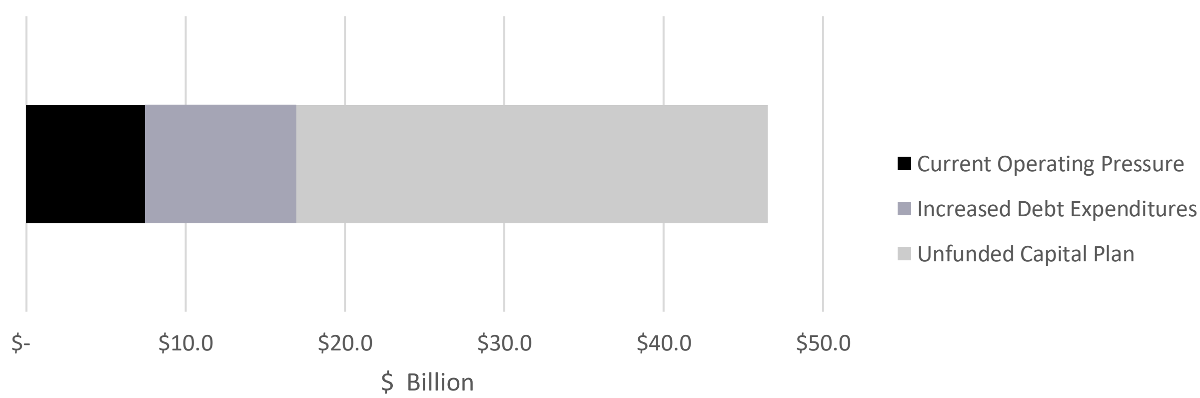
The purpose of this report is to identify and evaluate options to support the City in addressing these fiscal pressures and in setting out a path towards long-term financial sustainability. Initially intended to focus on long-term solutions, the experience and reality of the last 12 months has made it clear that the need to address the City's financial situation is immediate and urgent.

Building on the first phase of work, this report sets out a range of options, some of which the City will need to consider in the near-term and others that may require phasing or implementation over a longer-term horizon.

2.2 The City's 10-year financial forecast

The updated financial model completed as part of the financial update to City Council in March 2023 outlined the long-term fiscal pressures and risks anticipated over the next 10 years. The model demonstrated that the City faces a total cash pressure of $46.5 billion over the next 10 years, encompassing both operating and capital aspects of the City's finances, as shown in Figure 1:

Figure 1 – Components of the $46.5 billion 10-Year Fiscal Pressure



The growth in pressure is primarily driven 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 more than one-third of the City's $16.16 billion total operating budget for 2023.

This financial analysis was completed with the best information available as of February 2023, and it was noted that future policy decisions made by the Mayor and Council, as well as the other levels of government, can impact this forecast. In addition, the March report also indicated that the City has limited tools and strategies to address financial pressures of this magnitude, outlining the City's constrained reserves, which are both to some degree limited by provincial legislation.

Although the financial analysis presented in March 2023 extended over a 10-year period, the immediate impacts of the City's fiscal reality will be felt as early as the 2024 budget process. According to the City's 2023 budget documents, it is forecasting a 2024 opening operating pressure of $1.5 - $1.7 billion; these figures include $0.72-$0.93 billion of sustained COVID-19 implications, particularly reduced transit revenues and increased shelter demands and costs. The City will need to determine how to mitigate these pressures in the immediate term, including decisions relating to the 2024 operating and capital budgets.

The analysis also confirmed that the use of City reserves or deferred revenues to offset both immediate and longer-term financial pressures is not viable. The City was able to weather significant pandemic-related fiscal challenges into 2023, through the prudent management and use of its reserves. However, heading into 2024, the City has limited remaining reserve capacity, with 97% of its reserve and reserve fund balances and deferred revenues "fully committed to legislated, contractually bound, or Council-directed commitments, or is required to support the City's 10-year capital and operating plans."[3]

2.3 Analysis and evaluations of options

This report presents two approaches, each with options for further consideration, that the City can advance to address its significant financial challenges in the immediate and longer term.

The first approach focuses on measures to reduce the forecast 10-year operating and capital pressures and the second outlines several governance actions that Council could consider to improve financial decision-making and oversight. These two approaches are not mutually exclusive, and the City should consider implementing options from each to address immediate fiscal pressures and support fiscal prudence moving forward.

It should be noted that the options within each approach are not exhaustive. Rather, these options have been selected for analysis and evaluated based on the collective judgement of the City and its consultants, as well as the past motions adopted by the Mayor and Council.

Reducing the forecasted fiscal pressures

This report is an inventory of the material options that Council could consider to resolve the long term fiscal problem.

The analysis below sets out various measures to reduce the forecasted 10-year operating and capital pressures in several categories of financial management, including:

[3] City of Toronto. Financial Update and Outlook. March 20, 2023 ("March 2023 Report" hereafter). P. 23.

- Increased revenues, including those tools available to the City under the *City of Toronto Act, 2006* (CoTA) and those requiring support or authority from other governments;
- Cost reductions and service efficiencies in the City's operating budget;
- Prioritization of the City's funded and unfunded 10-year capital plans; and,
- Review, assessment, and evaluation of most City-owned assets to assess current vs. Highest and Best Usage (HBU) and potential monetization of certain ones, among other options;
- Intergovernmental collaboration on areas of shared priority, interest and/or benefit.

Where possible, the analysis provides an order of magnitude impact of options to address operating and capital pressures. However, each of the options was addressed on a stand-alone basis, and this report does not address any compounding effects of implementing multiple options at the same time, given that it is not possible to forecast which options the Mayor and Council will decide to advance.

The analysis answers the question "what are all the measures that could be undertaken." It makes no assumptions about which options might be adopted by Council. Only the Mayor and Council have the authority to decide on specific actions the City will take or strategies to pursue (including seeking external authorities as and when required), and nothing in this report assumes or recommends what those decisions will be.

Improving governance and financial management processes

In addition to options to address the cash flow shortfall, the report also outlines a number of governance actions for Council's consideration that, if implemented, could avoid exacerbating the City's financial situation and mitigate against a similar scenario in the future. These options include:

- Refreshing the City's Corporate Strategic Plan to build alignment within the organization and among Council about the City's priorities, which will then inform the policy and financial direction of the City's divisions, agencies and corporations and Council decision-making;
- Implementing a revised and enhanced treasury and governance function that would ensure consideration of the full and long-term implications of any policy or project proposal prior to the Mayor and Council's decision; and,
- Ensuring accountability and oversight of the City's overall financial situation by assigning specific owners to oversee the 10-Year Capital Plan and individual capital projects.

These governance options are forward-looking in nature and, while they cannot be used as a solution to address the City's current fiscal pressures, they can support Toronto in achieving financial sustainability in the long run.

2.4 Methodology, assumptions, and limitations

Each subsequent section of this report applies a distinct methodology and includes assumptions specific to that section. These are detailed in each section and summarized here.

- **Revenues**: The property tax element is based on analysis, using publicly available data, comparing the City's property tax rates to neighbouring and other Ontario municipalities. It assumes that property tax rates can be increased to levels comparable to neighbouring jurisdictions without economic loss. Other revenue opportunities are based on economic and financial analysis using publicly available and/or City-provided data. The potential revenues assume that any provincial support or legislative change can be obtained in a timely manner and that there are no negative cross-elasticities among the potential options or with property taxes.
- **Operating expenditures:** The operating expenditures analyses/business cases are based on a combination of updates to the 2019 Values-Based Outcomes Review (VBOR), VBOR analysis, interviews with City and ABC staff as well as reviews of 2022-2023 financial data provided by the City. Each of the 10 business cases were developed and are presented in a consistent manner and include specific assumptions identifying addressable spending, potential savings, and implementation costs.
- **Capital expenditures:** Both the portfolio optimization and project prioritization processes have been developed for the City based on previous work for the City, and thus reflect the City's corporate strategic priorities. Each of the illustrated projects reflects actual project data, as provided by the City, but all scoring and other responses to qualifying questions are purely illustrative.
- **Asset management:** This report applies a principles-based approach in developing the analysis of key City assets as current market data on major assets is not readily available and/or as market values must be built on an asset-specific basis.
- **Intergovernmental relations:** The analysis of the City's roles and responsibilities as a local level of government vis-à-vis the provincial and federal governments is based on publicly available data and documents, including legislation and regulations, budget and financial information, and third-party studies and reports. This analysis does not reflect potential future legislative changes from the either the provincial and/or federal governments and should be considered current as of June 2023.
- **Governance and financial decision-making:** The opportunities identified build on the key principles and actions included in the 2018 Long-Term Financial Plan and have also been informed by a review of best practices in fiscal governance and processes, including in other public sector entities.

In addition, in consideration of the report as a whole, there are several limitations to the scope of the analysis completed:

Recognition of Council's authority as a decision-making body

It is beyond the scope of this project to provide specific recommendations on the exact policy measures that should be undertaken by the City, such as specific service-level reductions, deferrals or elimination of capital projects, or implementation of specific revenue tools as these are policy decisions that must be made by the Mayor and Council.

Not a core services review

A full review of all City services and impacts exceeds the scope of this report. As noted above, this report does not set out exactly how the City should address its immediate and long-term fiscal pressures – those decisions ultimately rest with the Mayor and Council. Rather, this report outlines a long list of options for the City across all of its finances and lays out order-of-magnitude estimates as to the potential financial yield of each option towards addressing the City's long-term financial challenges. Some of these options will require additional analysis and/or consultation should Council seek to move forward with implementation.

Success criteria for potential options have not been fully analyzed

The success of individual options will be determined by additional factors such as implementation capability and capacity, market conditions and the actions of other levels of government, among others. These factors are acknowledged, wherever possible, but since they are currently unknown and can only be known in the future, they are not analyzed further here.

Authority to act

Addressing pressures requires careful analysis of the interaction between three key variables: financial impact, service impact, and authority to act. The authority to act is defined by known powers and allocation of responsibilities amongst the federal and provincial governments, City Council, the City administration and its various ABCs. In the following analysis, this authority is identified wherever possible. If identified options or strategies require a change to authority, these requirements are clearly defined. In most cases, however, the potential options outlined below reflect the current authority to act. Note that the analysis does not reflect potential future legislative changes or the results of the Province of Ontario's planned audit of the City of Toronto's finances.

Equity analysis and impact

A comprehensive analysis of equity impacts has not been completed as part of the review and evaluation of the options for Council's consideration in this report. Should the Mayor and Council decide to advance a particular option identified herein for further review by City staff, it is recommended that a full impact analysis and assessment, including from an equity lens, be conducted as part of this work.

2.5 Key principles of long-term financial sustainability

The City's Long-Term Financial Plan, adopted by Council in 2018, was established with a view to supporting its strategic priorities and realizing the City's vision for the future, defined in the Corporate Strategic Plan (2019) as:[4]

The 2018 Long-Term Financial Plan (LTFP) included five principles grounded in an overarching recommendation calling for improved integration of Council's policy and program decisions with its fiscal resources and realities. While this updated Long-Term Financial Plan recommends that the City undertake a refresh of its strategic priorities, given the significant internal and external changes that have occurred in the City of Toronto since 2018, it also upholds these five principles in view of their continued resonance and relevance.

1. Better information to support strategic decision-making

The City's continued focus on adoption of a single year's budget can disguise the full costs of City programs, services and strategies across a longer horizon. To enable better insight into the long-term financial and service-level impacts of proposed strategies, more information should be provided to, and considered by, Council as part of the decision-making process regarding proposed service enhancements, capital investments and broader strategies, including multi-year analysis of associated operating and capital expenditures, linkages to Council's approved priorities, and analysis of equity, gender and economic impacts. These opportunities were identified in the 2018 LTFP and continue be critical opportunities that should be further considered by the City as it looks to address the forecasted $46.5-billion pressure.

[4] City of Toronto. Corporate Strategic Plan. 2019.

2. Improve value for money

The City continues to work hard to ensure value-for-money in how it delivers services, including through the identification of efficiencies, implementation of organizational modernization initiatives and optimizing staffing levels and leveraging vacancies. There remain, however, opportunities for the City to continue to modernize operations to support increased efficiency and reduce the cost of business, which are further outlined below. At the same time, and as observed in the 2018 LTFP, there is also the need for the City to review its existing service mix and levels for possible reduction or elimination. Although previous Councils have been reluctant to undertake this exercise, the financial forecast is such that service reductions should be considered by Council as a reasonable strategy to address the City's financial crisis.

3. Secure adequate and fair revenue

In 2018, the LTFP warned that the City faced a fundamental mismatch between its spending needs and existing revenues. In 2023, this mismatch is still evident and perhaps exacerbated by a number of factors including:

- Growth of "unfunded mandates" from the other levels of government;
- The City's ongoing gap-filling in service areas that are matters of federal and provincial jurisdiction but where the intergovernmental funding is insufficient to meet community needs;
- Increased demands for service, such as shelters, due to the ongoing implications of the pandemic and the current economic climate;
- Continued population growth, which drives the need to investment in infrastructure and creates increased demand for ongoing services; and
- The reduction in development-related fees and charges as a result of Bill 23, *More Homes Built Faster Act, 2022*.

Toronto continues to require a revenue strategy that includes both optimization of existing revenue-generating tools, such as property tax and user fees and consideration of implementation of new revenue tools, both those permitted under the *City of Toronto Act* and those that would require support or authority from other governments.

4. Improve focus on financial balance sheet and health

The City currently balances its operating budget annually, as required by provincial legislation, but this fails to provide a comprehensive view of the City's overall financial health. The 2018 LTFP identified a series of actions that Council could undertake to ensure appropriate review and consideration of other elements of the City's finances beyond the annual budget, including, among other actions, improving the revenue performance of Toronto Hydro (TH) and Toronto Parking Authority (TPA). To support a broader analysis of potential opportunities for asset optimization, this report considers a wider range of City-owned assets, including those that may be identified as surplus and those currently underutilized along with revenue-generating assets such as Toronto Hydro and the Toronto Parking Authority.

5. Better integration with provincial and federal policies and fiscal direction

The City of Toronto has long called for more stable investments from other levels of government and, most recently, for a new fiscal framework with the other governments that better reflects Toronto's unique status as Canada's economic engine and most populous city. Toronto provides broad benefits to the region, province and nation as a whole. A new fiscal arrangement can also support enhanced collaboration and partnership between all levels of government to solve the big challenges of today, such as housing supply and affordability, transit, climate change, homelessness and shelter services, and long-term care. Delivering positive outcomes in these areas requires a coordinated and sustained effort among all levels of government, with appropriate and predictable funding to support identified policy directions.

Ensure an equity lens is applied to priority-setting and financial decision-making

The City should add a sixth key principle that explicitly articulates the importance of equity as the City looks to build financial sustainability and achieve its key priorities.

While Toronto is a bastion of excitement and opportunity, there are widening community inequities in resources, access to services, and power that have been exacerbated – but not created – by the experience of the COVID-19 pandemic.[5] The City's report on 2021 census data indicates that almost 364,000 residents — a full 13% of Toronto's population — are living below the low-income threshold, a level higher than the country, the province and other GTHA municipalities, which (excluding Toronto) averaged a poverty level of 8%. Many Torontonians are also facing increasing food insecurity, worsened by the increased cost of groceries in the last few years. In addition, more than 40% of Toronto households are spending too much of their income on housing, according to Canada Mortgage and Housing Corporation (CMHC) guidelines.[6]

These inequities are not experienced equally across all demographics or neighbourhoods. In Toronto, almost 17% of seniors older than 65 and 15% of children live below the poverty line, as do 16% of young adults aged 18 to 24. Further, 14% of Indigenous people, 9.5% of racialized people and 10.6% of people with disabilities are low income. Families headed by a single woman, transgender women and men, and recent immigrants and refugees are all more likely to experience poverty.[7] Census data further shows that low-income residents are concentrated in the downtown as well as other areas of the City, particularly west Etobicoke and northeast Scarborough.[8]

City Council and the administration have long recognized the existence of inequity in Toronto and have expressed a desire to address it in its many forms. In 2003, Council adopted a vision that promised to "implement positive changes in its workforce and communities to achieve access and equality of outcomes for all residents" and create an environment "free from discrimination, harassment and hate."[9]

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[5] Sharon Avery, Chief Executive Officer of the Toronto Foundation, has noted that "Though the overall story of our city is one of success, more and more, Toronto is becoming a city of islands." Toronto's Vital Signs report exposes Toronto's worsening inequality. *Newswire*. February 28, 2018.

[6] All data from this section is from the City of Toronto's 2021 Census: Families, Households, Marital Status and Income Backgrounder, July 19, 2022 and Toronto Public Health. Population Health Profile, 2023. As well, for housing to be considered affordable, housing costs must account for no more than 30% of a household's before-tax income, according to the Canada Mortgage and Housing Corporation.

[7] Statistics Canada. Disaggregated trends in poverty from the 2021 Census of population. November 9, 2022.

[8] City of Toronto. 2021 Census: Families, Households, Marital Status and Income Backgrounder. July 19, 2022.

[9] City of Toronto. Equity, Diversion and Inclusion, Vision Statement. 2023.

Council has set several equity priorities, outlined in adopted strategies that include the Toronto Action Plan to Confront Anti-Black Racism, Poverty Reduction Strategy, the Strong Neighbourhood Strategy, Newcomer Strategy, Seniors Strategy, Youth Equity Strategy, Reconciliation Action Plan and Social Procurement Program, among others.[10] Further, the City administration has worked to integrate equity considerations and impact analysis into City functions, requiring that staff apply an equity lens to their work and as they bring forward policy recommendations to Council.[11]

However, as statistics show, there is still more to work required to promote social and economy equity in Toronto. As staff and Council consider a spectrum of revenue and spending options to deal with Toronto's fiscal pressures, they will need to build in an equity analysis to ensure that cumulative impacts are not disproportionately felt among lower-income, marginalized, racialized, and Indigenous populations.

The City's path to fiscal sustainability should protect and improve the well-being of all Torontonians, including its more vulnerable residents. An enhanced focus on equity could also bolster the City's financial sustainability. As the City for All Women Initiative's equity and inclusion guide for municipalities states: "Addressing social inequities to ensure the inclusion of all residents is cost effective at a time of shrinking city budgets. Equity and inclusion create more sustainable cities where people from all walks of life have the right to, and can participate fully in, social, economic, political, and cultural life."[12]

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[10] City of Toronto. Equity, Inclusion & Inclusion.
[11] City of Toronto. 2022 Council Briefing: Equity and Reconciliation Infrastructure. 2022.
[12] City for All Women Initiative. *Advancing Equity and Inclusion: A Guide for Municipalities.* June 2015.

3 Opportunities to Enhance City Revenues

3.1 Overview

This section addresses two sets of revenue enhancement opportunities. Section 3.2.1 covers property taxes and the opportunity to raise revenues in the range of $500 million per year by increasing property tax rates to the average of neighbouring jurisdictions. In part, this opportunity exists because, in past years, the City's property tax rate revenue growth has significantly lagged behind those of other jurisdictions; this report notes that the City's current property tax rates are significantly lower than those of neighbouring jurisdictions but did not look at average assessed values.

Section 3.2.2 covers a wide range of some 29 other potential revenue opportunities, including those currently authorized by CoTA, those requiring some provincial support and/or legislative or regulatory change, and finally those requiring amendments to CoTA. The analysis presents opportunities totalling hundreds of millions of potential annual revenue, but clearly not all can be launched in the 1-3 year period nor might City residents and businesses have the economic capacity to absorb them all. It will be Council's decision as to which of the opportunities are most appropriate in the City's current circumstances and should be studied further for potential implementation.

Note that the revenue options analysis does not include any cross elasticities or consideration of whether, if at all, any given mix of revenue enhancements would limit the total incremental revenue obtainable from these opportunities.

3.2 Options analysis

3.2.1 Changes to property tax rates

Property tax is the largest source of municipal revenue across Ontario municipalities, accounting for 40% of all revenues.[13] In the City of Toronto, property tax (including the City Building Fund which itself is about 5.9% of property taxes) contributes a smaller share but is still the Toronto's largest and most predictable revenue source, making up 32.2%, or $5.20 billion, of the $16.17 billion total revenue in the 2023 budget. Although property tax is a stable and consistent revenue source for municipalities, it is significantly limited in that, historically, municipal services were typically seen as "services to property," such as roads, waterworks and solid waste. As a result, property taxes were not designed nor intended to be able to fund the scope of programs and services provided by municipalities today, including social services such as housing and transit. In addition, property tax, unlike income or sales taxes which are available sources of revenue to the provincial and federal governments, do not inherently grow with the City's economy.

Recent terms of Council have directed that residential property tax rates should increase at or below the rate of inflation, while previous City staff reports and studies by several organizations, such as the Institute for Municipal Finance and Governance and Canadian Centre for Policy Alternatives[14], have cautioned about the risks of such decisions on the City's capacity to deliver vital public services.[15]

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[13] Financial Accountability Office of Ontario (FAO). *Ontario Municipal Finances: An Overview of Municipal Budgets and an Estimate of the Financial Impact of the COVID-19 Pandemic*. 2020. p.8. Note that this amount is pre-pandemic.

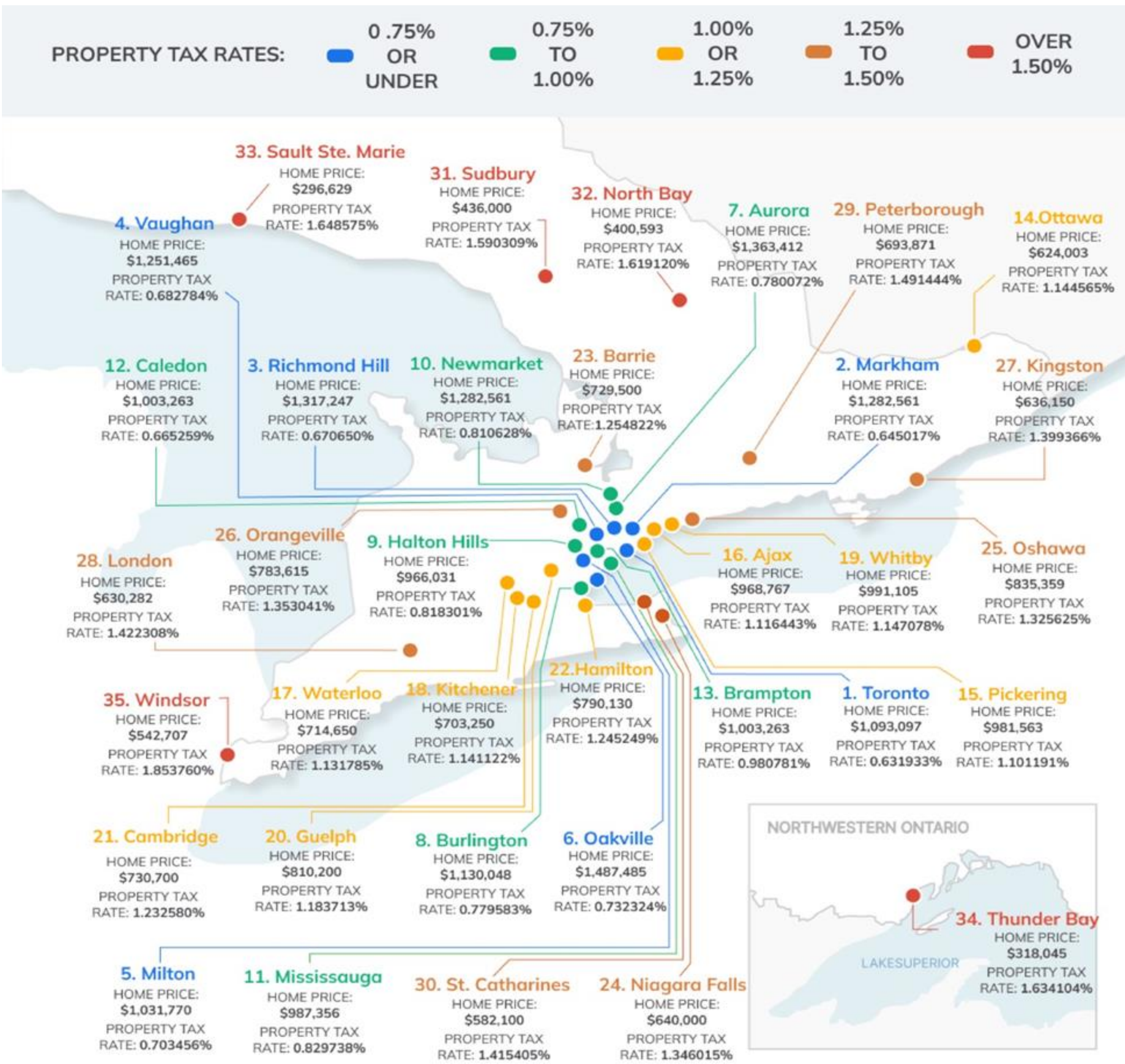
[14] Sheila Block and Alexandra Weis. Toronto's Taxing Question: Options to Improve the City's Revenue Health. Canadian Centre for Policy Alternatives. January 2015.

[15] City of Toronto. Long-Term Financial Plan: The City of Toronto's Roadmap to Financial Sustainability. 2018. p. 46.

Toronto has some of the lowest property tax rates in the GTHA and Ontario, including by comparison to immediately neighbouring jurisdictions of size.[16] Note that this comparison remains valid even when adjusting for some municipalities including solid waste in their property taxes while Toronto issues a discrete charge for that service.[17]

Further, this is not a recent phenomenon, as the City has historically raised its property tax rates at rates lower than those of neighbouring and other large municipalities. Three separate analyses demonstrate these points. First, Figure 2 compares 2022 residential property tax rates in 35 municipalities across Ontario.[18]

Figure 2 – 2022 Residential Property Tax Rates in Toronto and Other Ontario Municipalities



[16] Although not formally defined, the neighbouring jurisdictions typically include the cities of Mississauga, Hamilton, Brampton, Burlington, and Markham, but can also include regions such as York, Peel, and Durham (and/or the individual towns therein).

[17] Toronto's Municipal Land Transfer Tax, or MLTT, has not been factored into this comparison.

[18] Zoocasa, Ontario Cities with the Highest and Lowest Property Tax Rates in 2022.

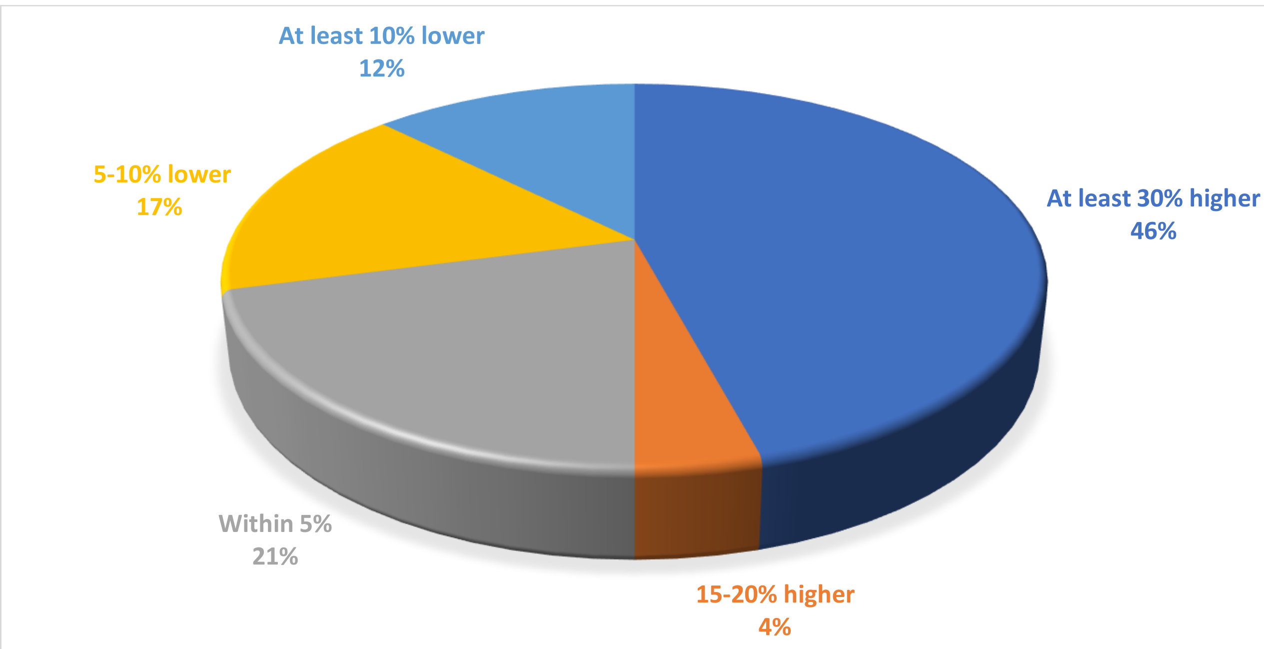
Fixing the Problem

Only six of 35 municipalities had residential property tax rates below 0.75%, with the City of Toronto as the lowest of the six and thus all 35. Further, 11 of the municipalities had rates of at least 1.25%, essentially double that of Toronto.

Second, additional analysis calculated the 2022 weighted average of Toronto's property tax rates, using the City's distribution of revenues (57% residential, 31% commercial, 10% multi-residential, and 2% industrial). The same revenue distribution was applied to each of 24 municipalities in geographic proximity to Toronto to calculate their respective weighted average property tax rate. The results are shown in Figure 3 below.[19]

Notably, the average property tax rate of the 24 municipalities was 17% higher than that of Toronto. With the exclusion of nine relatively rural communities (of which six had rates at least 30% higher), the average property tax rate of surrounding communities was still 12% higher than in Toronto.

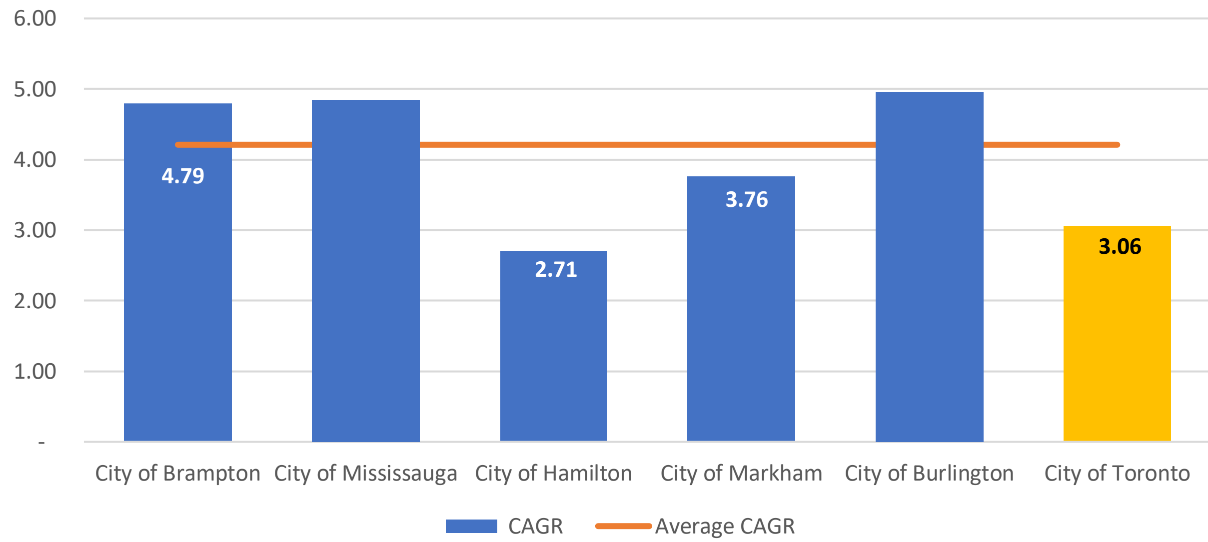
Figure 3 – Comparing the Weighted Average of Toronto's 2022 Property Tax Rates to 24 Neighbouring Jurisdictions



Third, the compound annual growth rate (CAGR) of property tax revenues in Toronto was compared against five other GTHA municipalities – Brampton, Mississauga, Hamilton, Markham, and Burlington – over the period from 2013 to 2021.[20] As Figure 4 indicates, the City of Toronto increased its property tax revenues at a rate approximately 1.15% lower than the average of the other five. Had the City of Toronto matched the average revenue growth rate of the other five municipalities, i.e., 4.21%, instead of its own 3.06%, it would have received an incremental $434 million of revenue in 2021.

[19] Based on data prepared by an independent realtor, Durham Region Real Estate - John Owen. Downloaded in Fall 2022.
[20] Data retrieved from publicly available financial statements for individual municipalities as posted on respective websites.

Figure 4 – Growth Rate of Toronto's Property Tax Revenues vs. Neighbouring Jurisdictions, 2013 - 2021



As it looks to address its current and long-term financial pressures, the City of Toronto could increase property taxes to levels comparable to that of other large GTHA jurisdictions, targeting at minimum the average of neighbouring jurisdictions.

Doing so would require a one-time increase to all property tax rates of approximately 10-12% over and above the rate of inflation and then maintaining subsequent rate increases with inflation and in parallel to other jurisdictions. The 10-12% increase reflects the fact that, as noted above, Toronto's rates exclude solid waste charges while many other municipalities include that charge in their property tax rates.

An increase of this nature would result in about 10-12% incremental revenue, approximately $490 - 580 million annually, to the City. If necessary, an increase of this magnitude could be phased in over two or three years to mitigate its immediate impact on all residents, including those of lower income.

The scope of this report did not include a sensitivity or elasticity analysis of the impacts of such an increase, i.e., whether property tax values would be negatively impacted, property tax arrears increased, or rents affected, among other impacts. However, by setting rates at a level comparable to other GTHA jurisdictions, the City is not likely to be placing itself in a negatively competitive position vis-à-vis other municipalities. In other words, it is appropriate not to expect any notable loss of revenues from a property tax rate increase of approximately that size.

Fixing the Problem

3.2.2 New revenue options and changes to other existing revenue options

The new revenue options assessment, directed by Council, assessed 29 options not currently used by the City, to raise incremental revenue. Each of the options is shown below in Figure 5A, presented along the axes of annual revenue potential versus ease of implementation, with the name of each option in Figure 5B below. The full revenue options report is attached as Appendix 1.

Figure 5A – Magnitude of Potential New Revenue Sources

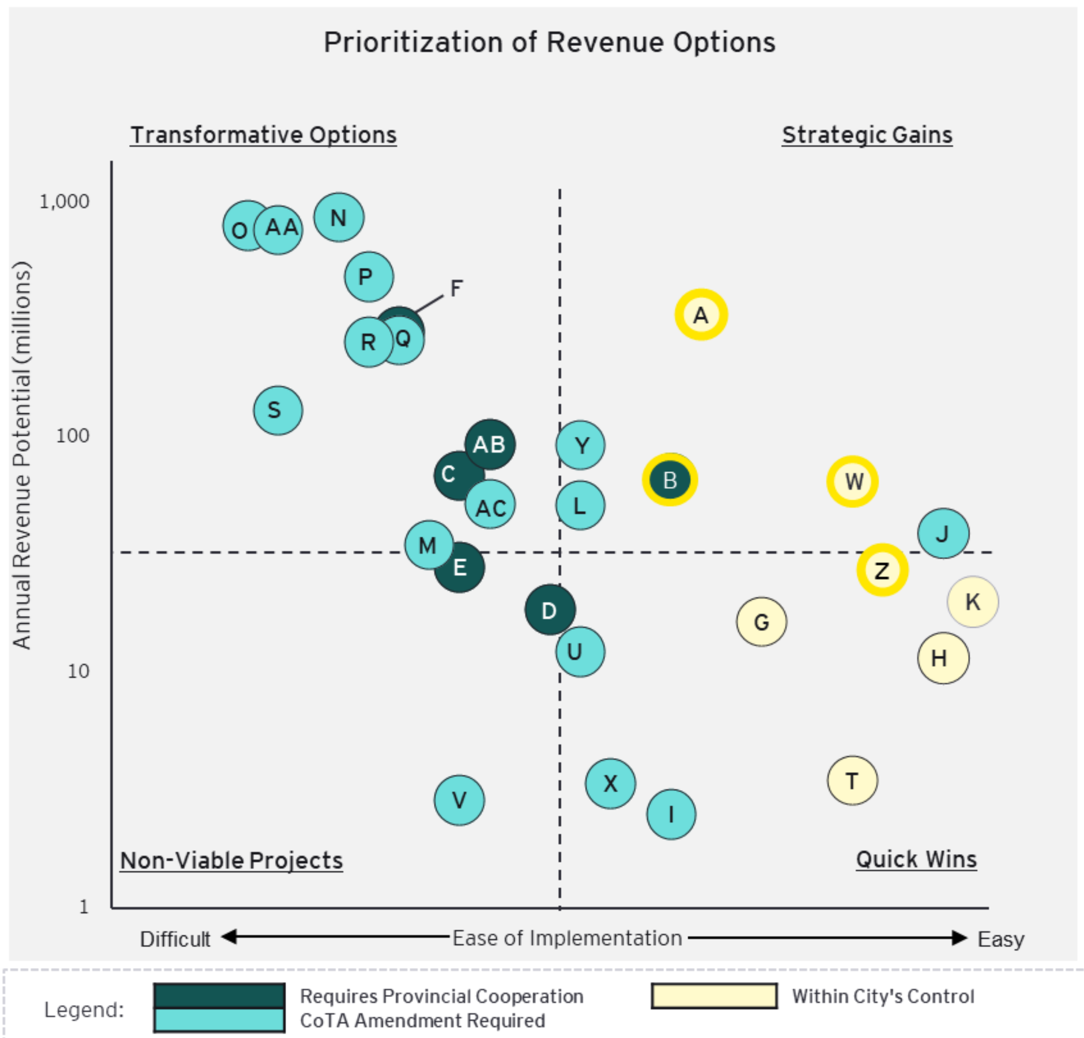


Figure 5B – Potential New Revenue Sources

ID	Revenue Options
A	Downtown Parking Levy[1,5]
B	Motor Vehicle Registration Tax[1,5]
C	Alcohol Beverage Tax[1,5]
D	Tobacco Tax[1,5]
E	Entertainment and Amusement Tax[1,5]
F	Road Pricing (Cordon Charges)[1,5]
G	Amend First Time Homebuyer Eligibility[2]
H	Graduated Municipal Land Transfer Tax[2]
I	Vacant Storefront Tax[2]
J	Graduated Residential Property Tax Rates[2]
K	Graduated Commercial/Industrial Property Tax Rates[2]
L	Downtown Parking Sales Tax[2]
M	Cannabis Tax[2]
N	Municipal Personal Income Tax[2]
O	Municipal Sales Tax[2]
P	Municipal Business Income Tax[2]
Q	Municipal Gas Tax[2]
R	Development Levy[1]
S	Carbon Tax[1]
T	Uber Registration Fee[3]
U	Right Of Way Levy[1]
V	Flipping Tax[1]
W	Foreign Buyer Land Transfer Tax[1]
X	Reusable Bag Levy[1]
Y	Plastic Cup Levy[1]
Z	911 Levy[1]
AA	Climate Sales Tax[1,5]
AB	Building Performance Charge[1]
AC	Large Retailer Surcharge[1]

Notes: Revenue ranges from: [1]EY analysis and estimates 2023; [2]Finance Update 2023; [3]KPMG Revenue Options Study 2016; [4]Annual revenue potential. [5]Revenue ranges are based on range in rate/levy.

The analysis considered the 29 options across three categories:

1. Currently authorized by the CoTA and within the City's control – 7 options;
2. Requiring provincial cooperation but not to the extent of requiring legislative amendments to the CoTA – 6 options; and
3. Requiring amendments to the CoTA – 16 options.

Fixing the Problem

The total revenue from these 29 options is shown in Table 1 below:

Table 1 – Potential Value of New Revenue Sources

Revenue Options Category	Range of Possible Annual Revenue ($ million)
1. Authorized under CoTA and within City control (7 options)	$289 - 662
2. Require provincial cooperation (6 options)	$273 - 837
3. Require CoTA amendments (16 options)	$2,382 – 5,272
TOTAL	**$2,944 – 6,771**

The summary above highlights the significant potential of revenue tools for further consideration by the Mayor and Council. Even limiting implementation to those seven currently authorized under CoTA suggests that the City has the potential to make significant inroads in its fiscal pressure, with the total revenue potential ranging based on a variety of factors, including the desired rates or levies chosen by Council.

The other 22 options may be appropriate to pursue if the City's objectives, needs, or priorities materially change, with the result that substantially greater revenue is required and the province provides the City with greater authorities through the CoTA or other means. The Mayor and Council may also wish to explore other options based on further analysis by City staff or in view of its own priorities. For example, there are opportunities to introduce policy-based revenue tools which, while they may not generate significant sources of revenue, can be leveraged to strategically advance Council priorities, such as climate action.

3.2.3 Summary

The analysis above demonstrates that the City could address approximately $500 million per year of its forecasted fiscal pressure through changes to property tax rates and could address a further substantial portion of its shortfall through implementation of just some of the other revenue options summarized above.

As with all of the options in this report, the realization of this additional revenue – and the corresponding reduction in the City's fiscal pressure – is contingent upon decisions made by the Mayor and Council to adopt and implement these measures. Some of the revenue options fall within the City's control to launch and, subject to the Council decision-making process, could be approved at any time, with implementation taking place in the subsequent one to three years. Council may wish to consider a multi-year commitment to the revenue options it ultimately selects, establishing a clear path to growing revenues through progressive rate increases over several years. Doing so not only provides the City with a clearer forecast of revenues but also enables residents and businesses to plan ahead rather than reacting, on short notice, to annual rate changes.

Past Councils have directed City staff to draft budgets that raised residential property taxes by the rate of inflation or, in some cases, significantly less. Deciding to increase property taxes by significantly more than has historically been the norm may be a politically challenging proposition for the Mayor and Council. Indeed, a number of options presented in this report may be unpopular among residents, visitors, and other stakeholders. In 2010, for example, Council voted to eliminate the motor vehicle tax, and although the reinstatement of this tool has been debated and discussed at Council as recently as 2019, it has failed to achieve support. This has been the case even against the backdrop of the City's increasingly challenging financial position and the Mayor and Council's advocacy for enhanced revenue options.

However, the Mayor and Council may need to revisit their past positions in view of the severity of the City's finances. It is also likely that the provincial and federal governments will expect the City to optimize its existing revenue tools to address its fiscal pressures before they consider requests for additional authority for new tools, increased funding or service reallocations.

Should Council seek to advance these options, additional economic and sensitivity analyses would be required to ensure that the revenue options, both in the aggregate and in combination, do not cause material economic disruption or place the City and its residents and businesses at a competitive disadvantage.

4 Opportunities to Reduce Operating Expenditures

4.1 Overview

As indicated in the March 2023 report to Council, the City faces forecasted operating pressures of $16.9 billion over the next 10 years, which accounts for 36.4% of the total forecasted pressure of $46.5 billion. This $16.9 billion pressure is made up of three main pressures, as shown in Table 2 below, with the first including ongoing COVID-19 expenditures and the challenges in receiving continued federal and/or provincial supports to offset those impacts:

Table 2 – 10 Year Operating Fiscal Pressure

		$ Billion
1.	Items in the City’s 2023 operating budget (e.g., inflationary pressures)	$5.0
2.	New known operating commitments to be introduced in 2024	$2.4
3.	Financing costs and repayment of debt issued in 2023 and beyond	$9.5
	TOTAL	**$16.9**

The key driver of the current operating pressure is that the Compound Annual Growth Rate (CAGR) of expenditures is exceeding that of available sources of funding by about 2.0% per year, beginning in 2024. The City effectively begins each budget year with a pressure in the range of $0.2 billion, principally due to inflation and prior to consideration of any new, enhanced or incremental services or addressing unforeseen events. Due to the compounding of annual shortfalls, this risk also grows each year that the budget itself grows. This has not been helped by the sustained operating pressures as a result of changing behaviours and demands following the pandemic.

Identification and implementation of areas of opportunity to reduce operating expenditures is a process continuously undertaken by the City through the annual budget process, with the most recent formal report being the Value-Based Outcomes Review (VBOR) completed in late 2019, just prior to the COVID-19 pandemic. The VBOR analysis followed from and was aligned to the City’s 2018 LTFP principles and highlighted a number of opportunities with the underlying business cases used as the first steps in this section of this report.

Some of the recommendations of the VBOR have been fully or partially adopted by the City, some have not yet been adopted (often due to the impacts of the pandemic), and others are no longer relevant due to changed circumstances (e.g., the federal child care program superseded the VBOR’s recommendations on the topic). This report builds on and extends the VBOR analysis by identifying a number of new or significantly altered business cases that, cumulatively, can deliver a significant amount of savings to the City over a relatively short period of time.

4.2 Options to reduce operating expenditures

The following table outlines 10 opportunities that the City could consider to support reductions in expenditures in five thematic categories: [21]

A. Reduce Cost of Service

1. **Enforcement and improvement in contract compliance.** Over the lifespan of a given contract, there is a gap between the expected and actual value, due to non-compliant or inappropriate charges. This gap tends to grow over time, and is most prevalent in large, complex contracts. The City could institute a contract compliance review of all City contracts. Generally, the largest areas in which one expects to find material cost savings through contract compliance and vendor audits are in construction and capital-intensive divisions and agencies (i.e., Transportation, TTC, TCHC), contracted services with a significant labour component, and third-party service contracts.

2. **Improved procurement processes.** Over the last couple of years, as part of the ongoing work at the City to implement category management at the City, some categories (or sub-categories) have been strategically sourced leading to considerable benefits. Further expansion of the scope of category management at the City could allow it to best leverage its consolidated purchasing power to generate the highest value-for-money enterprise wide. In addition, the City can also continue to work with regional partners and their procurement tables to further streamline contracts and align prices across the region.

3. **Review transit expansion plans.** The opportunity exists to achieve significant cost savings by indefinitely deferring the operation of Eglinton Crosstown (Line 5) and Finch West (Line 6). Savings from doing so would be partially offset by incremental expenses from the use of buses on these routes. Overall, this decision would result in a net savings and support reduction of the City's operating expenditures; it is assumed that savings begin in 2024 despite any uncertainties in either line's completion dates.

   At the same time, however, it is understood that in 2012, Council made the decision to support the implementation of Lines 5 and 6 with the expectation that they would be operational upon construction and enhance Toronto's public transit network. Council will thus need to evaluate this option, in recognition of the financial realities the City faces today, in terms of potential savings, against its other priorities, including transit expansion and the desire for an enhanced transit network.

   The TTC's financial position continues to be strained due to COVID-19-related impacts and the lack of funding from other governments to address these impacts. In 2023, the TTC is planning for a $366.4 million shortfall as a result of reduced transit ridership and associated revenues.[22] Should the other governments not provide funding to support the City in addressing the shortfall and/or provide funding to operate the new LRT lines in 2024, the City may need to reconsider whether it remains viable to support all future transit expansion projects, both from a capital and operating perspective.

[21] All opportunities noted are calculated with respect to tax-supported units of the City; additional savings may be achieved by extending implementation to rate-supported units, with those savings accruing to ratepayers.
[22] TTC. 2023 TTC Conventional and Wheel-Trans Operating Budgets. January 9, 2023.

B. Improve productivity

1. **Embed digital principles in service delivery (digitization of services).** The City should invest in technology to take further steps to make services accessible through digital channels to enhance customer experience, lower the operating cost of service delivery, and allow staff to focus on more complex cases that require human intervention.
2. **Update time and attendance and rostering practices.** There is no consistent approach to hours and attendance or rostering across the City, with some Divisions still tracking schedules and hours and attendance manually. Reducing overtime expenditures and improving tracking and management of payroll rules could support the City in reducing its overall spend on compensation.
3. **Expand shared services delivery.** Building on its experience of shared service implementation, the City should consider moving more common services to a shared services model to further optimize the workforce and reduce duplication of efforts across the City and its ABCs.

C. Reduce foregone revenues

1. **Eliminate development charge exemptions.** The City collects development charges (DCs) on a cost-recovery basis to cover the cost of growth and associated pressures on infrastructure and facilities. There is an opportunity for the City to recover foregone DC revenue by amending its DC bylaw to remove some of these exemptions. The current bylaws that reduce revenue through exemptions push the cost of growth onto the property tax base.
2. **Reconsider concessionary pricing and free programs.** By shifting some programs from universal access to means-tested, the City can continue to meet the intent of the program – providing access to services to those who face financial challenges, without unnecessarily subsidizing those who can afford to pay. Three specific areas that should be considered are the free programs and seniors discounts offered by Parks, Forestry & Recreation, and the fare discounts offered by the TTC through the concession structure. The City could decide to allocate some of the savings to provide subsidies to a broader population base with a more generous definition of low-income.
3. **Re-evaluate grant funding programs.** There is an opportunity to consider the role of municipal government as a granting authority and re-evaluate grants provided by the City and potentially to reduce grant funding provided by the City to various recipients. The City administers dozens of grants across a wide array of services but it may be worth further analysis about whether the City is the most appropriate order of government to provide and administer these grants, many of which relate to services and issues that fall within the purview of the other governments. In terms of the current grant funding programs provided by the City, the majority of the opportunity in terms of reducing foregone revenues is within two divisions: (1) Economic Development & Culture (EDC) where grant funding could be reduced and phased out through multiple initiatives and (2) Social Development, Finance and Administration (SDFA) where grants could be reduced following review of the existing funding allocation, evaluation and prioritization of recipients against Council mandates, and understanding the impact of

reduced or eliminated funding to delivery partners and communities, including from an equity perspective.

4. **Reconsider property tax and other financial incentives.** As the City strives to re-evaluate its current spending, there is an opportunity to reassess property tax-related financial incentives offered to individuals or corporations. Indefinitely suspending the Imagination, Manufacturing, Innovation and Technology (IMIT) Property Tax Incentive Program or dissolving the Community Improvement Plan (CIP) that houses the IMIT Program could avoid significant future financial commitments, while reducing funding for the Heritage Property Tax Rebate Program would result in a direct financial benefit.

Table 3 provides an overview of the 10 opportunities above, outlining specific initiatives, the estimated annual savings at full implementation, any associated implementation costs of the initiative, and the expected time for the City to achieve full implementation and benefit of each. Detailed business cases for each opportunity are available in Appendix 2.

Table 3 – Summary of Operating Expenditure Reduction Business Cases

Opportunity	Initiative	Gross Annual Savings at Full Implementation	Total Implementation Costs	Time to Achieve Full Benefit
A. Reduce Cost of Service				
1. Enforcement and improvement in contract compliance	City Divisions – Services (non-construction)	$24.5M	10% of total savings	~ 3 years
	City Divisions – Construction	$10.6M	10% of total savings	~ 3 years
	ABCs – Goods and Services (non-construction)	$0.1M	10% of total savings	~ 3 years
	ABCs – Construction	$3.1M	10% of total savings	~ 3 years
2. Improved procurement processes	Estimated benefits from opportunities identified in category strategy (construction, facilities management, and IT)	$59.0M - $92.0M	10 - 20% of total savings	~ 2 years
	Potential benefits for the City from streamlining contracts and aligning prices across the region through the GTHA-RPA table for IT and Fleet categories	$13.0M - $16.0M	10 - 20% of total savings	~ 2 years
3. Review transit expansion plans	Indefinite deferral of operations of Eglinton Crosstown (Line 5) & Finch West (Line 6) beyond 2024	$106.1M	N/A - Savings are net of incremental bus cost	~ 0-2 years
B. Improve Productivity				
1. Embed digital principles in service delivery	Empower the Customer Experience Division	Opportunity enables the execution of other opportunities but does not have direct spend or savings		1 year
	Technology and process standardization	Opportunity enables the execution of other opportunities but does not have direct spend or savings		1 year
	311 Digitization and expansion	$1.7M - $3.8M	$0.3M	~ 2 - 3 years
	Intelligent automation	$7.6M - $18.5M	$0.5M-$1.0M per process + $0.1M for every 200,000 transactions	~ 1 - 2 years

Opportunity	Initiative	Gross Annual Savings at Full Implementation	Total Implementation Costs	Time to Achieve Full Benefit
2. Rostering and Time and Attendance	Reduce overtime expenditures and improve tracking and management of payroll rules to reduce overall compensation spend	$15.0M - $17.5M	8 – 15% of total savings	~ 3 years
3. Expand shared services delivery to realize efficiencies in support functions	Efficiencies through consolidation of shared services within the City (S&B cost) and through expansion to ABCs	$25.4M - $33.9M	8-15% of total savings	~ 2-3 years
C. **Reduce Foregone Revenues**				
1. Eliminate Development Charge (DC) exemptions	Eliminate DC exemptions	$190M - $210M	N/A	1 year
2. Reconsider concessionary pricing and free programs	Parks, Forestry and Recreation – Phase out free and age-based recreation programs and shift 40%-60% of funding to expand welcome subsidy		N/A - Savings are net of incremental welcome subsidy cost	1 year
	TTC – Phase out concession structure (seniors, post-secondary students, youth and 12-and-under fee discounts) and provide transit subsidies through expanded Fair Pass program	$3.9M - $19.5M	N/A - Savings are net of incremental Fair Pass cost	1 year
3. Re-evaluate grant funding programs	Reduction in grants from Economic Development and Culture (25%- 75%)	$10.9M - $32.8M	N/A	2 years
	Reduction in grants from Social Development, Finance & Administration (25%- 75%)	$2.2M - $6.6M	N/A	2 years

Fixing the Problem

Opportunity	Initiative	Gross Annual Savings at Full Implementation	Total Implementation Costs	Time to Achieve Full Benefit
4. Reconsider property tax and other financial incentives	Indefinitely suspend the Imagination, Manufacturing, Innovation and Technology (IMIT) Property Tax Incentive Program	N/A as not yet committed and contracted but could exceed $300M in cumulative cost avoidance by 2038	N/A	2 years
	Reduction in Heritage Property Tax Rebate Program (HPTRP) (25%-75%)	$0.5M – $1.4M	N/A	2 years
TOTAL		**$478.8M - $604.1M**		

4.3 Labour attrition

The cost of labour accounts for approximately 55-60% of total tax-supported operating expenses. Recognizing that the unit cost of labour (i.e., wage rates) are not readily changeable, one approach is to use the City's natural attrition rate to reduce the quantity of labour.

With a historical and projected attrition rate of 4.7% per year and a baseline salary and benefits budget of $6.58 billion in 2023, not filling 50% of vacancies – so as to exclude emergency services, essential services, and other highly specialized and technical positions – could save the City approximately $150M annually for each year in which the freeze is maintained. Executing this strategy for three years will generate savings of approximately $450 million annually in the third year, growing with inflation. The impact on service levels will need to be considered on a case-by-case basis, as each vacancy will have different implications therein.

4.4 Summary

The total savings identified across the 10 business cases is in the range of $478.8 - $604.1 million per year once all opportunities are fully implemented. Over 10 years, and excluding the impact of inflation, once fully implemented, these savings would total $4.79 - $6.04 billion, with some of the savings to be realized after the 2032 forecast period of the updated 10-year financial model.

5 Opportunities to Reduce Capital Expenditures

5.1 Overview

Approved 10-Year Capital Plan

The City of Toronto's Capital Budget includes "any expenditure on an asset acquired, constructed or developed with the intention of being used beyond the current budget year."[23] The City maintains a 10-Year Capital Plan, which is updated each year as part of the annual budget process. The plan addresses the City's capital needs that fulfil Council's strategic priorities, maintains existing infrastructure in a state of good repair (SOGR), and invests in new infrastructure to ensure sustained delivery of approved services and service levels, and accommodates growth in the City. The plan includes cash flow requirements for the fiscal year, plus future-year cash flow commitments for multi-year projects, however limited to capital expenditures (i.e., not future years' operating expenses associated with capital projects).

The City's 10-Year Tax Supported Capital Plan[24] (referred to as simply the Capital Plan) prioritizes projects over five categories:

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

The City's current 10-Year Tax-Supported Capital Plan, adopted in February 2023, calls for $33.6 billion dollars to be spent over 10 years (2023-2032). The Plan does not immediately present a fiscal pressure to the City as the plan is funded, meaning that there are sufficient sources of funding for the list of projects identified in the plan.

However, as noted in the March 2023 report, there are several factors, some of which are fully beyond the City's ability to control or even influence, that may impact the approved plan, including but not limited to:

- Actual project costs may ultimately exceed current estimates, without external funding to offset the cost increases;
- The volatility of financial markets to accommodate the City's debt requirements at the forecasted interest rate(s);
- External funding sources, such as development charges or transfers from other governments, do not materialize as expected, including the assumed full reimbursement of impacts associated with Bill 23
- Revenue from the Municipal Land Transfer Tax, which is used partially to support the capital plan, may not materialize to the level expected and therefore trigger reductions (or increases) to the capital plan; and,

[23] City of Toronto. 2022 City of Toronto Budget Summary. 2022. P. 58.
[24] The 10-Year Capital Plan is distinct from capital plans relating to the rate-supported areas of the City, such as Toronto Water, and certain corporations such as Toronto Hydro. Those capital plans are not included herein.

Fixing the Problem

- New requirements, through legislation or regulation outside of the City's control, that create a requirement for new or additional projects and/or that existing planned projects incorporate new elements at higher cost.

Additional detail on the approved capital plan, included approved projects by category and funding sources, is available in the March report.

Unfunded Capital Program

The most significant component of the City's 10-year forecasted fiscal pressure is the net $29.5 billion unfunded capital program, which accounts for 63.5% of the total shortfall. The unfunded capital program includes those projects that have not yet been approved or funded by Council but have been identified by staff under any of the same five categories as the funded Capital Plan. When Council approves and funds a project from this list, it is then transferred to the 10-Year Capital Plan.

As shown in Table 4 below, the unfunded capital program is primarily driven by TTC and other transit projects, which account for $16.9 billion of the total $29.5 billion, with other divisions and ABCs accounting for the balance; it should be noted that the City and all ABCs, but particularly the TTC, are continually evaluating their SOGR and funding needs, and therefore this figure is subject top periodic revision. Further detail on the unfunded capital program, including a breakdown by category, is available in the March 2023 report.

Table 4 – Unfunded Capital Program in 2023

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

As with the approved 10-Year Capital Plan, there are several risks that could further increase cost pressures in the unfunded capital program, including project costs exceeding current estimates, anticipated external funding sources that do not materialize, including the legislative impacts of Bill 23 and associated development charge revenues, legislative or regulatory changes from the other governments including those that may impact project design and specifications.

An additional risk is that deferrals and/or cancellations of unfunded capital projects can lead to greater risk and higher costs in the future. According to Statistics Canada, construction costs for non-residential building in the City of Toronto increased more than 44% between 2017 and 2022.[25] On a purely municipal basis, Statistics Canada calculated the infrastructure price index for the City of Ottawa and found costs had increased by 18% between 2015 and 2019.[26] Post-COVID-19 supply-chain and labour shortages, as well as increasing inflation rates, have all put further pressure on infrastructure construction costs for municipalities. Further, deferral of capital projects can cause risks of asset and/or operating failure that typically increase over time and result in costly emergency repairs, both in dollars and impact on residents.

Opportunities to address capital pressures

As capital pressures account for the majority of the total forecast fiscal pressure, Council may wish to reduce the unfunded capital program, consider whether any previously funded projects should be de-prioritized in favour of unfunded ones, or cancel already-approved projects to free up operating cash flows. In any of these scenarios, a portfolio optimization process followed by a project prioritization process should be considered. It is recommended that this process apply to both the funded 10-Year Capital Plan and the unfunded capital program.

It may appear attractive to consider only addressing the unfunded capital program through either reduction or elimination of identified projects in order to sizeably reduce the $29.5 billion of unfunded capital, the largest proportion of the City's overall fiscal pressure of $46.5 billion. However, it is important to note that projects are included the unfunded capital program because they do not yet have identified funding attached to them, not necessarily because they are not critical to the integrity, maintenance, and/or functioning of City programs and services. As a result, every City capital project, funded or unfunded, should be put through these dual processes of portfolio optimization and project prioritization.

The concept of capital project prioritization, including the establishment of a criteria-based approach to analyzing the City's capital portfolio, was recommended in the 2018 LTFP. This report builds on this recommendation by detailing a formal City-wide prioritization approach for the City's consideration and demonstrating how this approach could be operationalized using real but anonymized projects.

The optimization process assumes the budget and other details for each project as available through City data and documentation. Governance around capital projects, including analysis to support each project's recommendation to Council, is addressed in Section 8. It also takes the perspective that a project is either undertaken or not. In other words, the optimization process does not consider other alternatives such as:

- Delaying/deferring, or otherwise adjusting the completion timeline of a project;
- Re-designing a project to reduce its cost, gain access to other sources of funding, or adjust its delivery timeline (i.e., change cash outflows);

[25] Statistics Canada. Building construction price indexes, percentage change, quarterly, inactive. (Ottawa: November 1, 2022.)
[26] Statistics Canada. Infrastructure construction price index, annual, inactive. (Ottawa: March 2, 2020)

Fixing the Problem

- Breaking up a project into smaller pieces or phases and treating each as an individual project (e.g., a project may be the purchase of 100 buses but this analysis does not consider whether the project can be re-defined as purchasing only 75 buses or 75 now and 25 in five years):
- Continuing to identify opportunities to prioritize co-located assets; or
- Applying an alternative delivery model to a project, such as a Public-Private Partnership (P3), principally with the objective of reducing the City's cash outflows.

It is important to note that deferral of capital expenditures to future years cannot be used to reduce cash flow shortfalls since there is no mechanism to cover the "return" of the capital expenditure in the future. In addition, while there may be an opportunity to delay new projects, the bulk of the capital plan, both the funded plan and unfunded program, will need to be actioned at some point in the future. In other words, reducing capital expenditures cannot be used to solve a long-term cash flow challenge.

Once the portfolio is optimized, the selected projects can be prioritized and sequenced, taking into account relative importance, cash flows, and availability of resources.

5.2 Portfolio optimization process

The purpose of portfolio optimization is to determine which of the many projects competing for scarce resources are selected for completion, through an enterprise-level asset management platform and analytical tool to guide investment priorities. The proposed approach applies a "whole of City" philosophy. Council should not select projects on a ward-by-ward basis, funding sources, a pre-determined share of budget by division or ABC, or by pre-specifying the share of capital to be spent on growth or any other specific category of project. Instead, all projects should be assessed on the same basis, with only those projects meeting pre-determined criteria being pursued.

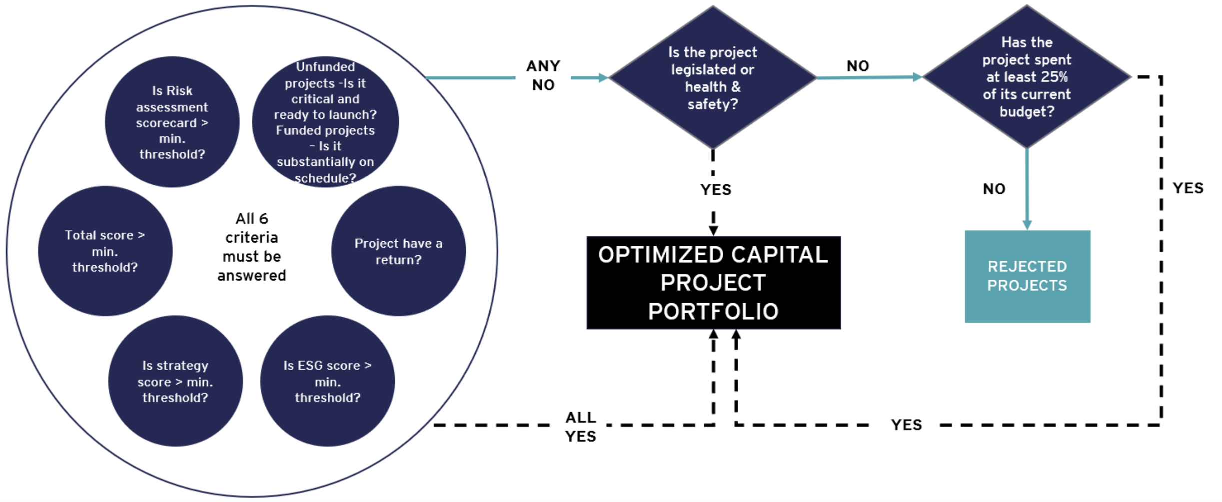
This Report presents a consistent approach, shown below in Figure 6, whereby each project is reviewed through six criteria, explained in further detail below the schematic. In order to be included in the optimized portfolio, all projects must first be assessed on each criteria, irrespective of the 'result' of a given criteria. Projects passing all six criteria, as shown in the circle of the schematic below, are included in the portfolio. In addition, projects that fail one or more of the criteria but are categorized as legislated or health and safety, or are more than 25% in-flight[27], are also included in the portfolio, as shown outside the circle.

Projects not recommended to proceed would be those that:

- Fail one or more of the six criteria, are not categorized as legislated or health and safety, and are unfunded; or
- Fail one or more of the six criteria, are not categorized as legislated or health and safety, and are funded but have not spent 25% of their current budget.

[27] For illustration purposes, this report sets that threshold at 25% and recommends that the current forecast of the project cost (not its original budget) be used to assess whether it has met the threshold.

Figure 6 – Process to Optimize the Capital Portfolio



All criteria are for illustrative purposes only

Additional details of the schematic are provided below, starting with the 6 encircled criteria:

1. Given the City's fiscal pressures and the need to focus on the most critical areas of need, only unfunded projects defined as both critical and ready for launch, and funded (i.e., in-flight) projects that are substantially on schedule, should be considered at this time.
2. Every project should have a return, be it financial or qualitative. For example, financial benefits could include revenue generation, cost reductions, or future cost avoidance. Qualitative benefits might include addressing a critical SOGR need, additional green space for both enjoyment and environmental value, recreation and fitness improvement, or reduced homelessness.
3. The Balanced Scorecard encompasses Strategy, Environmental, Social and Governances (ESG) factors, and Project Risk over a total of 16 specific questions. Details of the scoring are shown in the prioritization section below.
    - Does a project meet a minimum score across all 16 questions, ensuring that the project is valuable across all three lenses of strategy, ESG, and risk?
    - Does a project meet a minimum ESG score across the five questions in that section of the scorecard?
    - Does a project meet a minimum Strategy score across the five questions in that section of the scorecard?
    - Does a project meet a minimum Risk score across the six questions in that section of the scorecard, noting that the risk filter is effectively a "cannot exceed a certain level of risk" assessment?

Projects meeting each of the above three points will be included in the optimum portfolio. Projects failing one or more of the six criteria are re-assessed through the question "Is the project legislated or defined as a health and safety imperative" with those projects also moving into the optimum portfolio. Projects failing one of the six criteria and not defined as legislated or health and safety will only be included in the optimum portfolio to the extent that they are 25% complete (which by definition also means funded), as stopping such projects may be viewed as an inappropriate use of funds.

Fixing the Problem

More specifically:

- Projects categorized as legislated must be undertaken[28] and the City has determined that anything categorized as health and safety will also be completed.
- It is recommended that in-flight projects be included in the process to provide Council the opportunity to revisit past decisions and question whether those projects should be completed; the 25% threshold is set on the basis that projects significantly under way, and not materially behind schedule, are very likely to continue and not be subject to cancellation due to the perception of wasting funds. Conversely, the City should consider cancelling projects that are effectively stalled and have not spent a substantial portion of their budget.
- It should be noted that careful review of all health and safety projects should be undertaken to ensure projects are not classified as such to ensure their inclusion in the portfolio. More specifically, a tight definition of health and safety is recommended, such as the project addressing an already-occurring issue that is impacting the health or safety of residents or staff or preventing one that will almost certainly arise within the next, say, one year (perhaps as determined by the City's Enterprise Risk Management team).

This results in the optimum portfolio, prior to addressing budget constraints, in-year cash flows, sequencing, or judgmental factors.

Operationally, all projects under consideration should be scored, as the scoring template includes key project characteristics, status, budget, etc. This does result in some projects being scored and then rejected, but it is possible, for example, that a project once rejected as not being critical becomes critical or prioritized at a later date.

In summary, the following projects will be included in the optimized capital project portfolio:

- Those that meet the six specified criteria; or
- Those categorized as Legislated or Health and Safety, even if failing at least one of the six criteria; or
- Those having spent at least 25% of their current budget estimate even if not meeting one or the other of the above two circumstances.

5.3 Balanced Scorecard based project prioritization process

The prioritization process follows automatically from the portfolio optimization one, in that optimization included a scoring of every project over 16 questions across three dimensions of the balanced scorecard.

The specific questions are shown below, with each having a maximum of 10 points, determined by the responses to four elements of each question. For the ESG and Strategic Alignment scorecards, shown in Figures 7 and 8, the first three elements each contribute one-third (i.e., 3.33 points) of the score for the question, reflecting the magnitude of impact, whether that impact can be explained, and whether there is evidentiary data to support the magnitude and rationale. The fourth element is a multiplier based on whether the impact is direct or enables another project with a direct impact.

1. Scale – using the assessment hurdles indicated

[28] This is irrespective of whether those legislating the actions provide funding to offset the costs.

2. Rationale – explanation of the potential impact of the project to the City and its residents
3. Estimate – data in support of the impact and rationale of the project
4. Directness of Outcome – indirect impact on the City and its residents, and/or will enable future projects that will have a direct impact

Each project should be scored by a number of senior staff and reviewed by management in order to ensure a representative view of each project in the City's competing priorities. It would also be beneficial for a corporate and/or impartial group or division in the City, which could be formalized as part of the enhanced treasury and governance function outlined in Section 8, to evaluate project cost, impact, and other estimates prior to the scoring being undertaken.

Figure 7 – Strategic Alignment Scorecard Questions

1. Strategic Alignment Scorecard
1.0 Financial Sustainability **Measure:** How does this project support the City's efforts to ensure value and affordability for taxpayers? **Assessment Hurdles -** Low: Return on investment < 9.0% Moderate: Return on investment 9.0% - 10.0% High: Return on investment > 11.0%
2.0 A Well-Run City **Measure:** How well does this project allow the City to build a committed, engaged and diverse workforce, and improve lives of residents, businesses and visitors by providing simple, reliable and connected services? **Assessment Hurdles -** Low: Low incremental income < 0.0% Moderate: Low incremental income 0.0% -1.0% High: Low incremental income > 1.0%
3.0 Maintain and Create Affordable Housing **Measure:** How does this project fit with the City's goal to provide families and individuals with safe, stable and affordable housing? **Assessment Hurdles -** Low: Increase social housing capacity < 500 homes Moderate: Increase social housing capacity 500 homes - 1500 homes High: Increase social housing capacity > 1500 homes
4.0 Keep Toronto Moving **Measure:** How well does the project position the City to provide safe, affordable and accessible transportation choices? **Assessment Hurdles -** Low: Increase transportation capacity < 200 person per day Moderate: Increase transportation capacity 200 - 500 person per day High: Increase transportation capacity > 500 person per day
5.0 Invest in People and Neighbourhoods **Measure:** How well does the project contribute to improving quality of life for all including safety, health, social and economic well-being and inclusion? **Assessment Hurdles -** Low: City population impacted < 1.0% Moderate: City population impacted 1.0% - 5.0% High: City population impacted > 5.0%

Figure 8 – ESG Scorecard Questions

2. ESG Scorecard
1.0 Climate Change **Measure:** To what extent does this project help the City achieve impact its Climate Change objectives? **Assessment Hurdles -** Low: Moderate: High:
2.0 Climate Resilience **Measure:** To what extent does this project help the City achieve impact its Climate Resilience objectives? **Assessment Hurdles -** Low: Moderate: High:
3.0 Human Rights **Measure:** To what extent does this project help the City achieve impact its Human Rights objectives? **Assessment Hurdles -** Low: Moderate: High:
4.0 Social Inclusion **Measure:** To what extent does this project help the City achieve impact its Social Inclusion objectives? **Assessment Hurdles -** Low: Moderate: High:
5.0 Social Empowerment and Advancement **Measure:** To what extent does this project help the City achieve impact its Social Empowerment and Advancement objectives? **Assessment Hurdles -** Low: Moderate: High:

The risk assessment, shown in Figure 9, is much simpler to score with the "best" response to each question scoring 10 points and the "worst" response scoring 0. Of note is that risk questions 1 and 2 result in the response of High scoring 10 while the same response in questions 3-6 drives a score of 0.

Fixing the Problem

Note that the Level of Criticality question here is not redundant or duplicative to the similarly worded one in the optimization process. This question helps to determine the project's relative importance within the portfolio of projects that will be undertaken.

Figure 9 – Risk Assessment Scorecard Questions

3. Qualitative Project Risk Assessment
1.0 Level of Criticality **Measure:** How critical is the project to the City and its stakeholders?
2.0 Timing Sensitivity **Measure:** How urgent is this project?
3.0 Procurement Risk **Measure:** To what extent are there any risks associated with unreliable trading partners or market risks to be considered?
4.0 Implementation Readiness **Measure:** To what extent are there any risks associated with design, technical requirements, specifications, or implementation?
5.0 Execution Risk **Measure:** To what extent are there any risks associated with development, achievability, quality and disruption?
6.0 Other Risk: **Measure:** To what extent are there any other types of risks or constraints specific to this project that should be considered?

The prioritization tool automatically ranks all projects based on total score and establishes a project implementation sequence based on that score.

Once scored and sequenced, a budget cut-off can be established. Take the case of Toronto's 2023 unfunded capital plan, with a total cost of $29.6 billion. If Council were to approve $20 billion of additional funding over the next decade, the prioritization tool will automatically select those projects from the optimum portfolio with the highest score. Raising or lowering the budget threshold simply results in more or fewer projects being targeted for launch.

The following section presents a sample illustration of how the optimization and prioritization processes would work, if implemented.

5.4 Illustration of the optimization and prioritization processes

To demonstrate the optimization and prioritization processes, 30 anonymized projects, both funded and unfunded, were assessed using a sample prioritization tool, using real budget dollars but scored at random to illustrate the development of the optimized portfolio of capital projects. Note that in Figures 10 through 16, the column heading "Total capital budget (CAD)" refers to the remaining capital budget of each project.

Step 1: Assess and score all projects

Each individual project underwent a comprehensive evaluation across six predefined criteria, shown earlier in Figure 6, and scored on three dimensions of the balanced scorecard and in total. These evaluations culminated in an overall score, as depicted in the right-most column of Figure 10 below.

Figure 10 – Illustrative List of Projects with Scoring

								Section Scores			
Project	Unfunded projects - Is it critical and ready to launch? Funded projects – Is it substantially on schedule?	Project have a return?	Funded/ Unfunded	Spend Type	Is the project legislated or health & safety?	Has the project spent at least 25% of its current budget?	Total capital budget (CAD) ($ in '000)	Strategic Alignment Scorecard (based on Corporate Strategy)	ESG Scorecard	Qualitative Project Risk Assessment	Total Score
								Max Score			
								50.0	50.0	60.0	160.0
								Threshold Score			
								25.0	25.0	40.0	90.0
Project 1	Yes	Yes	Unfunded	Legislated	Yes	No	3,248,000	21.7	30.6	46.7	98.9
Project 2	Yes	Yes	Unfunded	Service Improvement and Enhanceme	No	No	2,405,120	25.0	22.2	40.0	87.2
Project 3	Yes	Yes	Unfunded	Growth Related	No	No	1,957,470	35.0	28.3	53.3	116.7
Project 4	No	Yes	Unfunded	State of Good Repair	No	No	1,884,109	21.7	30.6	53.3	105.6
Project 5	Yes	Yes	Unfunded	Legislated	Yes	No	1,383,305	50.0	50.0	60.0	160.0
Project 6	Yes	Yes	Unfunded	Health and Safety	Yes	No	1,281,779	20.0	1.1	46.7	67.8
Project 7	No	No	Unfunded	Service Improvement and Enhanceme	No	No	1,263,767	1.1	13.3	43.3	57.8
Project 8	Yes	Yes	Unfunded	State of Good Repair	No	No	1,118,087	26.7	15.6	30.0	72.2
Project 9	Yes	Yes	Unfunded	State of Good Repair	No	No	1,040,070	23.9	7.8	50.0	81.7
Project 10	No	No	Unfunded	State of Good Repair	No	No	942,107	31.7	25.0	33.3	90.0
Project 11	Yes	Yes	Unfunded	State of Good Repair	No	No	911,706	38.3	30.6	43.3	112.2
Project 12	Yes	Yes	Unfunded	Growth Related	No	No	719,643	25.0	19.4	46.7	91.1
Project 13	Yes	Yes	Unfunded	State of Good Repair	No	No	682,670	17.2	21.1	43.3	81.7
Project 14	Yes	Yes	Unfunded	Growth Related	No	No	675,090	25.0	30.0	46.7	101.7
Project 15	Yes	Yes	Unfunded	Growth Related	No	No	612,346	31.1	26.7	46.7	104.4
Project 16	Yes	Yes	Funded	State of Good Repair	No	No	1,571,783	32.8	31.7	43.3	107.8
Project 17	Yes	Yes	Funded	Growth Related	No	No	1,472,390	32.8	33.9	43.3	110.0
Project 18	Yes	Yes	Funded	Service Improvement and Enhanceme	No	No	1,389,565	23.3	20.0	30.0	73.3
Project 19	No	No	Funded	Service Improvement and Enhanceme	No	No	1,381,337	50.0	50.0	33.3	133.3
Project 20	Yes	Yes	Funded	State of Good Repair	No	Yes	1,047,833	32.8	18.9	33.3	85.0
Project 21	Yes	Yes	Funded	State of Good Repair	No	Yes	952,655	25.0	36.1	53.3	114.4
Project 22	Yes	Yes	Funded	Service Improvement and Enhanceme	No	No	849,014	38.3	36.7	36.7	111.7
Project 23	No	Yes	Funded	Growth Related	No	No	757,774	38.9	33.3	46.7	118.9
Project 24	Yes	No	Funded	Growth Related	No	No	707,800	32.8	26.7	40.0	99.4
Project 25	Yes	Yes	Funded	Growth Related	No	No	660,600	26.7	22.2	33.3	82.2
Project 26	Yes	Yes	Funded	Service Improvement and Enhanceme	No	Yes	627,440	35.0	36.7	46.7	118.3
Project 27	Yes	Yes	Funded	State of Good Repair	No	Yes	622,355	33.9	27.2	53.3	114.4
Project 28	Yes	Yes	Funded	Growth Related	No	Yes	587,050	43.3	37.8	50.0	131.1
Project 29	No	No	Funded	Legislated	Yes	Yes	582,009	46.7	36.7	33.3	116.7
Project 30	No	No	Funded	State of Good Repair	No	No	539,840	50.0	50.0	33.3	133.3

Step 2: Evaluate whether projects meet the requirements for inclusion in the optimum portfolio

Each project was then assessed against the 6 criteria and the 4 scorecard scores, collectively referred to as “requirements”. Figure 11 below shows that certain projects successfully met all the requirements while others fell short (see yellow box below). It is worth noting that some projects, such as Project 6, failed at least one metric (Project 6 did not meet the minimum ESG score) but must be included in the portfolio because they are considered Health & Safety or Legislated. Similarly, Project 20 failed the ESG and total score thresholds but, being funded and more than 25% complete, is deemed to have met the requirements and therefore will be included in the optimum portfolio.

Figure 11 – Illustrative list of projects after assessment against requirements

								Section Scores				
Project	Unfunded projects - Is it critical and ready to launch? Funded projects – Is it substantially on schedule?	Project have a return?	Funded/ Unfunded	Spend Type	Is the project legislated or health & safety?	Has the project spent at least 25% of its current budget?	Total capital budget (CAD) ($ in '000)	Strategic Alignment Scorecard (based on Corporate Strategy)	ESG Scorecard	Qualitative Project Risk Assessment	Total Score	Requirements met? (Yes/No)
								Max Score				
								50.0	50.0	60.0	160.0	
								Threshold Score				
								25.0	25.0	40.0	90.0	
Project 1	Yes	Yes	Unfunded	Legislated	Yes	No	3,248,000	21.7	30.6	46.7	98.9	Yes
Project 2	Yes	Yes	Unfunded	Service Improvement and Enhanceme	No	No	2,405,120	25.0	22.2	40.0	87.2	No
Project 3	Yes	Yes	Unfunded	Growth Related	No	No	1,957,470	35.0	28.3	53.3	116.7	Yes
Project 4	No	Yes	Unfunded	State of Good Repair	No	No	1,884,109	21.7	30.6	53.3	105.6	No
Project 5	Yes	Yes	Unfunded	Legislated	Yes	No	1,383,305	50.0	50.0	60.0	160.0	Yes
Project 6	Yes	Yes	Unfunded	Health and Safety	Yes	No	1,281,779	20.0	1.1	46.7	67.8	Yes
Project 7	No	No	Unfunded	Service Improvement and Enhanceme	No	No	1,263,767	1.1	13.3	43.3	57.8	No
Project 8	Yes	Yes	Unfunded	State of Good Repair	No	No	1,118,087	26.7	15.6	30.0	72.2	No
Project 9	Yes	Yes	Unfunded	State of Good Repair	No	No	1,040,070	23.9	7.8	50.0	81.7	No
Project 10	No	No	Unfunded	State of Good Repair	No	No	942,107	31.7	25.0	33.3	90.0	No
Project 11	Yes	Yes	Unfunded	State of Good Repair	No	No	911,706	38.3	30.6	43.3	112.2	Yes
Project 12	Yes	Yes	Unfunded	Growth Related	No	No	719,643	25.0	19.4	46.7	91.1	No
Project 13	Yes	Yes	Unfunded	State of Good Repair	No	No	682,670	17.2	21.1	43.3	81.7	No
Project 14	Yes	Yes	Unfunded	Growth Related	No	No	675,090	25.0	30.0	46.7	101.7	Yes
Project 15	Yes	Yes	Unfunded	Growth Related	No	No	612,346	31.1	26.7	46.7	104.4	Yes
Project 16	Yes	Yes	Funded	State of Good Repair	No	No	1,571,783	32.8	31.7	43.3	107.8	Yes
Project 17	Yes	Yes	Funded	Growth Related	No	No	1,472,390	32.8	33.9	43.3	110.0	Yes
Project 18	Yes	Yes	Funded	Service Improvement and Enhanceme	No	No	1,389,565	23.3	20.0	30.0	73.3	No
Project 19	No	No	Funded	Service Improvement and Enhanceme	No	No	1,381,337	50.0	50.0	33.3	133.3	No
Project 20	Yes	Yes	Funded	State of Good Repair	No	Yes	1,047,833	32.8	18.9	33.3	85.0	Yes
Project 21	Yes	Yes	Funded	State of Good Repair	No	Yes	952,655	25.0	36.1	53.3	114.4	Yes
Project 22	Yes	Yes	Funded	Service Improvement and Enhanceme	No	No	849,014	38.3	36.7	36.7	111.7	No
Project 23	No	Yes	Funded	Growth Related	No	No	757,774	38.9	33.3	46.7	118.9	No
Project 24	Yes	No	Funded	Growth Related	No	No	707,800	32.8	26.7	40.0	99.4	No
Project 25	Yes	Yes	Funded	Growth Related	No	No	660,600	26.7	22.2	33.3	82.2	No
Project 26	Yes	Yes	Funded	Service Improvement and Enhanceme	No	Yes	627,440	35.0	36.7	46.7	118.3	Yes
Project 27	Yes	Yes	Funded	State of Good Repair	No	Yes	622,355	33.9	27.2	53.3	114.4	Yes
Project 28	Yes	Yes	Funded	Growth Related	No	Yes	587,050	43.3	37.8	50.0	131.1	Yes
Project 29	No	No	Funded	Legislated	Yes	Yes	582,009	46.7	36.7	33.3	116.7	Yes
Project 30	No	No	Funded	State of Good Repair	No	No	539,840	50.0	50.0	33.3	133.3	No

Step 3: Rank projects by score

Figure 12 below shows each of the 2 groups of projects that did and did not meet the requirements, ranked by score with the yellow outline in the "Requirements met" column showing the initial list of 15 projects that should be undertaken.

Figure 12 – Illustrative list of projects ranked by total score, separating those that met and did not meet all requirements

								Section Scores				
Project	Unfunded projects - Is it critical and ready to launch? Funded projects – Is it substantially on schedule?	Project have a return?	Funded/ Unfunded	Spend Type	Is the project legislated or health & safety?	Has the project spent at least 25% of its current budget?	Total capital budget (CAD) ($ in '000)	Strategic Alignment Scorecard (based on Corporate Strategy)	ESG Scorecard	Qualitative Project Risk Assessment	Total Score	Requirements met? (Yes/No)
								Max Score				
								50.0	50.0	60.0	160.0	
								Threshold Score				
								25.0	25.0	40.0	90.0	
Project 5	Yes	Yes	Unfunded	Legislated	Yes	No	1,383,305	50.0	50.0	60.0	160.0	Yes
Project 28	Yes	Yes	Funded	Growth Related	No	Yes	587,050	43.3	37.8	50.0	131.1	Yes
Project 26	Yes	Yes	Funded	Service Improvement and Enhancement	No	Yes	627,440	35.0	36.7	46.7	118.3	Yes
Project 29	No	No	Funded	Legislated	Yes	Yes	582,009	46.7	36.7	33.3	116.7	Yes
Project 3	Yes	Yes	Unfunded	Growth Related	No	No	1,957,470	35.0	28.3	53.3	116.7	Yes
Project 21	Yes	Yes	Funded	State of Good Repair	No	Yes	952,655	25.0	36.1	53.3	114.4	Yes
Project 27	Yes	Yes	Funded	State of Good Repair	No	Yes	622,355	33.9	27.2	53.3	114.4	Yes
Project 11	Yes	Yes	Unfunded	State of Good Repair	No	No	911,706	38.3	30.6	43.3	112.2	Yes
Project 17	Yes	Yes	Funded	Growth Related	No	No	1,472,390	32.8	33.9	43.3	110.0	Yes
Project 16	Yes	Yes	Funded	State of Good Repair	No	No	1,571,783	32.8	31.7	43.3	107.8	Yes
Project 15	Yes	Yes	Unfunded	Growth Related	No	No	612,346	31.1	26.7	46.7	104.4	Yes
Project 14	Yes	Yes	Unfunded	Growth Related	No	No	675,090	25.0	30.0	46.7	101.7	Yes
Project 1	Yes	Yes	Unfunded	Legislated	Yes	No	3,248,000	21.7	30.6	46.7	98.9	Yes
Project 20	Yes	Yes	Funded	State of Good Repair	No	Yes	1,047,833	32.8	18.9	33.3	85.0	Yes
Project 6	Yes	Yes	Unfunded	Health and Safety	Yes	No	1,281,779	20.0	1.1	46.7	67.8	Yes
Project 19	No	No	Funded	Service Improvement and Enhancement	No	No	1,381,337	50.0	50.0	33.3	133.3	No
Project 30	No	No	Funded	State of Good Repair	No	No	539,840	50.0	50.0	33.3	133.3	No
Project 23	No	Yes	Funded	Growth Related	No	No	757,774	38.9	33.3	46.7	118.9	No
Project 22	Yes	Yes	Funded	Service Improvement and Enhancement	No	No	849,014	38.3	36.7	36.7	111.7	No
Project 4	No	Yes	Unfunded	State of Good Repair	No	No	1,884,109	21.7	30.6	53.3	105.6	No
Project 24	Yes	No	Funded	Growth Related	No	No	707,800	32.8	26.7	40.0	99.4	No
Project 12	Yes	Yes	Unfunded	Growth Related	No	No	719,643	25.0	19.4	46.7	91.1	No
Project 10	No	No	Unfunded	State of Good Repair	No	No	942,107	31.7	25.0	33.3	90.0	No
Project 2	Yes	Yes	Unfunded	Service Improvement and Enhancement	No	No	2,405,120	25.0	22.2	40.0	87.2	No
Project 25	Yes	Yes	Funded	Growth Related	No	No	660,600	26.7	22.2	33.3	82.2	No
Project 9	Yes	Yes	Unfunded	State of Good Repair	No	No	1,040,070	23.9	7.8	50.0	81.7	No
Project 13	Yes	Yes	Unfunded	State of Good Repair	No	No	682,670	17.2	21.1	43.3	81.7	No
Project 18	Yes	Yes	Funded	Service Improvement and Enhancement	No	No	1,389,565	23.3	20.0	30.0	73.3	No
Project 8	Yes	Yes	Unfunded	State of Good Repair	No	No	1,118,087	26.7	15.6	30.0	72.2	No
Project 7	No	No	Unfunded	Service Improvement and Enhancement	No	No	1,263,767	1.1	13.3	43.3	57.8	No

Step 4: Apply the expenditure cap

To further enhance the prioritization of the portfolio, the application of a cash outflow limit plays a crucial role in effectively managing the City's capital budget. Doing so ensures the efficient utilization of financial resources, directing them towards projects that best align with the overall objectives and priorities of the City. In Figure 13, a budget limit of $10,000,000 was applied to illustrate this point. Applying the budget limit based on only on total score initially limits the portfolio to the 9 green-highlighted projects, as the 10th scored project would result in spending in excess of the cap. The 2 pink-highlighted rows (Projects 1 and 6) indicate the two projects that must be included in the portfolio because they are Legislated and Health & Safety; these will be addressed in step 5a below.

Figure 13 – Illustrative list of projects initially included in the optimized portfolio

Approved Capital Budget (CAD) input ($ in '000) <<<<<<<< 10,000,000

Project	Unfunded projects - Is it critical and ready to launch? Funded projects – Is it substantially on schedule?	Project have a return?	Funded/ Unfunded	Spend Type	Is the project legislated or health & safety?	Has the project spent at least 25% of its current budget?	Total capital budget (CAD) ($ in '000)	Section Scores: Strategic Alignment Scorecard (based on Corporate Strategy)	Section Scores: ESG Scorecard	Section Scores: Qualitative Project Risk Assessment	Section Scores: Total Score	Requirements met? (Yes/No)	Cumulative capital budget (CAD) ($ in '000)
							Max Score	50.0	50.0	60.0	160.0		
							Threshold Score	25.0	25.0	40.0	90.0		
Project 5	Yes	Yes	Unfunded	Legislated	Yes	No	1,383,305	50.0	50.0	60.0	160.0	Yes	1,383,305
Project 28	Yes	Yes	Funded	Growth Related	No	Yes	587,050	43.3	37.8	50.0	131.1	Yes	1,970,355
Project 26	Yes	Yes	Funded	Service Improvement and Enhancemen	No	Yes	627,440	35.0	36.7	46.7	118.3	Yes	2,597,795
Project 29	No	No	Funded	Legislated	Yes	Yes	582,009	46.7	36.7	33.3	116.7	Yes	3,179,804
Project 3	Yes	Yes	Unfunded	Growth Related	No	No	1,957,470	35.0	28.3	53.3	116.7	Yes	5,137,274
Project 21	Yes	Yes	Funded	State of Good Repair	No	Yes	952,655	25.0	36.1	53.3	114.4	Yes	6,089,929
Project 27	Yes	Yes	Funded	State of Good Repair	No	Yes	622,355	33.9	27.2	53.3	114.4	Yes	6,712,284
Project 11	Yes	Yes	Unfunded	State of Good Repair	No	No	911,706	38.3	30.6	43.3	112.2	Yes	7,623,990
Project 17	Yes	Yes	Funded	Growth Related	No	No	1,472,390	32.8	33.9	43.3	110.0	Yes	9,096,380
Project 16	Yes	Yes	Funded	State of Good Repair	No	No	1,571,783	32.8	31.7	43.3	107.8	Yes	10,668,163
Project 15	Yes	Yes	Unfunded	Growth Related	No	No	612,346	31.1	26.7	46.7	104.4	Yes	11,280,509
Project 14	Yes	Yes	Unfunded	Growth Related	No	No	675,090	25.0	30.0	46.7	101.7	Yes	11,955,599
Project 1	Yes	Yes	Unfunded	Legislated	Yes	No	3,248,000	21.7	30.6	46.7	98.9	Yes	15,203,599
Project 20	Yes	Yes	Funded	State of Good Repair	No	Yes	1,047,833	32.8	18.9	33.3	85.0	Yes	16,251,432
Project 6	Yes	Yes	Unfunded	Health and Safety	Yes	No	1,281,779	20.0	1.1	46.7	67.8	Yes	17,533,211
Project 19	No	No	Funded	Service Improvement and Enhancemen	No	No	1,381,337	50.0	50.0	33.3	133.3	No	18,914,548
Project 30	No	No	Funded	State of Good Repair	No	No	539,840	50.0	50.0	33.3	133.3	No	19,454,388
Project 23	No	Yes	Funded	Growth Related	No	No	757,774	38.9	33.3	46.7	118.9	No	20,212,162
Project 22	Yes	Yes	Funded	Service Improvement and Enhancemen	No	No	849,014	38.3	36.7	36.7	111.7	No	21,061,176
Project 4	No	Yes	Unfunded	State of Good Repair	No	No	1,884,109	21.7	30.6	53.3	105.6	No	22,945,285
Project 24	Yes	No	Funded	Growth Related	No	No	707,800	32.8	26.7	40.0	99.4	No	23,653,085
Project 12	Yes	Yes	Unfunded	Growth Related	No	No	719,643	25.0	19.4	46.7	91.1	No	24,372,728
Project 10	No	No	Unfunded	State of Good Repair	No	No	942,107	31.7	25.0	33.3	90.0	No	25,314,835
Project 2	Yes	Yes	Unfunded	Service Improvement and Enhancemen	No	No	2,405,120	25.0	22.2	40.0	87.2	No	27,719,955
Project 25	Yes	Yes	Funded	Growth Related	No	No	660,600	26.7	22.2	33.3	82.2	No	28,380,555
Project 9	Yes	Yes	Unfunded	State of Good Repair	No	No	1,040,070	23.9	7.8	50.0	81.7	No	29,420,625
Project 13	Yes	Yes	Unfunded	State of Good Repair	No	No	682,670	17.2	21.1	43.3	81.7	No	30,103,295
Project 18	Yes	Yes	Funded	Service Improvement and Enhancemen	No	No	1,389,565	23.3	20.0	30.0	73.3	No	31,492,860
Project 8	Yes	Yes	Unfunded	State of Good Repair	No	No	1,118,087	26.7	15.6	30.0	72.2	No	32,610,947
Project 7	No	No	Unfunded	Service Improvement and Enhancemen	No	No	1,263,767	1.1	13.3	43.3	57.8	No	33,874,714

Step 5a: Manual process to add Legislated and Health and Safety projects into the optimized portfolio

Projects 1 and 6 (above highlighted in pink) are categorized as Legislated and Health and Safety respectively, and therefore must be included in the final Optimized Capital Project Portfolio. Doing so in this specific sample exercise, is a manual process, which in this example results in the addition of $3,248,000 plus $1,281,779 = $4,529,800 to the City's spending, for a total proposed capital spend of $13,626,159, as shown in the red box outlining the 2 projects.

Figure 14 – Projects added back to the optimized portfolio

														Approved Capital Budget (CAD) input ($ in '000) <<<<<<<< 10,000,000
								Section Scores						
Project	Unfunded projects - Is it critical and ready to launch? Funded projects – Is it substantially on schedule?	Project have a return?	Funded/ Unfunded	Spend Type	Is the project legislated or health & safety?	Has the project spent at least 25% of its current budget?	Total capital budget (CAD) ($ in '000)	Strategic Alignment Scorecard (based on Corporate Strategy)	ESG Scorecard	Qualitative Project Risk Assessment	Total Score	Requirements met? (Yes/No)	Cumulative capital budget (CAD) ($ in '000)
								Max Score					
								50.0	50.0	60.0	160.0		
								Threshold Score					
								25.0	25.0	40.0	90.0		
Project 5	Yes	Yes	Unfunded	Legislated	Yes	No	1,383,305	50.0	50.0	60.0	160.0	Yes	1,383,305
Project 28	Yes	Yes	Funded	Growth Related	No	Yes	587,050	43.3	37.8	50.0	131.1	Yes	1,970,355
Project 26	Yes	Yes	Funded	Service Improvement and Enhancemen	No	Yes	627,440	35.0	36.7	46.7	118.3	Yes	2,597,795
Project 29	No	No	Funded	Legislated	Yes	Yes	582,009	46.7	36.7	33.3	116.7	Yes	3,179,804
Project 3	Yes	Yes	Unfunded	Growth Related	No	No	1,957,470	35.0	28.3	53.3	116.7	Yes	5,137,274
Project 21	Yes	Yes	Funded	State of Good Repair	No	Yes	952,655	25.0	36.1	53.3	114.4	Yes	6,089,929
Project 27	Yes	Yes	Funded	State of Good Repair	No	Yes	622,355	33.9	27.2	53.3	114.4	Yes	6,712,284
Project 11	Yes	Yes	Unfunded	State of Good Repair	No	No	911,706	38.3	30.6	43.3	112.2	Yes	7,623,990
Project 17	Yes	Yes	Funded	Growth Related	No	No	1,472,390	32.8	33.9	43.3	110.0	Yes	9,096,380
Project 1	Yes	Yes	Unfunded	Legislated	Yes	No	3,248,000	21.7	30.6	46.7	98.9	Yes	12,344,380
Project 6	Yes	Yes	Unfunded	Health and Safety	Yes	No	1,281,779	20.0	1.1	46.7	67.8	Yes	13,626,159
Project 16	Yes	Yes	Funded	State of Good Repair	No	No	1,571,783	32.8	31.7	43.3	107.8	Yes	15,197,942
Project 15	Yes	Yes	Unfunded	Growth Related	No	No	612,346	31.1	26.7	46.7	104.4	Yes	15,810,288
Project 14	Yes	Yes	Unfunded	Growth Related	No	No	675,090	25.0	30.0	46.7	101.7	Yes	16,485,378
Project 20	Yes	Yes	Funded	State of Good Repair	No	Yes	1,047,833	32.8	18.9	33.3	85.0	Yes	17,533,211
Project 19	No	No	Funded	Service Improvement and Enhancemen	No	No	1,381,337	50.0	50.0	33.3	133.3	No	18,914,548
Project 30	No	No	Funded	State of Good Repair	No	No	539,840	50.0	50.0	33.3	133.3	No	19,454,388
Project 23	No	Yes	Funded	Growth Related	No	No	757,774	38.9	33.3	46.7	118.9	No	20,212,162
Project 22	Yes	Yes	Funded	Service Improvement and Enhancemen	No	No	849,014	38.3	36.7	36.7	111.7	No	21,061,176
Project 4	No	Yes	Unfunded	State of Good Repair	No	No	1,884,109	21.7	30.6	53.3	105.6	No	22,945,285
Project 24	Yes	No	Funded	Growth Related	No	No	707,800	32.8	26.7	40.0	99.4	No	23,653,085
Project 12	Yes	Yes	Unfunded	Growth Related	No	No	719,643	25.0	19.4	46.7	91.1	No	24,372,728
Project 10	No	No	Unfunded	State of Good Repair	No	No	942,107	31.7	25.0	33.3	90.0	No	25,314,835
Project 2	Yes	Yes	Unfunded	Service Improvement and Enhancemen	No	No	2,405,120	25.0	22.2	40.0	87.2	No	27,719,955
Project 25	Yes	Yes	Funded	Growth Related	No	No	660,600	26.7	22.2	33.3	82.2	No	28,380,555
Project 9	Yes	Yes	Unfunded	State of Good Repair	No	No	1,040,070	23.9	7.8	50.0	81.7	No	29,420,625
Project 13	Yes	Yes	Unfunded	State of Good Repair	No	No	682,670	17.2	21.1	43.3	81.7	No	30,103,295
Project 18	Yes	Yes	Funded	Service Improvement and Enhancemen	No	No	1,389,565	23.3	20.0	30.0	73.3	No	31,492,860
Project 8	Yes	Yes	Unfunded	State of Good Repair	No	No	1,118,087	26.7	15.6	30.0	72.2	No	32,610,947
Project 7	No	No	Unfunded	Service Improvement and Enhancemen	No	No	1,263,767	1.1	13.3	43.3	57.8	No	33,874,714

Fixing the Problem

Step 5b: Remove projects to fit the budget cap

The above 11 recommended projects result in spending greater than the authorised capital budget. This excess must be offset by eliminating other projects using the total score criteria, and here that would result in Projects 17, 11, 27, and 21 being proposed for cancellation, in that order starting from the lowest scored project of the nine otherwise included in the portfolio. The red box outlines projects that are Legislated or Health and Safety and therefore must be retained, while the yellow box indicates projects removed to fit the budget cap.

Figure 15 – Projects removed from the optimized portfolio to meet the budget cap

													Approved Capital Budget (CAD) input ($ in '000) <<<<<<<< 10,000,000
								Section Scores					
Project	**Unfunded projects - Is it critical and ready to launch? Funded projects – Is it substantially on schedule?**	**Project have a return?**	**Funded/ Unfunded**	**Spend Type**	**Is the project legislated or health & safety?**	**Has the project spent at least 25% of its current budget?**	**Total capital budget (CAD) ($ in '000)**	**Strategic Alignment Scorecard (based on Corporate Strategy)**	**ESG Scorecard**	**Qualitative Project Risk Assessment**	**Total Score**	**Requirements met? (Yes/No)**	**Cumulative capital budget (CAD) ($ in '000)**
								Max Score					
								50.0	50.0	60.0	160.0		
								Threshold Score					
								25.0	25.0	40.0	90.0		
Project 5	Yes	Yes	Unfunded	Legislated	Yes	No	1,383,305	50.0	50.0	60.0	160.0	Yes	1,383,305
Project 28	Yes	Yes	Funded	Growth Related	No	Yes	587,050	43.3	37.8	50.0	131.1	Yes	1,970,355
Project 26	Yes	Yes	Funded	Service Improvement and Enhancemen	No	Yes	627,440	35.0	36.7	46.7	118.3	Yes	2,597,795
Project 29	No	No	Funded	Legislated	Yes	Yes	582,009	46.7	36.7	33.3	116.7	Yes	3,179,804
Project 3	Yes	Yes	Unfunded	Growth Related	No	No	1,957,470	35.0	28.3	53.3	116.7	Yes	5,137,274
Project 1	Yes	Yes	Unfunded	Legislated	Yes	No	3,248,000	21.7	30.6	46.7	98.9	Yes	8,385,274
Project 6	Yes	Yes	Unfunded	Health and Safety	Yes	No	1,281,779	20.0	1.1	46.7	67.8	Yes	9,667,053
Project 21	Yes	Yes	Funded	State of Good Repair	No	Yes	952,655	25.0	36.1	53.3	114.4	Yes	10,619,708
Project 27	Yes	Yes	Funded	State of Good Repair	No	Yes	622,355	33.9	27.2	53.3	114.4	Yes	11,242,063
Project 11	Yes	Yes	Unfunded	State of Good Repair	No	No	911,706	38.3	30.6	43.3	112.2	Yes	12,153,769
Project 17	Yes	Yes	Funded	Growth Related	No	No	1,472,390	32.8	33.9	43.3	110.0	Yes	13,626,159
Project 16	Yes	Yes	Funded	State of Good Repair	No	No	1,571,783	32.8	31.7	43.3	107.8	Yes	15,197,942
Project 15	Yes	Yes	Unfunded	Growth Related	No	No	612,346	31.1	26.7	46.7	104.4	Yes	15,810,288
Project 14	Yes	Yes	Unfunded	Growth Related	No	No	675,090	25.0	30.0	46.7	101.7	Yes	16,485,378
Project 20	Yes	Yes	Funded	State of Good Repair	No	Yes	1,047,833	32.8	18.9	33.3	85.0	Yes	17,533,211
Project 19	No	No	Funded	Service Improvement and Enhancemen	No	No	1,381,337	50.0	50.0	33.3	133.3	No	18,914,548
Project 30	No	No	Funded	State of Good Repair	No	No	539,840	50.0	50.0	33.3	133.3	No	19,454,388
Project 23	No	Yes	Funded	Growth Related	No	No	757,774	38.9	33.3	46.7	118.9	No	20,212,162
Project 22	Yes	Yes	Funded	Service Improvement and Enhancemen	No	No	849,014	38.3	36.7	36.7	111.7	No	21,061,176
Project 4	No	Yes	Unfunded	State of Good Repair	No	No	1,884,109	21.7	30.6	53.3	105.6	No	22,945,285
Project 24	Yes	No	Funded	Growth Related	No	No	707,800	32.8	26.7	40.0	99.4	No	23,653,085
Project 12	Yes	Yes	Unfunded	Growth Related	No	No	719,643	25.0	19.4	46.7	91.1	No	24,372,728
Project 10	No	No	Unfunded	State of Good Repair	No	No	942,107	31.7	25.0	33.3	90.0	No	25,314,835
Project 2	Yes	Yes	Unfunded	Service Improvement and Enhancemen	No	No	2,405,120	25.0	22.2	40.0	87.2	No	27,719,955
Project 25	Yes	Yes	Funded	Growth Related	No	No	660,600	26.7	22.2	33.3	82.2	No	28,380,555
Project 9	Yes	Yes	Unfunded	State of Good Repair	No	No	1,040,070	23.9	7.8	50.0	81.7	No	29,420,625
Project 13	Yes	Yes	Unfunded	State of Good Repair	No	No	682,670	17.2	21.1	43.3	81.7	No	30,103,295
Project 18	Yes	Yes	Funded	Service Improvement and Enhancemen	No	No	1,389,565	23.3	20.0	30.0	73.3	No	31,492,860
Project 8	Yes	Yes	Unfunded	State of Good Repair	No	No	1,118,087	26.7	15.6	30.0	72.2	No	32,610,947
Project 7	No	No	Unfunded	Service Improvement and Enhancemen	No	No	1,263,767	1.1	13.3	43.3	57.8	No	33,874,714

Step 6: Final adjustments to optimized portfolio

The portfolio from step 5b has a budget of $9,667,053, which fits just below the budget limit. In some cases, Council may opt to add projects in order to spend up to or even slightly in excess of the cap, based on the value of the incremental project(s). For example, Project 27 may be considered sufficiently important that its inclusion in the portfolio is worthwhile despite causing the budget limit to be exceeded by about $300,000; the other desired but cancelled projects (#17, 11, and 21) are likely too costly to include in the portfolio. For illustrative purposes, Project 27 is included in the steps presented in Section 5.4 below.

The final optimized portfolio of 8 projects is shown in Figure 16 below, following which an annual cash flow perspective will be considered.

Figure 16 – Final optimized portfolio

Approved Capital Budget (CAD) input ($ in '000)
<<<<<<<<
10,000,000

								Section Scores					
Project	**Unfunded projects - Is it critical and ready to launch? Funded projects – Is it substantially on schedule?**	**Project have a return?**	**Funded/ Unfunded**	**Spend Type**	**Is the project legislated or health & safety?**	**Has the project spent at least 25% of its current budget?**	**Total capital budget (CAD) ($ in '000)**	**Strategic Alignment Scorecard (based on Corporate Strategy)**	**ESG Scorecard**	**Qualitative Project Risk Assessment**	**Total Score**	**Requirements met? (Yes/No)**	**Cumulative capital budget (CAD) ($ in '000)**
								Max Score					
								50.0	**50.0**	**60.0**	**160.0**		
								Threshold Score					
								25.0	**25.0**	**40.0**	**90.0**		
Project 5	Yes	Yes	Unfunded	Legislated	Yes	No	1,383,305	50.0	50.0	60.0	160.0	Yes	1,383,305
Project 28	Yes	Yes	Funded	Growth Related	No	Yes	587,050	43.3	37.8	50.0	131.1	Yes	1,970,355
Project 26	Yes	Yes	Funded	Service Improvement and Enhancemen	No	Yes	627,440	35.0	36.7	46.7	118.3	Yes	2,597,795
Project 29	No	No	Funded	Legislated	Yes	Yes	582,009	46.7	36.7	33.3	116.7	Yes	3,179,804
Project 3	Yes	Yes	Unfunded	Growth Related	No	No	1,957,470	35.0	28.3	53.3	116.7	Yes	5,137,274
Project 1	Yes	Yes	Unfunded	Legislated	Yes	No	3,248,000	21.7	30.6	46.7	98.9	Yes	8,385,274
Project 6	Yes	Yes	Unfunded	Health and Safety	Yes	No	1,281,779	20.0	1.1	46.7	67.8	Yes	9,667,053
Project 27	Yes	Yes	Funded	State of Good Repair	No	Yes	622,355	33.9	27.2	53.3	114.4	Yes	10,289,408
Project 21	Yes	Yes	Funded	State of Good Repair	No	Yes	952,655	25.0	36.1	53.3	114.4	Yes	11,242,063
Project 11	Yes	Yes	Unfunded	State of Good Repair	No	No	911,706	38.3	30.6	43.3	112.2	Yes	12,153,769
Project 17	Yes	Yes	Funded	Growth Related	No	No	1,472,390	32.8	33.9	43.3	110.0	Yes	13,626,159
Project 16	Yes	Yes	Funded	State of Good Repair	No	No	1,571,783	32.8	31.7	43.3	107.8	Yes	15,197,942
Project 15	Yes	Yes	Unfunded	Growth Related	No	No	612,346	31.1	26.7	46.7	104.4	Yes	15,810,288
Project 14	Yes	Yes	Unfunded	Growth Related	No	No	675,090	25.0	30.0	46.7	101.7	Yes	16,485,378
Project 20	Yes	Yes	Funded	State of Good Repair	No	Yes	1,047,833	32.8	18.9	33.3	85.0	Yes	17,533,211
Project 19	No	No	Funded	Service Improvement and Enhancemen	No	No	1,381,337	50.0	50.0	33.3	133.3	No	18,914,548
Project 30	No	No	Funded	State of Good Repair	No	No	539,840	50.0	50.0	33.3	133.3	No	19,454,388
Project 23	No	Yes	Funded	Growth Related	No	No	757,774	38.9	33.3	46.7	118.9	No	20,212,162
Project 22	Yes	Yes	Funded	Service Improvement and Enhancemen	No	No	849,014	38.3	36.7	36.7	111.7	No	21,061,176
Project 4	No	Yes	Unfunded	State of Good Repair	No	No	1,884,109	21.7	30.6	53.3	105.6	No	22,945,285
Project 24	Yes	No	Funded	Growth Related	No	No	707,800	32.8	26.7	40.0	99.4	No	23,653,085
Project 12	Yes	Yes	Unfunded	Growth Related	No	No	719,643	25.0	19.4	46.7	91.1	No	24,372,728
Project 10	No	No	Unfunded	State of Good Repair	No	No	942,107	31.7	25.0	33.3	90.0	No	25,314,835
Project 2	Yes	Yes	Unfunded	Service Improvement and Enhancemen	No	No	2,405,120	25.0	22.2	40.0	87.2	No	27,719,955
Project 25	Yes	Yes	Funded	Growth Related	No	No	660,600	26.7	22.2	33.3	82.2	No	28,380,555
Project 9	Yes	Yes	Unfunded	State of Good Repair	No	No	1,040,070	23.9	7.8	50.0	81.7	No	29,420,625
Project 13	Yes	Yes	Unfunded	State of Good Repair	No	No	682,670	17.2	21.1	43.3	81.7	No	30,103,295
Project 18	Yes	Yes	Funded	Service Improvement and Enhancemen	No	No	1,389,565	23.3	20.0	30.0	73.3	No	31,492,860
Project 8	Yes	Yes	Unfunded	State of Good Repair	No	No	1,118,087	26.7	15.6	30.0	72.2	No	32,610,947
Project 7	No	No	Unfunded	Service Improvement and Enhancemen	No	No	1,263,767	1.1	13.3	43.3	57.8	No	33,874,714

5.5 Sequencing the portfolio based on cash flow

This section addresses the annual cash flow implications of undertaking the optimized portfolio and assumes that Council only changes the sequence or timing of the projects therein but does not change the portfolio itself. The operating assumption therefore is that Council accelerates or delays the start of a project, or adjusts its rate of progress, to manage any annual cash flow constraints. Having already determined the optimum portfolio based on score and any mandated projects, annual cash flow constraints or availabilities should not be used to add or subtract projects.

Step 7

Figure 17 below presents the expected annual cash outflows for the 8 projects in the optimized portfolio, to which illustrative projects start and end dates have been added. The next steps will be to assess whether the City can afford the outflows in any given year and, if not, how the timing of the projects may be adjusted to meet annual constraints.

Figure 17 – Initial 10-Year Cash Flow for Prioritized Projects *($ in '000)*

Prioritized Projects	Start Date	End date	Remaining capital budget (CAD)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	10 year spending	Spending prior to 2023	Post 2032 spending	Total project budget
Project 5	01-Jan-23	31-Dec-32	1,383,305	100,000	100,000	100,000	283,305	150,000	200,000	150,000	100,000	100,000	100,000	1,383,305	-	-	1,383,305
Project 28	01-Jan-19	31-Dec-27	587,050	125,000	125,000	125,000	125,000	87,050	-	-	-	-	-	587,050	981,936	-	1,568,986
Project 26	01-Jan-20	31-Dec-26	627,440	200,000	300,000	100,000	27,440	-	-	-	-	-	-	627,440	378,285	-	1,005,725
Project 29	01-Jan-21	31-Dec-25	582,009	82,009	400,000	100,000	-	-	-	-	-	-	-	582,009	225,892	-	807,901
Project 3	01-Jan-25	31-Dec-32	1,957,470			257,470	300,000	300,000	300,000	300,000	300,000	100,000	100,000	1,957,470	-	-	1,957,470
Project 1	01-Jan-23	31-Dec-35	3,248,000	136,500	250,000	554,600	726,800	442,000	336,000	245,000	132,500	101,500	100,000	3,024,900	-	223,100	3,248,000
Project 6	01-Jan-23	31-Dec-26	1,281,779	281,779	300,000	400,000	300,000			-	-	-	-	1,281,779	-	-	1,281,779
Project 27	01-Jan-20	31-Dec-28	622,355	100,000	100,000	300,000	62,355	30,000	30,000	-	-	-	-	622,355	831,816	-	1,454,171
	Annual Cash outflow		**10,289,408**	**1,025,288**	**1,575,000**	**1,937,070**	**1,824,900**	**1,009,050**	**866,000**	**695,000**	**532,500**	**301,500**	**300,000**	**10,066,308**		**223,100**	**12,707,337**

Fixing the Problem

Step 8

This step assumes an annual capital cash expenditure limit of $1,500,000. As Figure 17 above indicates, without any further action, that outflow would be exceeded in 2024, 2025, and 2026. Figure 18 below indicates that action on two projects would alleviate the annual cash flow problem, specifically:

1. Project 3 (yellow box); and
2. Project 6 (red box).

Figure 18 – Projects 3 and 6 can Address the Cash Flow Constraint *($ in '000)*

Prioritized Projects	Start Date	End date	Remaining capital budget (CAD)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	10 year spending	Spending prior to 2023	Post 2032 spending	Total project budget
Project 5	01-Jan-23	31-Dec-32	1,383,305	100,000	100,000	100,000	283,305	150,000	200,000	150,000	100,000	100,000	100,000	1,383,305	-	-	1,383,305
Project 28	01-Jan-19	31-Dec-27	587,050	125,000	125,000	125,000	125,000	87,050	-	-	-	-	-	587,050	981,936	-	1,568,986
Project 26	01-Jan-20	31-Dec-26	627,440	200,000	300,000	100,000	27,440	-	-	-	-	-	-	627,440	378,285	-	1,005,725
Project 29	01-Jan-21	31-Dec-25	582,009	82,009	400,000	100,000	-	-	-	-	-	-	-	582,009	225,892	-	807,901
Project 3	01-Jan-25	31-Dec-32	1,957,470			257,470	300,000	300,000	300,000	300,000	300,000	100,000	100,000	1,957,470	-	-	1,957,470
Project 1	01-Jan-23	31-Dec-35	3,248,000	136,500	250,000	554,600	726,800	442,000	336,000	245,000	132,500	101,500	100,000	3,024,900	-	223,100	3,248,000
Project 6	01-Jan-23	31-Dec-26	1,281,779	281,779	300,000	400,000	300,000			-	-	-	-	1,281,779	-	-	1,281,779
Project 27	01-Jan-20	31-Dec-28	622,355	100,000	100,000	300,000	62,355	30,000	30,000	-	-	-	-	622,355	831,816	-	1,454,171
	Annual Cash outflow		10,289,408	1,025,288	1,575,000	1,937,070	1,824,900	1,009,050	866,000	695,000	532,500	301,500	300,000	10,066,308		223,100	12,707,337

Step 9

The specific actions taken were:

1. Defer the start of Project 3 by two years, shifting its start and completion to 2027 and 2034 respectively, resulting in $200,000 of spending to be deferred to post-2032 (see 2nd last column of Figure 19; and
2. Stretch the completion of Project 6 by two years to reduce annual cash outlays, resulting in completion in 2028.

Figure 19 – Project 3 Deferred and Project 6 Stretched for Cash Flow Management *($ in '000)*

Prioritized Projects	Start Date	End date	Remaining capital budget (CAD)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	total_10years	Spent through 2022	Post 2032 spend	Total project budget
Project 5	01-Jan-23	31-Dec-32	1,383,305	100,000	100,000	100,000	283,305	150,000	200,000	150,000	100,000	100,000	100,000	1,383,305	-	-	1,383,305
Project 28	01-Jan-19	31-Dec-27	587,050	125,000	125,000	125,000	125,000	87,050	-	-	-	-	-	587,050	981,936	-	1,568,986
Project 26	01-Jan-20	31-Dec-26	627,440	200,000	300,000	100,000	27,440	-	-	-	-	-	-	627,440	378,285	-	1,005,725
Project 29	01-Jan-21	31-Dec-25	582,009	82,009	400,000	100,000	-	-	-	-	-	-	-	582,009	225,892	-	807,901
Project 3	01-Jan-25	31-Dec-34	1,957,470					257,470	300,000	300,000	300,000	300,000	300,000	1,757,470	-	200,000	1,957,470
Project 1	01-Jan-23	31-Dec-35	3,248,000	136,500	250,000	554,600	726,800	442,000	336,000	245,000	132,500	101,500	100,000	3,024,900	-	223,100	3,248,000
Project 6	01-Jan-23	31-Dec-28	1,281,779	231,779	200,000	200,000	100,000	275,000	275,000	-	-	-	-	1,281,779	-	-	1,281,779
Project 27	01-Jan-20	31-Dec-28	622,355	100,000	100,000	300,000	62,355	30,000	30,000	-	-	-	-	622,355	831,816	-	1,454,171
			10,289,408	**975,288**	**1,475,000**	**1,479,600**	**1,324,900**	**1,241,520**	**1,141,000**	**695,000**	**532,500**	**501,500**	**500,000**	**9,866,308**		**423,100**	**12,707,337**

The result of step 9 is that annual cash outflows are reduced to below $1,500,000 in the three affected years while future years spending is slightly increased, albeit within the limits specified by Council.

5.6 Applying judgment to the proposed portfolio and its prioritization

The final determination of the optimum portfolio and its prioritization rests with the Mayor and Council. The approach presented above culminating in Figure 19 results in an objective and calculated portfolio and its prioritization, but the judgment of the Mayor and Council, with an understanding of qualitative factors and the City's broader needs, should be applied in reviewing and determining the final result.

5.7 Summary

The prioritization approach outlined above allows City staff to recommend both an optimum capital project portfolio and the launch sequence for those projects within the Mayor/Council-specified budget limit, in alignment with the City's corporate strategic priorities.

Ultimately, the decision on which capital projects to launch is a decision to be made by the Mayor and Council, as is the appropriate reduction of the funded capital plan and/or unfunded capital program to support the City in addressing the $46.5 billion pressure over the next 10 years.

These decisions should also be considered with a view to the City's finances as a whole. Should Council decide to advance all of the options recommended above with respect to its operating expenditures and revenue-generating capacity, it may be able to contemplate a smaller overall reduction of capital.

6 Opportunities Relating to Asset Management

6.1 Overview

The City has a wide variety of assets that need to be optimized if the City is to meet its long-term goals and stabilize its financial situation. Broadly, the City can classify its assets across three major categories, considering current operating costs, future years' capital expenditure requirements, and asset valuations:

- Surplus assets
- Underutilized assets
- Other assets

The City must be bolder and abandon past practices while breaking down silos to co-ordinate the optimal use of its considerable asset base and resources if it is to achieve its operating and strategic priorities. One fundamental question is whether any given City service/function must own the asset, whether it needs to operate that asset, or whether it simply needs to make use of the asset to deliver the service.

In general, centralized co-ordination of city assets, especially real estate, is key to ensuring that valuable assets are not stranded in silos where they are not used or underutilized but instead achieve their Highest & Best Use (HBU).[29] Given the magnitude of the unfunded capital program, removing silos, barriers and costs are critical to allowing funding to be made available for even some of those projects within the plan.

6.2 Surplus assets

CreateTO, along with the City's ABCs, have developed a list of surplus assets.[30] To the extent these assets are not useful to the direct operation of City services, which is a policy decision to be evaluated by staff and brought forward for the Mayor and Council's decision, they should be made available to other agencies or disposed of on the open market and to increase their value to the City or provide cash. It is important to note that the sale of assets generally should not be used to fund operating expenses as the former are one-time while the latter are ongoing. Therefore, any cash generated from surplus assets – or any other form of asset sale – should be used solely to repay debt or fund future capital projects including its life cycle of future operating and maintenance expenses.

[29] Defined by the Appraisal Institute as "The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value." *The Appraisal of Real Estate*. 14th edition. p. 333.

[30] City of Toronto. Surplus Property – City of Toronto. Last updated 2023. This list may not be comprehensive.

6.3 Underutilized assets

Underutilized assets are those that are not optimized for current use or where the HBU is an alternative use than the one currently in effect. For example, the City owns a number of real estate properties, such as TTC stations, service yards or centres in high density corridors (such as along Line 2), as well as Toronto Parking Authority (TPA) lots along subway lines and high traffic corridors. Some specific examples of the types of underutilized assets that could be assessed include:

TTC

- TTC has a number of low-density stations and administration buildings on high-density corridors. The air rights or re-development opportunities are broad and include partnering with TCHC and non-City entities, as a means of generating cash and/or opportunities to support other City priorities such as the development of market-based affordable housing along TTC corridors (note any such strategy should be considered only net of other pressures on the City such as affordable housing subsidies, etc.).
- In December 2021 and updated in early 2023, the TTC submitted its "TTC 15-Year Capital Investment Plan, Real Estate Investment Plan and 2022 – 2031 Capital Budget & Plan" and "TTC 15-Year Capital Investment Plan, Real Estate Investment Plan Update and 2023 – 2032 Capital Budget & Plan".[31] More specifically, the 2021 plan stated:
    - "The REIP sets out the strategic direction for the planning and management of the TTC's real estate assets and sets out the 15-year priorities in support of TTC's capital programs and operational needs. The REIP provides property-focused strategies and objectives to ensure that the TTC's real estate asset portfolio is fully optimized to maximize facility and operational efficiencies; incorporates resiliency into projects and processes to advance sustainability and provides a roadmap for TTC and City partners to ensure TTC service needs are integrated into City building initiatives."
- Moreover, neither REIP appeared to place a value on any real assets the TTC may wish to dispose of or realize value from using in a different manner, nor did they even indicate any intentions to do so.

Toronto Parking Authority

- The TPA's assets can be viewed as operating in three areas: parking spaces and parking lots which are effectively a transportation asset, Bike Share which is a transit-type function or mobility service, and real estate which reflects inherent asset valuation.
- The TPA has more than 250 surface lots across the City, covering some 8.3 million square feet. Many of these lots are along key commercial corridors and subway lines and represent a potentially significant source of cash through land and 'air space' value. An additional 45 garage lots cover another 1.6 million square feet of lot size.
- Additionally, the TPA has more than 3 million square feet of real property in high density locations and a further 2 million in medium density locations, equally of potential value as a source of cash through land and 'air space' value.

[31] Toronto Transit Commission. TTC 15-Year Capital Investment Plan, Real Estate Investment Plan and 2022 – 2031 Capital Budget & Plan. December 20, 2021; Toronto Transit Commission. TTC 15-Year Capital Investment Plan, Real Estate Investment Plan Update and 2023 – 2032 Capital Budget & Plan. January 9, 2023.

- TPA owns and manages a substantial majority of these lots and thus can exercise control over their future ownership and use, although the City may wish to have its strategic objectives considered in that process.
- Similarly, in a recent budget note, the TPA identified a number of capital projects, including about $157 million over 10 years pertaining to “Property acquisitions and joint venture developments” but, as with the TTC above, this did not identify the potential value of asset disposals or alternate use of assets beyond reporting some $49 million of funding from joint venture (JV) and air rights.[32]

With a comprehensive asset valuation completed, TPA could then identify the HBU for each of its major real estate assets and determine how best each can be deployed for maximum benefit to the City as a whole. This can include retention at its present use, disposal for cash and use of the funds elsewhere, and development of the property for other City use such as affordable housing, among other options.

6.4 Other assets

Toronto Water

Toronto Water (TW) is a potentially valuable asset, encompassing both water supply and wastewater, with an estimated asset value of $87.3 billion. While there remains little precedent for the sale of these types of municipal assets in Canada, the City should consider the opportunity of establishing an independent rate-setting body to regulate TW and then seeking a transaction to monetize the value of the asset. This approach is consistent with that of other jurisdictions, particularly in the UK, where a number of water utilities are managed on this basis. Should the Mayor and Council want to explore this opportunity, further analysis, including legal analysis and any legislative impacts or requirements, would be required.

Toronto Hydro

Toronto Hydro has been the source of more than $700 million in dividends to the City from 2012-2021. These dividends have been critical in supporting the funding of day-to-day operations and programs for the City.

It is expected that Hydro will require substantial investment from its shareholder – currently the City – over the next decade as it responds to increased electrification, which will result in little to no net payments to the City in coming years. However, Toronto Hydro remains a valuable asset, as once built out the increased rate base will provide significant returns for any shareholders in the long term. This comment does not consider whether a given shareholder, the City at present, has the fiscal tools or capacity to make the necessary investments.

[32] City of Toronto. Budget Notes: Toronto Parking Authority. 2021.

Any comprehensive valuation of Toronto Hydro would be based on in-depth study of long-term cash flows available to a prospective shareholder. Local Distribution Companies' (LDC) values are highly correlated to growth and expected equity returns, and this may assist in boosting TH's value to the market. Table 5 below summarizes the key reasons the City may wish to consider the sale of Toronto Hydro as well as those supporting its retention as a City-owned asset.

Table 5 – Rationale to Sell vs. Retain Toronto Hydro

Rationale to Sell TH	Rationale to Keep TH
• Dividends will be lost for the next decade or more, given demand for capital	• TH is key to de-carbonization
• Could free up significant capital to serve other needs	• Expanded rate base will provide significant dividend
• Extensive capital needs may require investment beyond the foregone dividend	• Loss of critical infrastructure
• Increased electrification is highly likely, but timing remains uncertain	• Regulatory returns are well in excess of City's cost of capital, thus accretive to the City

It should be noted that rate payers and residents are generally protected on rates through regulation by the Ontario Energy Board, such that a change in Toronto Hydro ownership should not have any material impact on rates.

6.5 Summary

The City has a number of major valuable assets (e.g., TH) and a large number of individual smaller ones (e.g., parcels of land owned by TTC and TPA) but many of these assets are owned and managed by the respective agency rather than being treated and used as City of Toronto assets.

This report, while not recommending specific actions on any given asset, does recommend that a City-wide view be adopted for each one, ensuring a broader HBU analysis, in consideration of what the City can afford to own and maintain, which should result in the sale of some assets, the transfer of others from one City unit to another, consideration of alternative ownership and use options, and the development of some assets for broader resident gain. Ultimately, these decisions, to be made by the Mayor and Council, reflect trade-offs across both the relative importance of individual assets or services and their respective costs.

7 Intergovernmental Relations

7.1 Overview

Toronto plays an important strategic role in the Canadian economy. As Canada's largest city, it is a global hub for talent, technology, and innovation that drives many sectors of the Canadian economy. The Toronto region is responsible for 20% of the Canada's GDP, a greater share than any other region or province.

As a metropolitan centre, Toronto delivers services and benefits that do not stop at its municipal boundaries, extending across the economic region of which it is the heart. Services like transit and regional highways, which rely on Toronto property tax revenue, are significantly used by people who do not reside in Toronto.

Successive Ontario governments have added to the responsibilities of City government, in areas like social housing and transit, without providing adequate funding. Further, in the last two years the provincial government has mandated cities a new role in producing housing, while also reducing their ability to fund the infrastructure required to support growth.

The Government of Canada has also contributed to Toronto's fiscal challenges. Canada has dramatically increased its immigration targets to ensure that Canada has the population and workforce it needs to support national economic prosperity. In 2022, Toronto was the point of arrival for more than 128,000 newcomers, with an additional 50,000 arriving in the first four months of 2023.[33] This new growth is welcome, but the associated costs in housing and services that accompany immigration fall to the City, without a proportionate increase in revenue or funding from the federal government.

In addition, the City is increasingly called upon to fill gaps in health care and long-term care, homelessness and housing supports, newcomer services, and other social services that are more appropriately the responsibility of other levels of government. In other jurisdictions, these programs of broad public benefit and wealth redistribution would be matched to income-based revenue streams or be the financial responsibility of the provincial or federal governments.

However, like all Ontario municipalities, the City of Toronto remains very much a "creature of the province" in legal and fiscal terms and has limited opportunities to generate revenue to fund vital programs, services and infrastructure. The current reliance on property tax and user fees, neither of which is indexed to economic growth, means that Toronto does not benefit from its own growth or economic success. Simply stated, the City – and most others in Canada – do not have significant revenue tools that are tied to economic growth and thus the City does share in the benefits of that growth; yet, the City provides a large portion of the social services and physical infrastructure that enable its residents to contribute to the growth of the regional, provincial and national economies.

There have previously been comprehensive reviews of the fiscal arrangements between Ontario and municipalities. The last was Ontario's Provincial-Municipal Fiscal Services Delivery Review in 2007-08, which led to fiscal arrangements that concluded in 2018. In view of the impacts of the COVID-19 pandemic on municipalities, the challenges of the economic recovery and current economic climate, and the realities of Toronto's long-term fiscal challenges, it is time for the three levels of government to review "who does what" and "who pays for what" and develop a refreshed fiscal framework for Ontario municipalities in general and Toronto specifically.

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[33] Government of Canada. Monthly IRCC Updates – Canada- Permanent Residents by Province/Territory/ and Census Metropolitan Area (CMA). April 2023.

Fixing the Problem

This framework should strive to ensure stronger alignment with Toronto's unique role and corresponding service-delivery responsibilities, particularly in comparison to other Canadian and Ontario municipalities. In a broader sense, the framework must be reflective of the current challenges and realities facing Ontario municipalities in a post-COVID-19 environment.

7.2 Costs of growth

Ontario municipalities need to grow to accommodate new residents and businesses, and there is an expectation that newcomers will help pay for that growth in two key ways. First, the City assigns a range of development-related levies and user fees to new construction, the proceeds of which are set aside to fund City infrastructure. Second, as more properties are added to the City's tax roll, the incremental property taxes contribute to offset the additional costs associated with growth. However, these tools do not adequately cover the actual cost of growth, including both the one-time upfront capital investment and the ongoing operating costs to deliver City programs and services to meet increased demand.

For years, municipalities have been under pressure to manage the costs associated with growth but they are now under more pressure than ever. In an effort to address the housing supply issue, the provincial government has co-opted municipalities in its goal of building 1.5 million new homes in Ontario in the next decade. Rather than merely regulating local land-use planning, Ontario municipalities have been called on to pledge the creation of thousands of new housing units of all types, which carries with it the implicit requirement to provide the infrastructure to support these new homes.

To make matters worse for city coffers throughout the province, Ontario's *More Homes Built Faster Act*, or Bill 23, which received royal ascent in November 2022, reduced the ability of municipalities to collect growth-related fees. The Association of Municipalities of Ontario estimated that Bill 23 changes would reduce municipal growth-related revenue by $10 billion over the next decade.[34] The City's preliminary calculations from November 2022 indicate that Toronto would lose $230 million annually in development charges and fees for parks, or 20% of the City's growth funding. Over the next 10 years, this lost revenue will account for $2.3 billion. While the province has pledged that it would "make municipalities whole" for revenues lost through Bill 23, this is subject to the completion of an "audit" into municipal development charge reserves, which has yet to begin.[35]

The reality of cities like Toronto losing fees associated with growth due to Bill 23 worsens an existing challenge for municipalities, namely, that the federal and provincial governments take the lion's share of new tax revenue generated by growth, in the form of sales and income-related taxation. Yet the federal government, in particular, contributes very little to the additional public infrastructure required from growth.

A recent study by the Canadian Centre for Economic Analysis, undertaken for the Residential and Civil Construction Alliance of Ontario, examined a wide array of taxes generated from new home building for all three levels of government. The biggest beneficiary is the federal government, which receives 39% of all taxes produced by new home building. However, it only pays 7% of local infrastructure costs needed to accommodate growth. Cities, on the other hand, receive 24% of all taxes associated with home

[34] Association of Municipalities of Ontario. AMO's Submission to Consultations related to Bill 23 & the More Homes Built Faster Plan. December 9, 2022.

[35] City of Toronto. Supplementary Report - City Staff Comments on Proposed Bill 23 - More Homes Built Faster Act, 2022. November 22, 2022.

building — such as property and land transfer taxes, and some fees — yet pay 36% of the costs of infrastructure.[36]

7.3 A new fiscal framework for Toronto

The growing reality of increasing service delivery responsibilities

Fiscal federalism is always a work in progress. Just as fiscal relationships between the federal and provincial governments have evolved, so too have arrangements between Ontario and municipalities.

Provincial legislation and regulations define the City's relationship with the Ontario government. In 1997, Toronto and other municipalities were the recipients of services downloaded by the provincial government in the Local Service Restructuring process. In Toronto, this signaled lost operating subsidies for roads and public transit and the inheritance of an aging portfolio of social housing.

In 2006, the province recognized the unique role of Toronto with the passage of the *City of Toronto Act,* which gives the City powers to provide services to its residents, manage finances and establish accountability officers including the auditor general and ombudsman. Though largely similar to the *Municipal Act*, which governs all other Ontario municipalities, CoTA provided the City with some special powers, including revenue tools such as the Municipal Land Transfer Tax.

In 2006, the province also advanced a significant expansion of municipal authority set out in the *Municipal Act*, granting broad powers to municipalities to pass by-laws in a range of areas including safety, well-being, health, and economic activity. This effectively gave municipalities some enhanced jurisdictional authority but no commensurate additional tools or funding to offset any increased expenditures related to these broad powers.

Even with the efforts to return some social services and court-security costs to the province between 2009 and 2017, municipalities in Ontario still provide funding for health care, child care, and other social services and programs that are provincial responsibilities in other parts of Canada.

Over the years, the City of Toronto has assumed increased responsibility for funding and delivering programs and services that fall within the jurisdiction of the provincial and federal governments: social services (including long-term care, social housing and shelters), transit and transportation (including the TTC and major highways, the F.G. Gardiner Expressway and Don Valley Parkway) and immigration and refugee supports. Many of these programs, services and investments deliver benefits well beyond Toronto to the broader GTHA, province and country, as outlined further below.[37]

The City also makes investments in key areas to address insufficient funding from the provincial and federal governments and ensure that community needs are being met. In 2023, Toronto property taxpayers spent $1.1 billion or 22% of the City's annual net operating budget on assisted housing, health care, and other social services[38], in addition to capital spending in these areas.

Despite Toronto's growing service responsibilities, property tax remains the primary source of revenue – effectively using a 19th century revenue tool to fund 21st century services. For this reason, the provincial

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[36] Canadian Centre for Economic Analysis. An Uncomfortable Contradiction: Taxation of Ontario Housing. April 2023.

[37] The City's Value-Based Outcome Review in 2019 identified that the City's services, including public housing, transit and transportation, and social services, benefit the entire region.

[38] City of Toronto. 2023 Budget Launch Presentation. January 10, 2023. p. 18.

and federal governments recognized this shift and adopted taxes that grow with the economy – income and sales taxes to meet their funding needs. Toronto has not yet had such tools made available to it.

COVID-19 recovery

COVID-19 caused unforeseen hardship for thousands of people in the City and millions across Canada. Cities across the country were also hard-hit financially, incurring additional costs for public health, shelter services, long-term care, and for preventative measures across all services to mitigate the spread of infection and to protect residents. At the same time, due to government lockdown measures and subsequent behavioural changes, municipalities experienced a steep drop in revenues, including from recreation program fees, parking fees, and, most notably, public transit fares.

The pandemic has had a disproportionate impact on Toronto given the size and scope of the services it provides – by way of example, the City's transit system and shelter services are each the largest in Canada. Even though the immediate crisis of the pandemic has waned, Toronto continues to experience COVID-19 related impacts and is also navigating what economic recovery looks like in a post-pandemic world, where new norms and habits of living and working are taking root and will impact the City's fiscal future.

For example, hybrid working conditions appear to have become standard across many industries and governments. Cities' downtowns have not returned to their pre-pandemic activity, as many office buildings remain at least partially empty — Toronto's downtown office building vacancy was more than 15% in the first quarter of 2023.[39] These trends have significantly impacted transit ridership and the human and economic activity in the core of many cities, including Toronto. In 2022, inflation reached historic highs not seen in decades and has resulted in an escalation of costs, as have rising interest rates and continuing supply chain challenges.

For its part, the City has taken steps to offset and/or mitigate both COVID-19 and growth-related financial pressures, such as paying a larger portion of transit operations through the tax base. Since 2020, the City has also received $3.5 billion in funding from other orders of government to support the City in partially addressing total COVID-19-related impacts of $5.5 billion over that same time period.[40]

However, Toronto continues to face financial impacts as a result of COVID-19. Although in 2022 it has received more than $850 million from other levels of government, there remains a gap of $395 million for 2022, largely due to pressures in the shelter system. In response to this continuing shortfall, the City recently made a public appeal to the federal government to "at a minimum" match provincial funding provided late last year.[41] The City's 2023 budget estimated an additional $933 million in pressures, of which $700 million is needed to offset reduced ridership revenue and fund the overburdened shelter system.

[39] .CBRE Ltd. Office Vacancy Rises Further in First Quarter as Canada's Office Space Evolution Continues. April 4, 2023.
[40] City of Toronto. 2023 Budget Launch Presentation. January 10, 2023. p.5.
[41] City of Toronto. Federal Funding Shortfall for 2022. 2023.

Principles for a new fiscal framework

Overall, the demand for services and infrastructure far exceeds the City's ability to respond, putting additional pressure on Toronto taxpayers without commensurate funding support or additional revenue-generating powers from other governments.

In view of the above-noted factors, it is time to revisit and reform Toronto's relationship with the province and the federal government through the creation of a new fiscal framework that better recognizes the City's current role in providing more complex services with broad application and benefit. This is not a new idea. The 2018 LTFP also advanced the concept of a new fiscal framework and improved policy integration with the provincial and federal governments.[42] The theme also emerged during the City's 2023 budget process.

Several principles should guide such a reordering of fiscal, program and regulatory responsibilities, particularly if housing and immigration objectives are to be met. The following five principles would be a good point of departure for such time-limited negotiations.[43]

1. Functions that are **fundamentally provincial or federal** responsibilities should be funded by those governments, including those related to health, housing and energy generation. If local delivery by the City is the most effective or efficient model, the cost of local delivery should be borne by the provincial and/or federal government, based on mutually agreed upon performance assurances and costing.
2. There should be no further **"unfunded mandates."** The form and cost of any transfer of functions should be fully costed and agreed to by all on a multi-year basis. This principle is especially important when the governments of Ontario and Canada fund new capital infrastructure in areas like transit and assisted housing, which inevitably generate long-lived and largely **unsubsidized operating costs** for the City.
3. For functions that serve a **regional market**, such as transit or regional highways, the province should arrange for equitable cost-sharing or assume financial responsibility for them.
4. For functions where the City is the delivery agent on behalf of provincial or federal governments, those governments should show **restraint in mandating service-delivery requirements**. The City should be expected to achieve reasonable and agreed-upon policy and program outcomes, but also left to design and innovate to achieve those results, including acting through third-parties or organizations.
5. Established fiscal and program relationships between the City and the governments of Ontario and Canada are **not frozen in time** and must evolve to recognize when it is clear the previous fiscal equilibrium no longer applies. Demographic changes, changing economic conditions, inflation and other factors combine to make periodic adjustments necessary.

Resolution of these issues requires a new funding agreement, whereby responsibilities are reassigned to match funding tools. Several opportunities exist from the creation of this new fiscal framework including:

- **Increased funding from the provincial/federal governments:** This funding would be allocated to those service areas that are within the jurisdiction of the other governments but for which the

[42] City of Toronto. Long-Term Financial Plan: The City of Toronto's Roadmap to Financial Sustainability. Spring 2018.
[43] André Côté and Michael Fenn. *Provincial-Municipal Relations in Ontario: Approaching an Inflection Point.* Toronto: Institute on Municipal Finance and Governance, Munk School of Global Affairs at University of Toronto. May 2014.

City has assumed significant responsibility for funding in the absence of sufficient funding from the provincial and federal governments, including shelters, supportive housing and transit.

- **Realignment of service responsibilities:** The City could partially or fully withdraw from some programs and services that either currently fall within the jurisdiction of other governments or would be better suited to be delivered by another order of government. At a minimum, if it is decided that the City is in the best position to deliver services under provincial or federal jurisdiction, the City's role as their agent should be fully compensated, on mutually agreed-upon terms, adjusted periodically as circumstances change.
- **Additional revenue-generating powers:** The province and/or federal government, as appropriate, could enable the regulatory changes required to permit the City to explore additional revenue tools not permitted under CoTA, including some of those referenced in Section 3.

  It is also likely time that consideration be given to enabling Toronto access to revenue sources that index revenues to economic growth, including the income tax (either a share of the existing income tax or implementation of a municipal income tax) and a sales tax (either a share of the harmonized sales tax or implementation of a municipal sales tax). There is Canadian precedent for implementation of these tools in municipalities. Quebec has granted a share of the growth of their value-added tax to their cities.[44] In Manitoba, municipalities receive either a share of the provincial personal and corporate income taxes and the province's fuel tax, proportionate to their population, or a share of the provincial sales tax, whichever is the greater amount.[45]

  These instruments would be material to helping address the Toronto's long-term financial pressure, as demonstrated in Appendix 1, the full revenue options report, and summarized in Table 6. Note that both would require amendments to CoTA, as indicated in Section 3.2.2.

Table 6 – Potential Revenue Generated from Municipal Income and Sales Taxes

Option	Range of Possible Annual Revenue ($ million)
Municipal Personal Income Tax	$656 - 1,062
Municipal Business Income Tax	$192 - 769
Municipal Sales Tax	$784 - 802

[44] Government of Quebéc, https://www.mamh.gouv.qc.ca/fileadmin/publications/organisation_municipale/accord_partenariat/Partenariat2020-2024_Entente.pdf

[45] CUPE. Funding a better future: Progressive revenue sources for Canada's cities and towns. June 2014; Government of Manitoba. The Provincial-Municipal Sharing Tax. 1987.

7.3.1 Existing City mandates as case studies

Consideration of five large service-delivery mandates – public transit, long-term care, shelters, social housing and regional highways (Gardiner and Don Valley Parkway) – may be constructive in setting the frame for a new "who does what" exercise.

7.3.1.1 Public transit

The TTC provides public and accessible transportation to those who live, work in, and visit Toronto. It plays a key role in helping the City meet its social, economic and environmental goals, while also serving neighbouring municipalities. The TTC contributes to the overall resilience and success of the City and the region and, pre-pandemic, carried approximately 60% of all transit ridership in Ontario.[46]

Transit also represents a major source of risk for the City's long-term financial forecast. Transit costs account for $13.9 billion, or 41%, of the City's $33.6 billion funded 10-Year Tax Supported Capital Plan. Further, an even bigger concern is that the TTC and other transit projects account for $16.0 billion — a full 54% — of the $29.5 billion in net costs of unfunded capital projects over the next decade.

COVID-19 impacts

Like most public transit systems in North America, the TTC continues to experience financial impacts due to the COVID-19 pandemic, largely as a result of lower fare revenue from lower ridership.

Ridership plummeted in the first two years of the pandemic – reduced by 88% per pre-COVID-19 levels at its lowest point – during which time the TTC maintained service and froze fares to meet the needs of essential workers and vulnerable residents.[47] In 2022, ridership averaged 60% of pre-pandemic levels and is expected to be about 75% in 2023.[48]

The City has taken measures to address TTC's growth and COVID-19 related financial pressures. It has allocated more tax revenue to the transit system, increasing net base funding to the TTC from $790 million in 2020 to $959 million in 2023. Further, in 2023, the TTC increased fares by $0.10 and plans to reduce service to 91% by the end of the year.[49] The TTC has also received $1.8 billion in COVID-19 relief funding from upper levels of government since 2020.

The TTC continues to experience impacts stemming from the COVID-19 pandemic. In 2023, fares will cover only about 42% of the TTC's operating costs, when historically fare revenue accounted for two-thirds of public transit funding. For 2023, the TTC's COVID-19-related shortfall is estimated to be $366.4 million, with an additional $91.4 million shortfall still outstanding from 2022.[50] In the words of the TTC's Chief Financial Officer, "the magnitude of this ongoing financial impact is beyond the City's

[46] City of Toronto. Long-term Financial Plan: The City of Toronto's Roadmap to Financial Sustainability. Spring 2018. p. 39.
[47] TTC. Sustaining a Reliable Transit System: Outlook 2024 and Beyond. June 12, 2023.
[48] TTC. CEO's Report. February 2023.
[49] TTC. Sustaining a Reliable Transit System: Outlook 2024 and Beyond. June 12, 2023.
[50] TTC. 2023 TTC Conventional and Wheel-Trans Operating Budgets. January 9, 2023; additional data provided by the City.

financial capacity to fund."[51] Looking to the 2024 budget process, the TTC estimates it is facing a $600-million budget pressure for next year, depending on the outcome of upcoming collective bargaining.[52]

One significant risk is the operating and maintenance costs associated with the upcoming launches of the Eglinton Crosstown and Finch West LRTs, which will "place significant pressure" on the TTC.[53] This risk was also identified above in Section 4.2. The TTC is planning to spend $106 million on the two LRT lines in 2024 alone. The City cannot continue to address its COVID-19 related ridership shortfall and operate Lines 5 and 6 should intergovernmental relief for COVID-19 related impacts and/or a revised transit funding agreement to operate the two new LRT lines not materialize.

Aging infrastructure

Although many of the TTC's capital projects are included in the unfunded capital program, this does not mean that they are not critical to the functioning of the City's public transit system. Rather, it signifies that they are currently without funding. It has been well documented that a substantial portion of the TTC's infrastructure is aging and in need of renewal. By way of example, the subway vehicles on Line 2 (the Bloor-Danforth line) are 30 years old. The TTC plans to spend $1.6 billion by 2032 to buy new subway vehicles, starting with $181 million in 2024, contingent on provincial and federal funding contributions, and there is currently no funding attached to these plans.[54]

Regional service

As the largest public transit system in Canada, and the third largest in North America, the TTC provides service that extends into surrounding GTHA municipalities.[55] In February 2022, TTC reported that 13% of TTC customers either start or end in the surrounding 905 communities.[56] While there has been genuine effort among the GTHA municipalities to work together to integrate their transit systems, as it stands, Toronto taxpayers partially subsidize out-of-town riders. While these out-of-town riders pay TTC fares, they do not contribute to the portion of TTC's operating or capital expenditures funded by Toronto's property tax base.

Fares can't bridge the gap

Pre-pandemic, the TTC was among the lowest tax-subsidized transit systems in North America and recovered two-thirds of operating budget from passenger fares.[57] Since COVID-19, and despite fare increases and service reductions in 2023, passenger revenue is only expected to cover 40% of operating costs.

Overall, the City's policy and funding options as it relates to the TTC are limited. Further service reductions and fare increases may have adverse impacts on those who rely on transit, including low-income and vulnerable populations. These policy actions may also undermine the efforts of the TTC to

[51] TTC. 2023 TTC Conventional and Wheel-Trans Operating Budgets. January 9, 2023.
[52] TTC. Sustaining a Reliable Transit System: Outlook 2024 and Beyond. June 12, 2023.
[53] City of Toronto. 2023 Budget Notes: Toronto Transit Commission. 2023.
[54] City of Toronto. Financial Update and Outlook**.** March 2023. p. 33
[55] TTC. CEO's Report. June 2023.
[56] TTC. Status Update - Cross-Boundary Service Integration Report. February 10, 2022.
[57] TTC. Funding Toronto's Transit Needs.

welcome more passengers back to the system and increase ridership back fully to pre-pandemic levels. Given the City's overall fiscal position, property tax increases would also be insufficient, or need to be of such a magnitude as to not be practical, to fund all of the TTC's needs over the next 10 years.

Options to Mitigate Fiscal Risk

- **Provide more direct funding to TTC.** A reliable, safe and connected transit network is critical to the livability of the City and the prosperity of the GTA economy and its local workforce. The continued expansion and investment in public transit also aligns with provincial priorities for rapid transit expansion in the GTA and federal priorities relating to post-COVID-19 economic recovery and climate action and sustainability.

  However, the TTC cannot continue to meet existing service levels, invest in critical and SOGR needs or commit to transit expansion projects in view of current revenue and funding sources. If it is to keep operating in its current form and expand operations to the new projects soon to be brought online (e.g., Lines 5 and 6), there should be a revised transit funding agreement with the provincial and/or federal governments that appropriately reflects and is commensurate with the cost of operating Canada's largest transit system.

  Although the federal government has committed to a permanent transit fund of $3 billion annually starting in 2026, it is unclear how much will be allocated to Toronto or whether it will cover operating or capital costs or both. Without increased intergovernmental funding, both to address COVID-19-related impacts and to support the sustainability of the TTC in the long-term, the TTC will likely need to consider further reductions to service and/or not advancing with the construction and/or operation of new transit projects.

- **Integrate regional transit.** The TTC has been working with transit systems in neighbouring communities to provide a more integrated, effective, and cost-efficient transit service. In its February 2022 update on cross-border service, the TTC identified the need for increased integration in view of severely constrained transit budgets and ongoing efforts to rebuild the local economy in a post-pandemic environment. However, legislation prevents the TTC with entering into service agreements with other transit agencies.[58] The province could facilitate this cooperation by removing existing barriers and providing funding for an integrated system that would serve residents across the GTHA. There are many examples in the U.S. and Europe as well as in Canada of regionally integrated public transit systems funded by other levels of government including Metro Vancouver's TransLink system.[59]

- **Upload responsibility for the TTC to the province.** If there is not a new intergovernmental funding arrangement for transit, the province could assume full responsibility for all TTC operations. This would include ongoing operating expenses and capital costs relating to maintenance and SOGR upgrades, including both existing TTC lines and any future transit expansion projects. This would be an expansion of the 2019 agreement between the City of Toronto and Province of Ontario, whereby the province assumed responsibility for the capital construction of the four subway and LRT expansion projects: Ontario Line, Scarborough Subway Extension, Yonge North Subway Extension and Eglinton Crosstown Extension.

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[58] TTC. Status Update – Cross-Boundary Service Integration. Feb. 10, 2022.
[59] TransLink. How is TransLink funded? Vancouver. May 12, 2020.

Fixing the Problem

7.3.1.2 Long-Term Care Homes

The City of Toronto operates 10 long-term care (LTC) homes, providing 24-hour nursing and personal care for 2,600 residents. Current provincial funding for long-term care and residents' fees do not sufficiently cover the full cost of operating a long-term care home, including ongoing maintenance and capital upgrades. As a result, many municipalities, including Toronto, are required to subsidize their long-term care homes from the tax base.

According to the 2023 budget, the City anticipates that more than $90 million from tax revenues will be allocated to support operations of Toronto's municipal LTC homes. Provincial subsidies for LTC are set to increase by 3.5%, but gross expenditures are anticipated to increase by 8% due to staffing, food and other inflationary pressures, leaving the City to fund the remaining costs.[60]

To provide a specific example, although the City is supportive of the new provincial requirement of four hours of direct care per resident, to meet this standard the City is adding 394 new positions in 2023 at a cost of $17.3 million. This cost will be shared with the province, with $6 million coming from the City's property tax base.[61]

LTC expansion in Toronto

Although there is a province-wide shortage of long-term care beds, this shortage is more marked in Toronto where demand is four times as high as the provincial average.[62]

In alignment with the Ontario government's focus on increasing long-term care capacity, in May 2018, Council supported the addition of another 978 beds, which would expand the City's current capacity by 37% and is the first increase in City-operated long-term care beds in 30 years.[63] This expansion is planned to occur during the redevelopment of five of the City's LTC homes, which require significant upgrades by 2025 to meet updated provincial design guidelines (e.g., reduced room occupancy).[64]

These redevelopment projects are anticipated to cost $758 million, which the City must finance upfront.[65] The construction costs will only be partially reimbursed by the province over the next 25 years through construction subsidy of $23.78 per bed, a rate which has not changed since 2018 despite increases to construction costs over the same period.[66]

In addition to the five homes requiring redevelopment, the City plans to redevelop a long-term care home in Scarborough by 2027, which would also see the addition of 336 to 365 beds to the City's long-term care capacity.[67] The City's commitment of $175 million to this redevelopment project will need to be re-evaluated.

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[60] City of Toronto. 2023 Budget Notes: Seniors Services and Long-Term Care. 2023. p. 10.
[61] Ibid.
[62] Karen Howlett and Stephanie Chambers. "Toronto to lose nursing homes as owners, facing mandatory upgrades, opt to sell to housing developers." *Globe and Mail*. April 12, 2023.
[63] City of Toronto. About City-Operated Long-Term Care Homes.
[64] CreateTO. Advancing Opportunities for the Delivery of City Operated Long-Term Care Beds. June 24, 2021.
[65] City of Toronto. 2023 Budget Notes: Seniors Services and Long-Term Care. 2023. p. 13.
[66] In November 2022, the Province of Ontario temporarily increased its construction subsidy for eligible projects that start construction by August 31, 2023. City of Toronto. 2023 Budget Notes Seniors Services and Long-Term Care. p. 6. Province of Ontario. Long-Term Care Home Capital Development Funding Policy. 2022.
[67] City of Toronto. City of Toronto building new long-term care home in Scarborough.

Along with these major redevelopment projects, the City is lagging behind on general SOGR for its long-term care portfolio. The 10-Year Capital Plan includes spending of $83.9 million in SOGR for long-term care, but the City expects the SOGR backlog to continue to grow, from $10 million in 2023 to $66 million in 2032.[68]

Options to Mitigate Fiscal Risk

Per provincial legislation, the City is mandated to establish and maintain only one LTC home; however, it operates and maintains nine additional LTC homes. It currently provides an enhanced level of service to meet community demand. The City is also expected to proceed with provincially mandated upgrades to five of its LTC homes, and although the cost of these capital redevelopment projects and upgrades will be shared by the City and province, there will be added pressure to the City's tax base, given Toronto's limited funding tools.

As part of the new fiscal framework and funding arrangement between the various orders of government, it is worth considering whether the operating and funding of a healthcare service should be a municipal responsibility, given that healthcare falls within provincial jurisdiction. Should it be determined that the City should continue to deliver long-term care services, there should be enhanced funding that fully covers the operating and capital costs (including SOGR) of providing these services on behalf of the province and in response to provincial directions and policies.

In the interim, however, the City will need to examine whether it can afford to move forward with its long-term care expansion plans. The planned redevelopment of the LTC home in Scarborough, for example, is forecast to cost the City a net $9.5 million in operating expenses in 2028 once the facility is open, in addition to its capital outlay.[69] These annual operating costs will also incrementally increase with inflation and/or other factors, such as legislative or regulatory changes or decisions of Council. As the project is considerably less than 25% completed, the City could decide to pause the expansion project in alignment with the proposed capital optimization and prioritization processes outlined in Section 4 until such at time as there is a more appropriate provincial funding model for the operating and capital costs of long-term care.

[68] City of Toronto. 2023 Budget Notes Seniors Services and Long-Term Care. p. 13.
[69] Ibid., p. 15.

7.3.1.3 Shelters

The shelter system is another area where responsibilities are shared across levels of government. Ontario's *Housing Services Act* states that it is a "matter of provincial interest" to provide services for those experiencing homelessness and also directs larger municipalities and regions or districts to have a plan to address homelessness. In 2023, the City of Toronto's net budget allocated $491.7 million for shelter services, to be funded from the tax base.[70]

Toronto provides more shelter beds per capita than any other Canadian city and the demand has skyrocketed in recent years. Today, 9,000 spaces are needed daily, a significant increase from the 4,000 required in 2016. Shelters are at capacity most nights and shelter staff are frequently forced to turn some people away.[71] In May 2023, Council declared a homelessness emergency in Toronto, as a shortage of affordable housing, a general increase in the cost of living, and an unprecedented number of refugee claimants requiring shelter have contributed to an increase in demand for beds.

Although the City moved more than 4,300 people into permanent housing in 2022, this amounted to approximately half of those who were housed in 2018 and 2019. This is indicative of a clear need for a more sustainable and long-term solution to the current housing supply and affordability crisis that will, in turn, help reduce pressure on the shelter system.[72]

COVID-19 Impacts

COVID-19 has had a significant impact on Toronto's shelter system. To enable physical distancing for shelter users and create space for people to move from encampments, the City authorized 40 temporary sites over the course of the pandemic. The provincial and federal governments also provided financial relief to the City for these additional costs, including temporary shelters and protective measures.

In 2022, the City began closing some temporary shelters, "unlocking" space capacity by reducing physical distancing, and working with its partners to develop permanent housing solutions for individuals currently using shelters. At the beginning of 2023, 23 temporary shelters remained, with five slated to be closed throughout the year. Despite these remedial measures, the shelter system accounted for the $328 million of the City's COVID-19-related pressures for 2022.[73] Further, ongoing costs associated with COVID-19, which include the winding down of the five temporary locations and operational costs relating to the remaining temporary shelters, are expected to result in a further $317.2-million shortfall in 2023.[74]

Unfunded increase in shelter use by refugee claimants

Toronto, as Canada's largest city and close to Pearson International Airport, is a hub for refugees and asylum seekers. Upon arrival, many of these individuals require shelter services, with refugees accounting for approximately 30% of clients in the City's shelter system.

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[70] City of Toronto. 2023 Program Summary Shelter, Support and Housing Administration. 2023. P. 2.
[71] City of Toronto. City of Toronto updates on shelter system pressures and calls for a sustainable, fair funding model to support people experiencing homelessness. May 31, 2023.
[72] City of Toronto. City of Toronto Support for People Experiencing Homelessness. March 2, 2023.
[73] Data provided by the City.
[74] City of Toronto. 2023 Budget Notes Shelter, Support and Housing Administration. p. 6.

In less than two years, there has been a five-fold spike in the need for shelter from refugee claimants and those seeking asylum in Toronto. The City previously budgeted about 500 spaces for individuals from these groups, which met the demand in September 2021. Due to the loosening of border restrictions following COVID-19 and global events such as the war in Ukraine, the City has increased spending to meet the increased demand for shelter services from refugee claimants and/or asylum seekers. In September 2021, the number of refugees and/or asylum seekers in City shelters totalled 530; in December 2022, that total rose to more than 2,390 on a nightly basis.

In November 2022, the federal government provided $144 million in assistance for the interim housing costs incurred by the City in 2021 and 2022.[75] However, the pressure on the shelter system is ongoing. As of May 2023, City data indicated almost 3,000 refugees and asylum seekers were looking for spaces in Toronto's shelter system every night. This continued increase in demand for shelter services for refugees and asylum seekers has resulted in a $97-million pressure on City finances in 2023.[76]

Options to Mitigate Fiscal Risk

- **More shelter and housing funding related to refugees and asylum seekers:** The Government of Canada oversees refugee and immigration in Canada and should assume responsibility for fully funding the services associated with its own policies. To date, the federal government has not responded to the City's numerous requests to provide the $97 million required by the City in 2023 to address the surge in refugee-claimant using the shelter system. As a result of this funding gap, on June 1, 2023 the City began referring eligible asylum seekers to other programs and services available through the federal government.[77] However, it is important to note that if and when federal funding is received, there is currently no additional capacity to support additional refugees and asylum seekers. A more comprehensive regional shelter and housing strategy, designed and implemented in collaboration with the other levels of government, is required.
- **Improved funding for supportive housing and social services:** It may be that the City is best positioned of all the levels of government to provide and oversee shelter services, but that mandate must be fully funded by the provincial and federal governments. While the most recent provincial budget met the City's request for an additional $48 million in supportive housing, long-term predictable funding is required for supportive housing and wraparound supports to address the root causes of the need for shelter services, including but not limited to mental health and addictions services and income/wage supports.[78] This annual pressure further increases with any growth in the number of supportive housing units.

[75] Government of Canada. CIMM – Federal Support for Asylum Seekers. November 29, 2022.
[76] City of Toronto. City of Toronto updates on shelter system pressures and calls for a sustainable, fair funding model to support people experiencing homelessness. May 31, 2023.
[77] Ibid.
[78] City of Toronto. 2023 Budget Notes: Housing Secretariat. p. 12.

7.3.1.4 Social housing

With further respect to housing, the City of Toronto is the sole shareholder of the Toronto Community Housing Corporation (TCHC) and the Toronto Seniors Housing Corporation (TSHC) that, combined, house 3% of the City's population. To put that into context, TCHC and TSHC together house more people than all but 13 of Ontario's municipalities.[79]

Currently, the City is expecting to provide approximately $2.8 billion in operating subsidies to TCHC/TSHC over the 2023-2032 period, along with a further $1.7 billion in capital funding. However, at present there is no funding attached to TCHC's plans for new affordable homes and improvements to new stock. The housing agency has a requirement of $33 million for next year and requires $1.39 billion by 2032 but, as indicated in the March 2023 report, TCHC is one of the City's top 10 unfunded capital programs.[80]

In addition, the City's Housing Secretariat helps deliver a range of housing including: creating affordable rental homes and preserving existing rental housing stock, improving housing stability for vulnerable Torontonians, and helping residents access and maintain safe and adequate housing through Council's ambitious HousingTO Plan. The City program is aiming for an additional 40,000 affordable rental homes, including 18,000 supportive homes by 2030. Within the first three years, the City has achieved over 50% of this 10-year approval target.

In 2023, the City will spend $419 million of taxpayer funds on housing. Its ability to fund housing programs in the future is at "high risk" if the province does not fully reimburse the City for the $1.2-billion loss of development-related charges and fees as a result of Bill 23 over the next 10 years.[81]

Options to mitigate financial risk

Earlier in 2023, TCHC launched an independent Strategic Financial Sustainability assessment, and the report on that work is expected in the third quarter of 2023. That report may identify opportunities for efficiencies as well as the need for additional operating and/or capital funding to meet the respective mandates of both the TCHC and the TSHC. Upon completion of this work, the analysis will need to be incorporated into the City's Long-Term Financial Plan, where the TCHC's needs are currently unfunded.

As noted in the section above, in the absence of additional funding from upper levels of government, the City may have to scale back – or halt – its efforts to expand affordable and accessible housing for Toronto residents.

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[79] Statistics Canada. Population and dwelling counts: Canada and population centres. February 9, 2022.
[80] City of Toronto. City of Toronto Financial Update and Outlook. March 20, 2023. p. 33.
[81] City of Toronto. 2023 Budget Notes: Housing Secretariat. p. 1.

7.3.1.5 Toronto's regional expressways

Expressways form a perimeter road network within which much of the population of Toronto resides. They carry people and goods from across the GTHA and are the main transportation arteries for the regional economy. Highways 427 and 401 to the north and west are owned, operated and maintained by the Ontario government, while the other two arms of the perimeter on the south and east – the F.G. Gardiner Expressway (Gardiner) and the Don Valley Parkway (DVP) – are City responsibilities.[82]

Both the Gardiner and the DVP are vital to the functioning of the regional economy. The Gardiner, which turns into the Queen Elizabeth Way (QEW) just west of the City, provides access for people and goods from Toronto's neighbouring communities to the downtown and to the DVP. The 15-kilometre DVP is the City's only north-south expressway and turns into Highway 404 in the north end of the City. In other words, these two thoroughfares exist less as City roads than as 400-series highways that provide regional connectivity. In 2016, the City estimated that 40% of trips on the Gardiner and DVP are taken by non-residents who do not contribute to operating or maintenance costs.[83]

Both expressways were built more than 60 years ago and require significant ongoing capital maintenance and investment to maintain their state of good repair and safety. In 2019, for example, four bridges over the DVP were rehabilitated at a cost of $27 million to the City.[84]

The rehabilitation of the Gardiner is a more significant undertaking. In 2014, Council first approved a multi-year rehabilitation plan for the 18-kilometre expressway that runs from Highway 427 to the DVP. This plan included six projects that rehabilitated and reconstructed some seven kilometres of the expressway that are elevated. The most recent cost estimate for the remaining rehabilitation work is $2.3 billion, with the eastern segment of the Gardiner accounting for $1.2 billion of the cost.[85] The City's 10-Year Capital Plan identifies an allocation of $1.89 billion for the Gardiner rehabilitation project over the next 10 years. An updated cost estimate for the project is expected later in 2023.

Options to mitigate financial risk

The Gardiner and the DVP are important transportation assets for the region and are akin to Highways 403, 410 and the QEW in Mississauga and Brampton, which play a similar provincial and regional transportation role and whose capital costs are funded by the province.

The province could consider assuming full responsibility for the Gardiner and DVP and oversee these expressways in a manner that is consistent with its responsibility for Highway 401, which runs through Toronto. Alternatively, the province could consider permitting the City to institute road tolls on these two expressways to generate revenue that would support ongoing maintenance costs. In 2017, when the City considered implementation of tolls for the Gardiner and the DVP, staff estimated that a $2-per-trip toll would generate $5.6 billion in 10 years.[86] The province has refused several requests to consider

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[82] In 1997, a portion of the QEW from Highway 427 to the Humber River was downloaded from the Ministry of Transportation to the City.
[83] City of Toronto. The City of Toronto's Immediate and Longer-term Revenue Strategy Direction. November 17, 2016. p. 41-44.
[84] City of Toronto. Contract Award for Tender Call No. 54-2019 for the Rehabilitation of Four Bridges over the Don Valley Parkway. May 7, 2019.
[85] City of Toronto. Gardiner East EA – Administrative Inquiry. March 2023. p. 3-5.
[86] City of Toronto. 2017 Operating Budget & 2017-2026 Capital Budget & Plan Presentation to Executive Committee. p. 7.

these options, with the Minister of Transportation rejecting any discussion of uploading or tolling as recently as December 2022.[87]

[87] CBC. "Mayor John Tory's pitch to have province take over Toronto highways shot down." December 3, 2022.

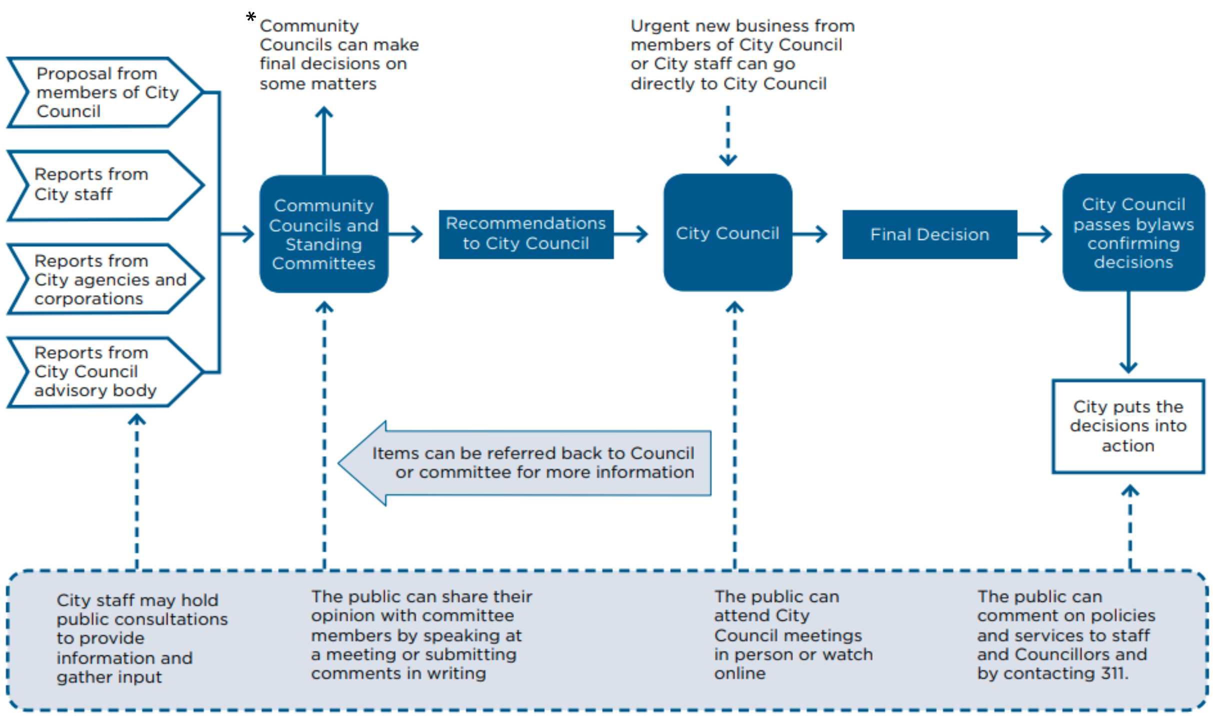
8 Governance and Financial Decision-Making

The City of Toronto has a daunting responsibility when considering the size and scope of the City's program demands. As life in Toronto changes to keep pace with Canada's significant increase in immigration and economic, health, cultural, ecological and technological changes, so too must the municipal services and infrastructure necessary to ensure that quality of life for residents and community members is maintained and enhanced.

Changes to municipal services and infrastructure must be managed in a way that is inclusive, supporting the aspirations of both existing and new residents, community members and businesses. They must also be fiscally sustainable and developed "according to some kind of intentional logic that is comprehensible and democratically responsible to citizens."[88]

The process by which City Council makes policy and service-level decisions is complex and benefits from information and opinion provided by those interested in and potentially affected by these decisions, as should be the case in a democratic decision-making environment. Council's strategic and operational priorities are also determined through this process. An overview of the Council's decision-making process is provided in Figure 20.[89]

Figure 20 – Overview of City of Toronto Decision-Making Process



*Note that Standing Committees can also make final decisions on some matters.

88 Zack Taylor. Theme and Variations: Metropolitan Governance in Canada. Institute on Municipal Finance and Governance. July 23, 2020. p. 4.

89 City of Toronto. Introduction to Toronto's Government. November 2018.

Fixing the Problem

The City's annual budget process, which is separate from the process outlined above, estimates the revenue the City will raise and spend within a calendar year. Underlying the City's annual budget process is the task of setting the year's property tax rate and utility and user fee increases, which in turn determine the funds available to implement Council decisions made through the process outlined above. In addition, each year Council may approve new projects, policy initiatives and service-level improvements, which are added to the list of programs and services to be funded from the current budget or proposed for the next round of the annual budget process.

As a result, the current decision-making process allows the Mayor and Council to approve significant policy, program, and service-level decisions without explicit and transparent information on the long-term financial consequences of these choices. Approving the strategic direction but leaving its implementation to decisions made through the annual budgeting process can limit the potential for the successful realization of that vision and create a backlog of unfunded projects that, in turn, undermine Council's goals to maintain and enhance quality of life for all who call Toronto home.

Research on public financing and governance has argued that for the public sector to operate efficiently, there must be a clear and identifiable link between strategic service delivery decisions and revenue decisions.[90] Council has received advice from many sources over time that it must develop a process to integrate its long-term policy and strategic planning with its budget-making decisions, especially where long-term expense and revenue decisions are required to ensure that the strategic visions and plans are implementable.[91] This report further underscores the importance – and stresses the urgency – of implementing a more integrated approach to policy-making, financial management, and measurements of outcomes.

The following section outlines six improvement opportunities to require additional information be brought to Council to better link policy and program decisions with the City's finances. These opportunities, further detailed below, include:

1. Refresh the City's Corporate Strategic Plan;
2. Ensure policy and financial direction of City departments, agencies and corporations with Council's strategic direction and priorities;
3. Establish an enhanced political treasury and governance function at the City that would ensure all financial details and implications are considered by Council prior to any policy or project decision;
4. Ensure accountability and oversight of the 10-Year Capital Plan and individual capital projects;
5. Mandate reporting to Council on how the current year's financial plan and the long-term fiscal position align with Council's strategic direction; and,
6. Complete the Financial Systems Transformation Project and implement Multi-Year Budgeting.

It is critical to note, however, that new financial decision-making processes and policies should not be conceptualized as a "solution" to address the City's forecasted $46.5 billion operating and capital pressures over the next 10 years. Rather, these governance tools, should the City decide to implement some or all of them, will help the City avoid further pressures, mitigate against similar future financial scenarios, and promote long-term financial sustainability.

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[90] Henry Kitchen and Enid Slack. More Tax Sources for Canada's Largest Cities: Why, What and How? Institute on Municipal Finance and Governance. 2016. p. 3.
[91] City of Toronto. Long-Term Financial Plan: The City of Toronto's Roadmap to Financial Sustainability. Spring 2023.

1. Refresh the City's Corporate Strategic Plan

In its 2019 Corporate Strategic Plan, Council adopted a vision for the City, along with five strategic priorities, that articulate what it sees to be in the public interest and how it will respond to the needs of the City. The vision states that Toronto is a Caring, Dynamic, Clean, Green and Sustainable City and that Toronto invests in Quality of Life. The strategic priorities focus on improving the quality of life for Torontonians and building a livable, health, safe, prosperous, affordable and resilient City:

- Maintain and Create Housing that is Affordable;
- Keep Toronto Moving;
- Invest in People and Neighbourhoods;
- Tackle Climate Change; and
- Build Resilience.

The Plan also includes three Corporate Priorities that focus on the internal performance of the Corporation of the City of Toronto to ensure a resilient, effective, and efficient organization. Note that the third Corporate Priority was added after 2019 in response to the COVID-19 pandemic.

- Financial Sustainability;
- A Well-Run City; and
- Stop the Spread of COVID-19.

In addition to these priorities, the Corporate Strategic Plan lists more than 70 additional strategies, plans and initiatives to support the Strategic Priorities.

Now is the time for the City to update its Corporate Strategic Plan in view of significant changes over the last several years. Nine new members of Council were elected in the municipal election in October 2022 and, at the time this report is being drafted, a by-election for Mayor is underway. Further, the last strategic planning process occurred in 2019, before the COVID-19 pandemic, which had a significant impact on Toronto as a place to live, visit and do business. It also had a significant impact on the City administration, tasked with a massive public health response and rapid policy evolutions on issues such as homelessness, shelters, transit, tax relief, and historic vacancy rates in downtown office towers, among other challenges. [92]

Lastly, given the magnitude of the City's long-term fiscal pressures, reviewing and updating the City's Strategic Plan and priorities, including building consensus on a collective and clear vision for the future of the City of Toronto, can support the Mayor and Council in making critical decisions about where and how to invest limited resources.

[92] CBRE Group Inc. Office Vacancy Rises Further in First Quarter as Canada's Office Space Revolution Continues. Toronto. April 4, 2023.

2. Ensure alignment of policy and financial direction of City departments, agencies and corporations with Council's strategic priorities.

In order to satisfy the accountability requirements of the *City of Toronto Act*, *2006,* it is important that the Mayor and Council understand the linkage between its authorized spending and progress against the goals it has articulated for the organization and the City. Matching the City's long-term strategic priorities to its long-term fiscal capacity is critical to achieving and delivering on Toronto's Vision.

The 2018 Long-Term Financial Report included this recommendation, which remains valid in 2023:

> "It is important that policy capacity and governance processes are in place to provide a clearer sense of priorities, which can then inform how to dedicate resources towards Council's goals. Setting a whole- of-government direction – including all City divisions, agencies and corporations – as the basis for financial planning was a resounding theme from the consultation on renewing the Long-Term Financial Plan."[93]

The City divisions, agencies and boards provide reports on the activities and progress of their services and initiatives in a variety of forms, including benchmarking and year-over-year performance. However, this reporting is not always explicitly linked to the Corporate Strategic Plan or the City's approved priorities. The Mayor and Council would be in a better position to plan for and implement a future vision that they can appropriately fund if reports and recommendations explicitly state how these items are working towards the City's approved priorities.

3. Establish an enhanced political treasury and governance function that would ensure all financial details and implications are considered by Council prior to any policy or project decision;

The Mayor and Council should consider all the financial implications, including a long-term funding plan, when it debates and decides on any major policy or strategic initiative. This is a critical step to addressing the ongoing disconnect between policy development and financial planning.

The City's current decision-making structure permits policies, projects, and initiatives to come forward for Council's consideration without financial strategies, timelines, or expected outcomes. While short-term budget implications are often identified for and communicated to Council, this process does not always take into account the full long-term financial consequences of a decision, such as the 10-20 year operating and maintenance costs for new assets and infrastructure. Every staff report on a proposal includes a "Financial Implications" section, which focuses on the current year, and usually indicates that future years' spending implications will be reported back on through the budget process. As a result, Council often approves plans without fully evaluating and taking into account the estimated long-term costs of its decisions.

To further support the Mayor and Council in understanding and assessing all the ramifications of its decisions, proposals requiring funding should be evaluated for all costs and resource requirements, revenue sources, impacts on existing and known future financial commitments, implementation plan(s) and milestones, and alignment with other corporate priorities and risks.

This process could be realized through the implementation of an updated and enhanced treasury and governance function and/or political structure at the City that would be mandated to report to Council the full and "mature" costs of any proposal, including multi-year operating and capital implications,

[93] City of Toronto. Long-Term Financial Plan: The City of Toronto's Roadmap to Financial Sustainability. 2018. p.12.

before the item is considered by the Mayor and Council. This would enable critical ongoing oversight and control of the important management and financial aspects of the City. Comparable in some ways to the Treasury Board-function at the provincial and federal governments, this function may be able to leverage and/or formalize existing City processes and political structures, although City staff should further review and analyze this opportunity and report back on a recommended model for the Mayor and Council's consideration.

4. Ensure accountability and oversight of the 10-Year Capital Plan and individual capital projects.

As noted, the single largest component of the City's nearly $50-billion pressure over the next 10 years is the unfunded capital program. This report has provided a framework for the City to optimize its capital portfolio and, subsequently, prioritize both funded and unfunded capital projects. There are two additional measures required to improve the overall governance of the City's capital plan, which will support the Mayor and Council in decision-making:

- **Assign a single owner of the 10-Year Capital Plan.** As part of the City's revised and formalized treasury and governance function (should Council decide to implement it), this role would ensure that all mature costs of a new capital project are known, that projects have passed through a sufficient portion of planning and design to be realistically achievable in the upcoming year and ensuring all proposed projects are evaluated in a consistent whole-of-City approach rather than on a ward or divisional basis. Also, by using a scoring system, such as the portfolio optimization process described in Section 5, the owner of the 10-Year Capital Plan could regularly refresh the priorities of proposals as they are approved, formalizing existing efforts to provide the Mayor and Council with a clear and up-to-date understanding of what projects must be undertaken (for example, for health and safety reasons) and how many of the plans the City can afford to undertake. Further, the plan owner should be in a position to present a holistic view of the entire plan, also incorporating the unfunded program and asset management options with respect to the City's assets.
- **Assign owners to specific capital projects.** At present, there are individual staff who oversee the contracts for capital projects, but there is no accountability or ownership for the project itself in terms of monitoring for cost overruns, delays, and other unexpected obstacles and ensuring that City staff and the Mayor and Council are provided with timely updates. A staff person should be mandated with the governance of every project, which should improve delivery and predictability of capital projects as well as potentially result in reduced expenses.

5. Mandate reporting to Council on how the current year's financial plan and the long-term fiscal position are aligning with Council's strategic direction.

Building on the options given above, the City should institute a single, high-level reporting structure that links expenditures across all services and strategies that would show how spending plans are achieving the Mayor and Council's articulated vision and priorities. This would take the form of a report to Council, brought forward on a regular basis (e.g., quarterly, semi-annually, etc.) that demonstrates how the current level of effort, expressed as annual spending, is making progress on achieving specific aspects of the City's approved vision both for the current year and for the following decade.

While the many reports provided to the Mayor and Council include information on all the activities and expenditures of the City in relation to a range of risks and objectives, the Mayor and Council would be best served with an additional high-level report that links expenditures across all services and strategies.

Without direct reporting on the scope of spending against achievement of the Mayor and Council's approved priorities, Council has no clear indication of how effectively and efficiently its authorized expenditures are achieving its goals for the people and places of Toronto. Ongoing "big picture" reporting would obligate the Mayor and Council to review the overall progress of City operations and projects and make decisions about whether a particular strategy, service or form of service delivery is optimal or still a priority.

6. Complete the Financial Systems Transformation Project and implement multi-year budgeting.

The City is in the midst of integrating 78 legacy financial systems as part of the Financial Systems Transformation Project, a multi-year enterprise-wide undertaking. This project includes standardizing financial processes, modernizing the finance service operating model, and streamlining the underlying financial platform to ensure consistent access to timely financial information. In 2022, the Financial Systems Transformation Program (FSTP) team completed the Design Phase of the Financial Systems Transformation Project. The Build Phase was initiated in October 2022 and is expected to continue to into 2024. The full completion of this project will enable improved overall financial planning and control, including multi-year budgeting, which should be prioritized. Specifically, it will ensure timely financial information is available to City staff and Council and, as a result, can support improved financial reporting.

9 Conclusion

On its current trajectory, the City of Toronto faces a financial pressure of $46.5 billion over the next 10 years. This is not a “down the road” challenge. As was reported during the 2023 budget process, the City estimates an opening budget pressure of $1.5 - $1.7 billion for 2024 that will need to be addressed. As a result, the options in this report require the Mayor and Council’s immediate consideration.

Failure to act to mitigate these financial pressures will have serious consequences for the City and all those who call Toronto home. The City will not be able to maintain existing service levels, let alone invest in the new or enhanced programs, services and assets required to meet its booming growth and achieve its vision of a world-class city where everyone can thrive. It will not be able to maintain its capital assets in a State of Good Repair, which will lead to deterioration and degradation over time and have direct impacts on how residents and visitors experience the City.

Failure to act to mitigate these financial pressures will also have serious consequences for its provincial and federal government partners. Toronto will not be able to deliver on approved commitments, such as operating new transit lines or adding long-term care spaces. It will not be able to make meaningful progress on bold, long-term strategies that will enhance quality of life for Torontonians, such as the TransformTO Net Zero Strategy and the Poverty Reduction Strategy. It will not be able to support federal and provincial priorities, including building more housing and taking action on climate change.

Further, from an external perspective, the City may face increased costs of borrowing if its credit rating drops or, in the most extreme scenario, lose its ability to directly manage its own finances should the province decide to impose an administrator to manage Toronto’s budget.

In view of the magnitude of the financial challenges before the City, the Mayor and Council must take action to address Toronto’s financial health and protect its position as Canada’s economic powerhouse and one of the most vibrant, diverse and celebrated cities across the globe. Action in today’s context means taking a “no holds barred” view of all City services, revenue sources, and assets. The City must think big – incremental change will not be enough. The financial pressures facing Toronto cannot be solved by “snips and trims” to the annual budget. While the City, like all public sector organizations, should continue to explore opportunities for efficiencies and productivity enhancements, these measures are insufficient for the City to bridge the anticipated $1.5 - $1.7 billion shortfall for the 2024 budget, let alone the $46.5 billion pressure over the next decade.

Ultimately, this report provides a list of options for Council’s consideration, some of which are within the City’s authority under CoTA.[94] These options can support the City in addressing both the immediate pressures of the 2024 budget and the longer-term shortfall over the next 10 years. These include:

- Increasing revenues from property tax and implementing new revenue tools as selected by Council;
- Reducing operating expenses, including specific opportunities to reduce service delivery costs, reduce foregone revenues, and improve efficiency and productivity;
- Prioritizing capital projects to improve management of — and potentially achieve reductions in — the size of the City’s funded and unfunded capital portfolio; and,

[94] As noted in Section 3.2.2., one of the new revenue tools requires some provincial cooperation but a CoTA amendment is not required.

- Reviewing and optimizing the City's asset portfolio, including surplus, underutilized and major assets.

While this report does not explicitly identify service-level reductions, these will also need to be part of the City's solution-set moving forward. No program, no project, no service can be above scrutiny in the effort to decide how to return Toronto to financial viability.

Determining which solutions to implement and when are solely within the Mayor and Council's authority as decision-makers, representatives of community interests and stewards of the City's financial sustainability. However, the Mayor and Council must make decisions that will be material to the scale of the immediate and longer-term financial pressures facing the City.

The Mayor and Council must also reckon with the fundamental mismatch between its ambitions for the City and its spending and revenue decisions. To some extent, this includes decisions of successive Councils to maintain increases in the property tax rate to or below the rate of inflation, adopt significant, long-term strategies and plans without the allocation of required funding, and decline to implement some of the additional revenue-generating powers provided to it under CoTA. It is recognized that implementation of some or all of the options in this report will represent a shift from the status quo. Further, the Mayor Council faces some difficult decisions that may be unwelcome by some members of the community it serves.

Beyond the urgency of directly addressing the City's fiscal pressures in 2024 and in the years ahead, this report also recommends the implementation of new fiscal control policies to both avoid worsening the City's financial situation and mitigating the likelihood of future similar scenarios. As observed in the 2018 LTFP, central to improving financial management and oversight at the City is stronger integration between policy and funding. This means ensuring that the long-term financial implications of every policy, program or service – beyond in-year budget requirements – are reviewed, evaluated, and communicated to Council as part of the decision-making cycle. There are several tools and processes that can support more informed financial decision-making, including institution of a multi-year budget and establishment of an independent process to review and assess proposals prior to Council deliberation, comparable to the Treasury Board functions at the provincial and federal governments.

At the same time, this report has also identified the external factors that have shaped Toronto's financial forecast. These include unprecedented COVID-19 expenses and the expanding need for services from a growing population, as well as the significant role that Toronto plays in delivering services that drive regional and national prosperity – a role that cannot be filled solely with the tools the City has currently within its authority. The City has also increasingly stepped up to financially "fill the gaps" in key service areas that are more appropriately the responsibilities of other governments, such as shelters, social housing, and long-term care, among others. While the City invests in these areas to meet the urgent needs of the community, it may no longer be able to do so given its financial reality, which may disproportionately and adversely impact Toronto's most vulnerable residents.

As a result, Toronto will not be able to address its financial challenges alone. This report supports the call for a new fiscal framework for the City that better reflects the realities and complexities of a 21st century global city. This framework may include new funding arrangements or realignment of services to ensure that the services and funding are delivered by the level of government best positioned to do so. It should also consider new revenue tools to empower the City to benefit from Toronto's economic success and be better able to meet the service delivery obligations, including those related to growth, necessitated by its unique national and provincial role.

Although Toronto's financial position is urgent and severe, there is the opportunity to alter the City's path. A forecast is just that – a prediction based on current information. This term of Council can take meaningful action to not only address the anticipated budget shortfall for 2024 but set the stage for future sustainability. The first steps on this path to long-term financial sustainability must be made by Council in terms of the solutions available within its control to drive forward.

The choices ahead will be challenging but are vital to ensuring Toronto's future as one of the world's most vibrant, diverse and celebrated cities.

Fixing the Problem

Appendices

Appendix 1 - Revenue options assessment report

City of Toronto

Revenue Options Assessment

Final Report

June 26, 2023

Disclaimer

Ernst & Young LLP (EY) was engaged by the City of Toronto (the City) to assess revenue options permitted under the City of Toronto Act, 2006 (CoTA) and to review additional revenue mechanisms that the City does not currently have legislative authority to implement. In preparing this document (Report), EY relied upon unaudited data and information from the City, Statistics Canada, KPMG, as well as other third party sources (collectively, the Supporting Information). EY reserves the right to revise any analyses, observations or comments referred to in this Report, if additional Supporting Information becomes available to us subsequent to the release of this Report. EY has assumed the Supporting Information to be accurate, complete and appropriate for the purposes of the Report. EY did not audit or independently verify the accuracy or completeness of the Supporting Information. Accordingly, EY expresses no opinion or other forms of assurance in respect of the Supporting Information and does not accept any responsibility for errors or omissions, or any loss or damage as a result of any persons relying on this Report for any purpose other than that for which it has been prepared.

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Executive Summary

Executive Summary

Ernst & Young LLP (EY) has been engaged by the City of Toronto (the City) to assess revenue options permitted under the City of Toronto Act, 2006 (CoTA) and to review additional revenue mechanisms that the City does not currently have legislative authority to implement. These revenue options may have the potential to broaden the City's tax base and generate revenues to fund Council's directed investments.

Assessment Components

Revenue Potential

- The assessment considered existing information and revenue estimates, findings from the secondary research, jurisdictional scan, as well as qualitative and quantitative analysis

Ease of Implementation

- By examining factors such as CoTA amendment and provincial cooperation requirements, EY assessed the potential level of implementation complexity associated with each option

Alignment with City Objectives

- By considering the strategic priorities of the City of Toronto, EY identified the extent to which each option supports the City of Toronto's overarching goals

Prioritization of Revenue Options

- By considering all the assessment components described above, EY formulated a framework for prioritizing revenue options to identify high-potential options

Key Takeaways

Strategic Gains

- **Downtown Parking Levy**, **Foreign Buyer Land Transfer Tax**, **Motor Vehicle Registration Tax**, and **911 Levy** are estimated to generate the highest revenue relative to the implementation complexity and do not require CoTA amendment.
- **Plastic Cup Levy** and **Graduated Residential Property Tax Rates** require CoTA amendment, but could also provide a combination of high revenue and low implementation complexity.

Transformative Options

- **Municipal Personal Income Tax** and **Municipal Business Income Tax** options are currently not permitted but may provide revenue potential of up to **$1.06 billion and $769 million,** respectively.
- **Climate Sales Tax and Municipal Sales Tax** are estimated to have revenue potential of up to **$1.2 billion** and **$802 million,** respectively; however, they require CoTA amendment.[1, 2]

Quick Wins Options

- **Graduated Commercial/Industrial Property Tax, Graduated Municipal Land Transfer Tax,** and **Uber Registration Fee** are estimated to have relatively low revenue potential; however, these options are within City's control and may be implemented relatively quickly.[1, 2, 3]

Aligned with City's Objectives[4]

- The **Climate Sales Tax**, **Downtown Parking Levy** and **Right of Way Levy** align with the City's objectives and may provide annual revenues of up to **$1.2 billion**, **$490 million** and **$12 million,** respectively.
- Climate related revenue options could potentially generate annual revenues of up to **$208 million** through a **Carbon Tax**, and **$93 million** through a **Plastic Cup Levy**, and **$93 million** through a **Building Performance Charge.**[1]

Permitted Under CoTA

- The **Downtown Parking Levy**, **Road Pricing** (Cordon Charges), and **Alcohol Beverage Tax** can be implemented without requiring changes to the CoTA. These measures could offer potential annual revenues of up to **$490 million**, **$415 million,** and **$132 million**, respectively.[1]

Sources: [1] EY analysis and estimates 2023; [2] Finance Update 2023; [3] KPMG Revenue Options Study 2016; [4] City of Toronto Corporate Strategic Plan.

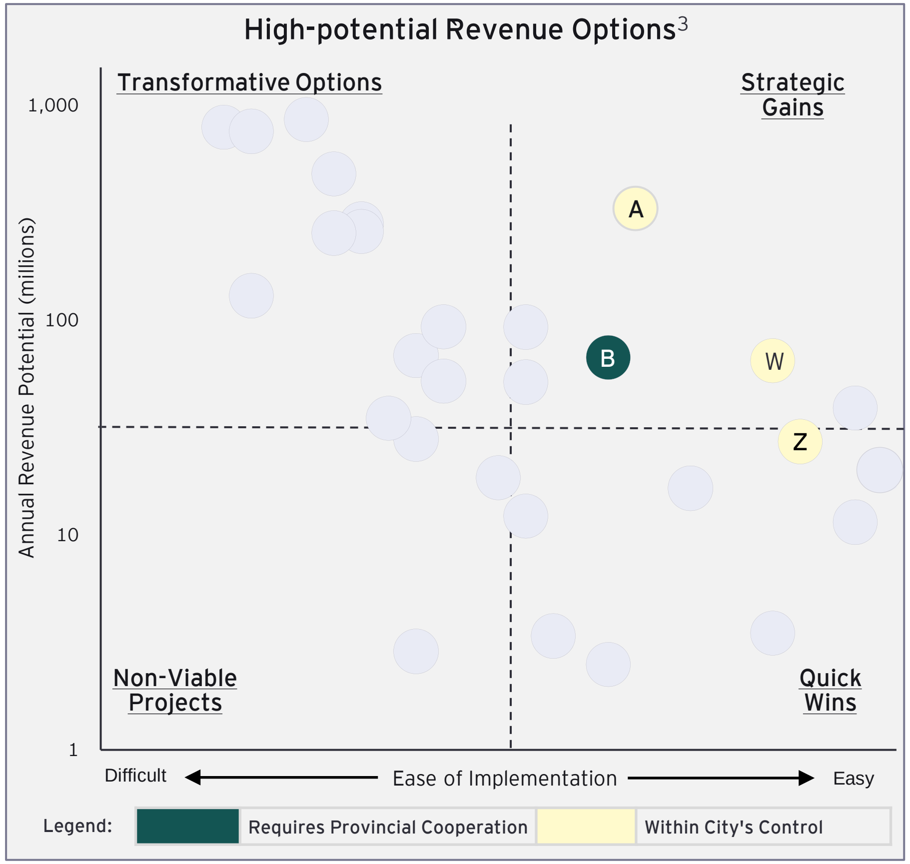
Note: Please note that further legal reviews are required to define the implementation approach, permissibility and the City's level of authority for each option, similar to the *Fees for 911 Service* Memorandum.

Executive Summary

EY conducted an economic assessment of potential revenue options. Using a systematic approach, the analysis encompassed both revenue generation and implementation complexity, as well as prioritizing options through the evaluation of revenue opportunities.

Among the **29 revenue options assessed** by EY, **four options were selected** based on their potential to generate the highest revenue relative to the implementation complexity. The assessment took into consideration whether the revenue options are within the City's control, CoTA amendment and provincial cooperation requirements. As a result, the following most high-potential options that are currently permitted were identified:

Option	Description	Revenue Potential	Implementation[4]
Downtown Parking Levy (option A)	A levy that would be applied on a per parking area/spaces basis and collected along with property tax collection	$173-490 millions[1] ($0.50-$1.50 per day)	▸ Does not require provincial cooperation or CoTA amendment, and there are precedents in Montreal and Vancouver ▸ Relatively difficult to implement due to high cost, time and enforcement requirements ▸ Revenue potential will vary according to the levy chosen based on the $0.50-$1.50 range
Foreign Buyers Land Transfer Tax (option W)	An additional tax added to the land transfer tax when the buyer of a residential property is a non-resident	$65 millions[1] (10% rate)	▸ Does not require provincial cooperation or CoTA amendment ▸ The implementation time and the levels of public/industry opposition are expected to be low ▸ There is precedent in Canada for this revenue option at the provincial level
Motor Vehicle Registration Tax (option B)	A tax that would be applied on vehicle ownership when residents of the City renew their vehicle registration	$22-112 millions[1] ($20-$100 per vehicle every 2 years)	▸ Does not require CoTA amendment, and there is a precedent in the City of Montreal. It is a relatively low cost option but requires provincial cooperation to implement ▸ Classified as medium-high level of enforcement difficulty and also likely public/industry opposition
911 Levy (option Z)	An additional monthly levy for every customer of a telephone service that can call 911	$27 millions[1] ($0.95 per month)	▸ Does not require CoTA amendment. Also, there is a precedent in Canadian municipalities ▸ Relatively easy to implement in terms of cost, time and enforcement requirements

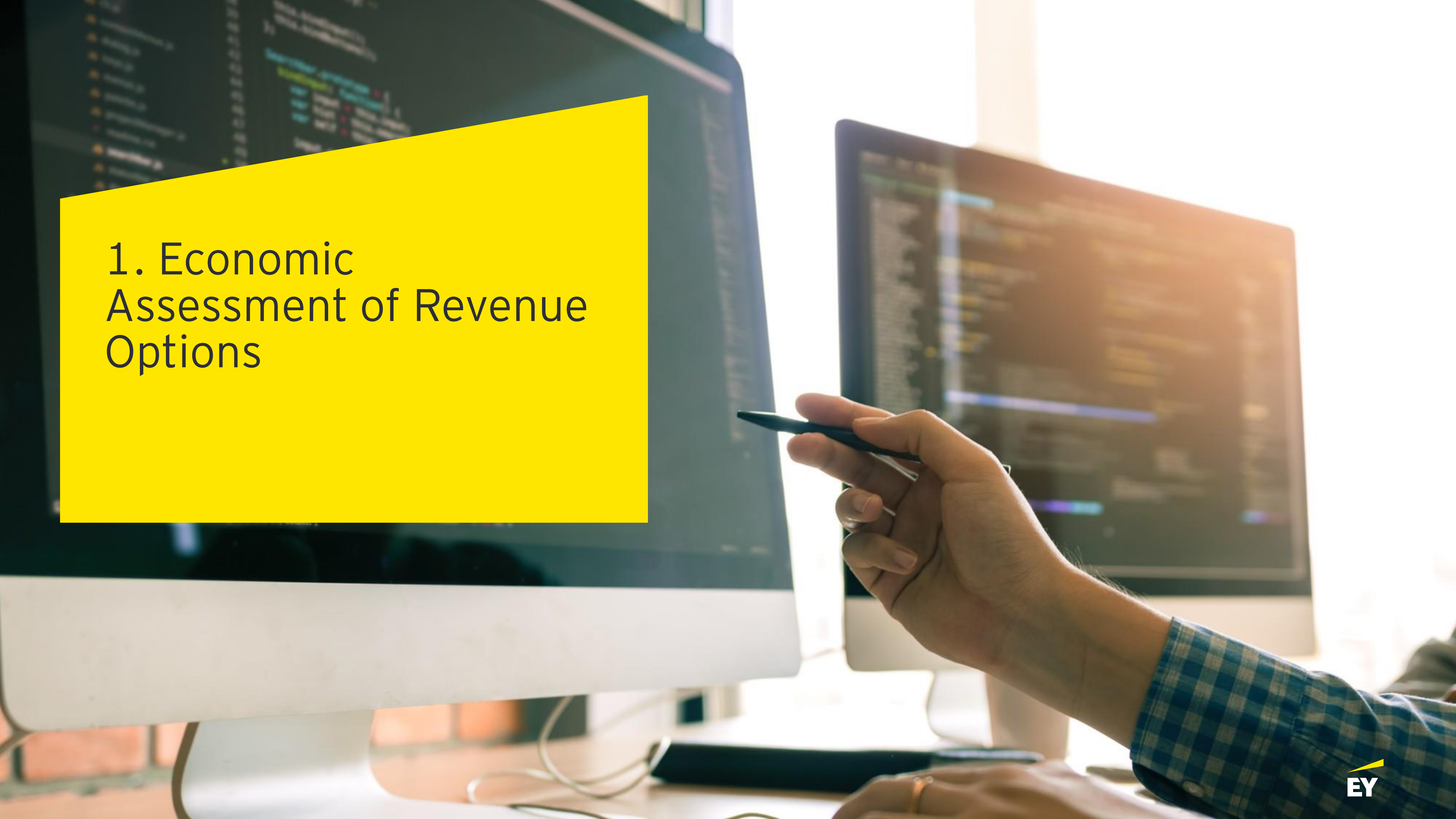


Sources: [1] EY analysis and estimates 2023; [2] Finance Update 2023

Note: [3] In order to position revenue range visually, we utilized the average value between the upper and lower limits of the range.

[4] Please note that further legal reviews are required to define the implementation approach, permissibility and the City's level of authority for each option, similar to the *Fees for 911 Service* Memorandum.

1. Economic Assessment of Revenue Options



Economic Assessment Methodology

EY conducted an economic assessment of potential revenue options for the City using a combination of quantitative and qualitative analysis, a jurisdictional scan and a review of existing information.

Economic Assessment Approach

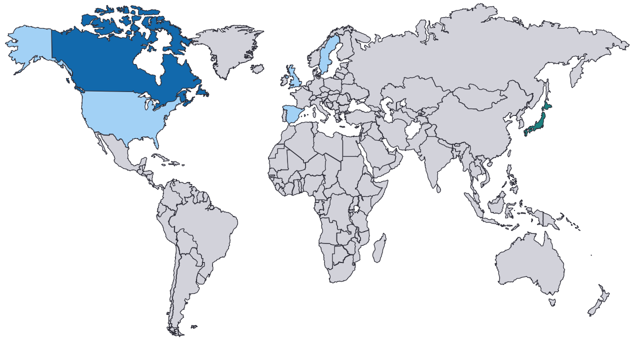
Project Objectives

- To identify opportunities to broaden the City's tax base and generate revenues to fund Council's directed investments, EY analyzed 29 options across the following factors:
  - Revenue potential
  - Ease of implementation
  - Alignment with the City's Objectives
- EY's assessment of potential revenue options includes three distinct approaches for the following categories of options:
  - six revenue options permitted under the CoTA
  - nine additional options to be considered
  - 14 options that were considered in the previous analysis

Note: Approach for each revenue portfolio category is outlined on page 9

Jurisdictional Scan

- EY conducted a jurisdictional scan and identified up to 3 comparable jurisdictions for each option that implemented similar revenue options
- Municipalities were identified among Canadian, the United States (U.S.) and select European jurisdictions that have similar demographic, economic profiles and municipal responsibilities
- Jurisdictional scan included a review of:
  - Revenue generated
  - Implementation approach
  - Economic and social impacts
- Additional revenue options were identified based on the jurisdictional scan results



Economic Assessment

- EY's economic assessment encompassed quantitative and qualitative analysis of the following:

Revenue Potential

Elasticity of Demand

Revenue Tool Option

Economic Impacts

Social Impacts

Economic Assessment Methodology

EY categorized the potential revenue opportunities into three distinct portfolios, each corresponding to a specific level of granularity for estimating potential revenue. Subsequently, a comprehensive methodology was formulated for assessing and determining the revenue potential for each of these categories. Please refer to Appendix A.1 for a description of revenue options, Appendix A.2 for detailed revenue profiles for 'Options under the CoTA' options, and Appendix A.3 for summary profiles of the 'Additional Options Considered' and "Considered in Previous Analysis' revenue options.

Options under the CoTA

Revenue Options Portfolio[1]

- Downtown Parking Levy
- Motor Vehicle Registration Tax
- Alcohol Beverage Tax
- Tobacco Tax
- Entertainment and Amusement Tax
- Road Pricing - Cordon Charges

Approach

- A methodology has been developed to estimate potential gross revenue based on a number of key inputs and assumptions for each option.
- The approach combines qualitative and quantitative findings through jurisdictional examples, assessment of consumption impact, analysis of market trends and sensitivity analysis, and other relevant factors.
- Results are presented on pages 10-11.

Additional Options Considered

Revenue Options Portfolio[1]

- Right of Way Levy
- Flipping Tax
- Foreign Buyer Land Transfer Tax
- Reusable Bag Levy
- Plastic Cup Levy
- 911 Levy
- Climate Sales Tax
- Building Performance Charge
- Large Retailer Surcharge

Approach

- Potential gross revenue is estimated by incorporating a range of key inputs and assumptions specific to each option.
- The approach integrates select qualitative and quantitative findings through the utilization of comparable jurisdictional examples; however, it does not encompass an assessment of consumption impact, analysis of market trends, and sensitivity analysis.
- Results are presented on page 12.

Considered in Previous Analysis

Revenue Options Portfolio[1]

- Amend First Time Homebuyer Eligibility
- Graduated Municipal Land Transfer Tax
- Vacant Storefront Tax
- Graduated Residential Property Tax
- Graduated Commercial/Industrial Property Tax Rates
- Downtown Parking Sales Tax
- Cannabis Tax
- Municipal Personal Income Tax
- Municipal Sales Tax
- Municipal Business Income Tax
- Municipal Gas Tax
- Development Levy
- Carbon Tax
- Uber Registration Fee

Approach

- We leverage existing estimates for other revenue options as key inputs and revenue options previously assessed by the City for the next steps of the project.

Results: Options under the CoTA

From a potential revenue perspective, estimates indicate a range of $5 to $490 million annually that could be generated through the options described below, depending on the tax rates/levy and the scenarios tailored for each option.

Revenue Option | Previous Estimate[1] | EY Estimate (Annual Gross Revenue Potential) | Key Revenue Inputs and Considerations[2]

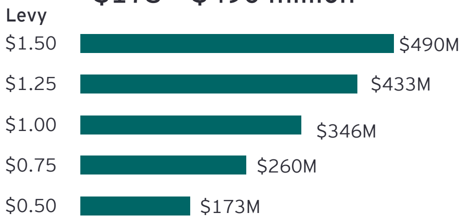
Downtown Parking Levy

$0.50 - $1.50 per space/day

Previous Estimate[1]

- Annual net revenue potential **$191 – $575 million**
- Annual administration cost $2.5 million

EY Estimate: $173 – $490 million



Key Revenue Inputs and Considerations[2]

- Estimates for total parking spaces in the City of Toronto were used.[1] This included paid and unpaid spaces including commercial, destination, Toronto Transit Commission and Toronto Parking Authority lots.[3]
- Evidence from Montreal in the years following the implementation of a parking levy showed an annual rate of land use conversion of parking lots of 1.7%.[1]

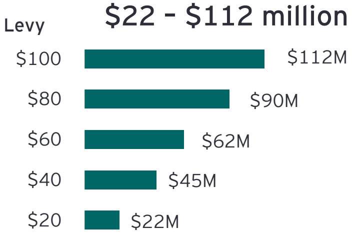
Motor Vehicle Ownership Registration Tax

$20 - $100 tax levy

Previous Estimate[1]

- Annual net revenue potential **$18 – $94 million**
- One-time cost of $1.8 million, annual administration cost $350,000

EY Estimate: $22 – $112 million



Key Revenue Inputs and Considerations[2]

- Vehicle owners renew their license plate registration a minimum of once every 2 years. In 2022, Service Ontario ended the collection of all fees associated with vehicle registration renewal however vehicle owners must still register their vehicles every 2 years.
- Statistics Canada provided data on the total annual vehicle registrations in Ontario. This was adjusted to the City of Toronto under the assumption that vehicles per capita are consistent in Toronto and Ontario.[4]
- EY used data from other jurisdictions to estimate the behaviour response of vehicle owners following the implementation of additional vehicle tax.[5]

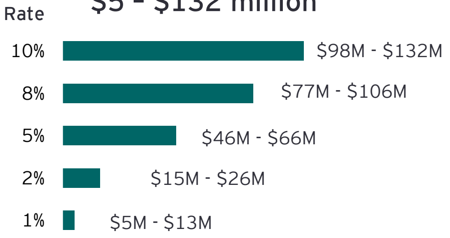
Alcoholic Beverage Tax

1 -10% rate

Previous Estimate[1]

- Annual net revenue potential **$20 – $151** million
- Annual administration cost $1 million

EY Estimate: $5 – $132 million



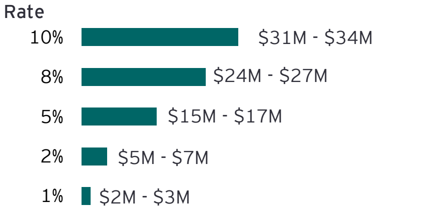
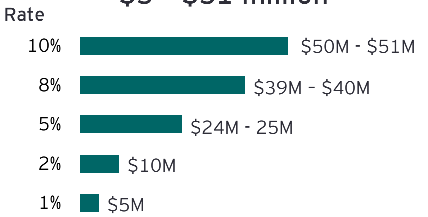
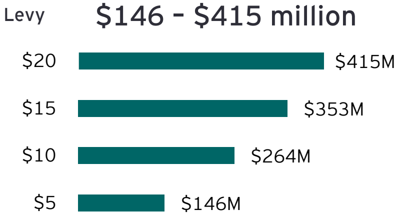
Key Revenue Inputs and Considerations[2]

- Estimates were focused on retail sales. This included store sales, licensee sales, and grocery store sales.
- Number of consumers of alcoholic beverages was based on the population over the legal drinking age.[6] The estimate considers a range of average per capita expenditure based on Ontario's per capita expenditure and Ontario's net income of liquor authorities and government revenue from the sale of alcoholic beverages data, provided by Statistics Canada.
- Sensitivity analysis was conducted to explore the impact of different assumptions related to the decrease in consumption due to a price increase (price elasticity of demand[7] = -0.5).

Sources: [1] KPMG Revenue Options Study 2016; [2] Please refer to Appendix A.1 for a description of revenue options or refer to Appendix A.2 for a detailed revenue options profiles; [3] 2019 TPA Annual Report; [4] Statistics Canada, 2022; [5] Victoria Transport Authority; [6] Over 19 years old; [7] It represents the ratio of the percentage change in quantity demanded to the percentage change in price.

Results: Options under the CoTA

From a potential revenue perspective, estimates indicate a range of $2 to $415 million annually that could be generated through the options described below, depending on the tax rates/levy and the scenarios tailored for each option.

Revenue Option	Previous Estimate[1]	EY Estimate (Annual Gross Revenue Potential)	Key Revenue Inputs and Considerations[2]
Tobacco Tax 1 -10% rate	▶ Annual net revenue potential **$5 – $46 million** ▶ Annual administration cost $1.4 million	**$2 – $34 million** 	▶ Estimates of the tobacco sales tax were focused on retail sales of cigarettes and cigars. ▶ Using Ontario data to estimate the number of smokers and per capita expenditure. The estimate considers a range of average per capita expenditure based on Ontario per capita expenditures data provided by Statistics Canada and detailed pricing information provided by Physicians for a Smoke-Free Canada Organization. ▶ Sensitivity analysis was conducted to explore the impact of different assumptions related to the decrease in consumption due to a price increase (price elasticity of demand = -0.4).[3]
Entertainment and Amusement Tax 1 -10% rate	▶ Annual net revenue potential **$3 - $35 million** ▶ Annual administration cost $1 million	**$5 – $51 million** 	▶ Ontario average household entertainment expenditure in 2018 was used as a proxy for Toronto, adjusting for inflation and population estimates. ▶ Sensitivity analysis was conducted to explore the impact of different assumptions related to the decrease in consumption due to price increase (price elasticity of demand in between -0.3 to -0.6).
Road Pricing - Downtown Cordon Charges $5 -$20 per day	▶ Annual net revenue potential **$89 – $377** million ▶ Start-up cost $28 million, annual administration cost $1.5 million per camera	**$146 – $415 million** 	▶ Implementation of this policy will require the installation of detection cameras at all entry points. ▶ Number of workers coming Downtown for work was estimated using the work location data, commuting flow data and work-from-home data provided by Statistics Canada. ▶ Number of private vehicles entering Downtown was estimated using the average car occupancy data for the City of Toronto. ▶ A sensitivity analysis was conducted using data from London, UK to examine the impact of cordon charges on the reduction in the number of Downtown Toronto Cars.

Sources: [1] KPMG Revenue Options Study 2016; [2] Please refer to Appendix A.1 for a description of revenue options or refer to Appendix A.2 for detailed revenue options profiles; [3] It represents the ratio of the percentage change in quantity demanded to the percentage change in price.

Results: Additional Options Considered

Listed below are the additional tax revenue options identified from other jurisdictions. Estimates indicate a range of $3 million to $1.2 billion annually that could be generated through the options described below.

Revenue Option	Tax/Levy Rate	EY Estimate (Annual Gross Revenue Potential)	Key Revenue Inputs and Considerations[1]
Right Of Way Levy	$0.28 per package	$12 million	▸ Annual revenues from comparable jurisdictions (Barcelona and Colorado state), where a tax on packages delivered using City infrastructure was implemented, were used. ▸ The revenue estimate was adjusted on a per capita basis for the City of Toronto.
Flipping Tax	10%	$3 million	▸ The total annual value of Toronto property sales transactions is estimated at $8.7 billion in 2022.[2] ▸ A proportion of transactions of properties which have been sold within 12 months was estimated.[3] ▸ Property market price data from 2018-2023 was used to estimate an average profit margin.[4]
Foreign Buyer Land Transfer Tax	10%	$65 million	▸ The total annual value of Toronto property sales transactions is estimated at $8.7 billion in 2022. ▸ The percentage of foreign buyer transactions are estimated using a range between 3% and 8%.[5]
Reusable Bag Levy	$0.05 - $0.50	$3 million	▸ Statistics Canada data shows that 97% of Canadians use reusable bags. We assume this figure is the same for residents of Toronto.[6] ▸ An assumption is made that each individual who uses reusable bags purchases 5 bags per year.
Plastic Cup Levy	$0.25	$93 million	▸ In 2018, 82 millions single use cups were used in Vancouver. Plastic cup usage was adjusted on a per capita basis for the City of Toronto to estimate potential revenue.
911 Levy	$0.95 per month	$27 million	▸ Revenue was calculated based on an assumption that 92% of the Toronto residents 15 years and older have a telephone service provider.[6] ▸ Unlike many Canadian provinces, Ontario does not have a provincial 911 levy. If implemented, the City could levy the full amount as opposed to a fraction of the provincial rate.
Climate Sales Tax	0.5% - 2%	$304 million – $1.2 billion	▸ Retail sales data of the metro was analyzed, and was adjusted for the City of Toronto based on population count.
Building Performance Charge	Fines vary based on Co2 emissions and sq. ft of the building	$93 million	▸ Revenues in municipalities, including Vancouver and New York City were analyzed, and adjusted for the City of Toronto market on a per capita basis.
Large Retailer Surcharge	1% of Gross Revenue	$39 - 65 million	▸ Employee count, large retailers with revenues more than $5 billion in Canada and average gross sales of large retailers in Toronto were used to identify large retailers operating in the City of Toronto and estimated tax.

Sources: [1] Please refer to Appendix A.1 for a description of revenue options or refer to Appendix A.3 for summary revenue options profiles; [2] Toronto Regional Real Estate Board, 2022; [3] Attom Data; [4] Statistics Canada, 2023; [5] Canada Mortgage and Housing Corporation; [6] Statistics Canada, 2022.

2. Prioritization of Revenue Options

Prioritization Methodology

EY formulated a framework for prioritizing revenue options. This prioritization framework takes various factors into consideration, including the potential revenue, the ease of implementation, and the alignment of these options with the objectives of the City. By leveraging this framework, EY has provided a systematic approach to evaluate and categorize revenue opportunities, ensuring that high-potential options are identified.

Prioritization Methodology

Prioritization Components

Revenue Potential: projected annual revenue of each revenue option for the City.

Ease of Implementation: EY conducted an analysis to evaluate the following considerations:

- CoTA amendment requirement
- Provincial cooperation requirement
- Comparative ranking of the cost
- Precedence in comparable Canadian municipalities
- Time required for implementation
- Enforcement difficulties
- Chances of public opposition

By examining these factors, EY assessed potential challenges and obstacles that may arise while implementing each revenue option.

Alignment with City objectives: EY conducted an assessment of each revenue option against the strategic priorities of the City of Toronto:[1]

- "Keep Toronto moving"
- "Maintain and create affordable housing"
- "Tackle climate change and build resilience"
- "Invest in people and neighbourhoods"
- “Equity” considerations

By considering these strategic priorities, EY determined the extent to which each option supports the City of Toronto's overarching goals.

Prioritization of Revenue Options

Revenue Potential: High ↑ / Low ↓

Ease of Implementation: Difficult ← → Easy

Transformative Options

- These revenue options appear to show relatively high long term potential in our analysis.
- Although they are more difficult to implement and may involve extensive planning and evaluation, these options have the potential to bring about significant revenue gains in the long term.

Strategic Gains

- These revenue options may exhibit a high potential for generating substantial revenue while also offering a relatively straightforward implementation process.
- This quadrant represents opportunities that may contribute to the City’s revenue growth without imposing implementation significant challenges.

Non-Viable Projects

- These revenue options are estimated to show lower revenue potential.
- May face significant obstacles and challenges that make their implementation less feasible or even not viable.

Quick Wins

- Quick wins options may be executed relatively easily and within shorter timelines.
- May not generate as much revenue as the ‘Strategic Gains’ options, they still possess a reasonable potential for financial gains.

City’s Authority to Implement Revenue Options[2]

Category		Definition
	'	Permissible under CoTA, and the City has the authority to execute it without requiring significant involvement or assistance from the Province of Ontario (the Province).
		Permissible under CoTA; however, either approval only or implementation in addition to approval is required from the Province.
		The implementation of this tax is not permitted under CoTA. To introduce these options, an amendment to CoTA is required, but may not be sufficient.

Sources: [1] City of Toronto Corporate Strategic Plan. [2] Note: Please note that further legal reviews are required to define the implementation approach, permissibility and the City’s level of authority for each option, similar to the *Fees for 911 Service* Memorandum.

Prioritization Methodology

Listed below are the detailed methodology of Ease of Implementation and Alignment with City Objectives.

Ease of Implementation: Each factor below was assigned a specific weighting, with greater emphasis placed on the City's level of control over the implementation.

Factor	Methodology
CoTA Amendment Required	Assigned a binary Yes/No answer to this factor based on if the revenue option's permissibility under CoTA
Requires Provincial Cooperation/ Support	Assessed based on three levels of cooperation; No cooperation required, provincial approval required and provincial assistance required to implement.
Cost of Implementation (rank)	Weighted on a scale ranging from Low (<$1 million) to High (>$5 million).
Has Precedence in a Canadian Municipality	Assigned a binary Yes/No answer to this factor, assuming options with precedent in comparable Canadian municipalities may be easier to implement.
Time to Implement	Weighted on a scale ranging from Low (can be implemented quickly) to High (may take up to 24 months).
Enforcement Difficulty	Weighted on a scale ranging from Low (minimal enforcement) to High (extensive enforcement required).
Public/Industry Opposition	Weighted on a scale ranging from Low (no opposition) to High (extensive opposition likely).

Alignment with City Objectives: Each strategic goal is assigned an equal weighting in contributing to an overall rating of alignment to the City of Toronto objectives.[1]

Objective	Description
"Keep Toronto Moving"	Commitment to safe, accessible and affordable transportation choices for people and goods.
"Maintain and Create Affordable Housing "	Commitment to a city where families and individuals enjoy secure and reasonably priced housing, while upholding respect and dignity.
"Tackle Climate Change"	Commitment to climate change and preparing the City government, economy, ecosystems, and communities for the challenges brought by a shifting climate.
"Investment in People and Neighborhoods"	Commitment to a city that safeguards and enhances the overall quality of life for everyone, encompassing safety, health, social and economic well-being, as well as inclusion.
"Equity"	Endeavour to establish and maintain equity within the government, encompassing the measurement of their impact, financial decisions, and service delivery.

Sources: [1] City of Toronto Corporate Strategic Plan.

Results: Ease of Implementation

Ease of Implementation takes into account key drivers that represent potential challenges and obstacles that may arise during implementation. Listed below are the analyses, along with corresponding results.

	ID	Name Of Options	Requires CoTA Amendment	Requires Provincial Co operation/ Support	Cost of Implementation (rank)	Precedent in Canadian Municipalities	Time to Implement	Enforcement Difficulty	Public/ Industry Opposition	Ease of Implementation
Options under the CoTA	A	Downtown Parking Levy	No	No	High	Yes	High	Medium-High	Medium-Low	
	B	Motor Vehicle Registration Tax	No	Implementation	Low	Yes	Medium	Medium-High	Medium-High	
	C	Alcohol Beverage Tax	No	Implementation	Medium-Low	No	Medium-High	Medium-High	Medium-High	
	D	Tobacco Tax	No	Implementation	Medium-Low	No	Medium-High	Medium-High	Low	
	E	Entertainment and Amusement Tax	No	Implementation	Medium-Low	No	Medium-High	Medium-High	Medium-High	
	F	Road Pricing - Cordon Charges	No	Approval	High	No	High	Medium	Medium	
Additional Options Considered	U	Right Of Way Levy	Yes	Approval	Medium	No	Medium	Low	Medium	
	V	Flipping Tax	Yes	Approval	Medium-Low	No	Low	Medium-Low	Medium-High	
	W	Foreign Buyer Land Transfer Tax	No	No	Medium-Low	No	Low	Medium-Low	Low	
	X	Reusable Bag Levy	Yes	Implementation	Low	No	Medium-Low	Medium-Low	Medium-High	
	Y	Plastic Cup Levy	Yes	Implementation	Low	Yes	Medium-Low	Medium-Low	High	
	Z	911 Levy	No	No	Medium-Low	Yes	Medium-Low	Medium-Low	Medium-High	
	AA	Climate Sales Tax	Yes	Implementation	Medium-High	No	Medium-High	Medium	Medium-High	
	AB	Building Performance Charge	No[1] (to be confirmed)	Implementation	Medium-High	No	Medium-High	Medium-High	Low	
	AC	Large Retailer Surcharge	Yes	Implementation	Low	No	Medium-High	Medium-Low	Low	

Legend: Requires Provincial Cooperation; CoTA Amendment Required; Within City's Control | Most Difficult Level of Implementation — Easiest Level of Implementation

Note: [1] According to the Emissions Performance Standards for Buildings, City of Toronto 2023, the City has legal authority to implement a by-law requiring building owners to meet a performance standard; the permissibility of imposing a charge will depend on the specific design of the tool. Please refer to the Appendix A.2 and Appendix A.3 for a breakdown of the analysis of implementation factors.

Results: Ease of Implementation

Ease of Implementation takes into account key drivers that represent potential challenges and obstacles that may arise during implementation. Listed below are the analyses, along with corresponding results.

	ID	Name Of Options	Requires CoTA Amendment	Requires Provincial Co operation/ Support	Cost of Implementation (rank)	Precedent in Canadian Municipalities	Time to Implement	Enforcement Difficulty	Public/ Industry Opposition	Ease of Implementation
Considered in Previous Analysis	G	Amend First Time Homebuyer Eligibility	No	No	Low	No	Low	Medium-Low	High	
	H	Graduated Municipal Land Transfer Tax	No	No	Low	Yes	Low	Medium-Low	Medium-High	
	I	Vacant Storefront Tax	Yes	Approval	Medium	No	Low	Medium-Low	Low	
	J	Graduated Residential Property Tax Rates	Yes	No	Low	No	Low	Low	High	
	K	Graduated Commercial/Industrial Property Tax Rates	No	No	Low	No	Low	Low	Medium-High	
	L	Downtown Parking Sales Tax	Yes	Implementation	Medium-Low	Yes	Medium-High	Medium	Low	
	M	Cannabis Tax	Yes	Implementation	Medium-Low	No	Medium-High	Medium	Low	
	N	Municipal Income Tax Based On Residency and / or Place Of Work	Yes	Implementation	Medium-Low	No	High	Low	High	
	O	Municipal Sales Tax	Yes	Implementation	Medium-High	No	Medium-High	Medium	High	
	P	Municipal Business Income Tax	Yes	Implementation	Medium-Low	No	High	Medium-Low	Medium	
	Q	Municipal Gas Tax	Yes	Implementation	Low	No	Medium-High	Medium-Low	Medium-High	
	R	Development Levy	Yes	Approval	Medium	No	Medium	Medium-Low	Medium-High	
	S	Carbon Tax	Yes	Approval	Medium-High	No	Medium	Medium-High	Medium-High	
	T	Uber Registration Fee	No	No	Medium-Low	No	Medium-Low	Low	Low	

Legend: Requires Provincial Cooperation; CoTA Amendment Required; Within City's Control | Most Difficult Level of Implementation — Easiest Level of Implementation

Note: Please refer to the Appendix A.2 and Appendix A.3 for a breakdown of the analysis of implementation factors.

Results: Alignment with City Objectives

Alignment with City objectives[1] evaluates five strategic goals the City of Toronto outlined in the City of Toronto Corporate Strategic Plan. Each revenue option was assessed based on their degree of alignment with each identified goal.

	ID	Name Of Option	Keep Toronto moving	Maintain and Create Affordable housing	Tackle Climate Change"	Investment in People and Neighbor hoods"	Equity	Alignment with City Objectives
Options under the CoTA	A	Downtown Parking Levy	✓	-	✓	-	-	
Options under the CoTA	B	Motor Vehicle Registration Tax	✓	-	✓	-	-	
Options under the CoTA	C	Alcohol Beverage Tax	-	-	-	-	✗	
Options under the CoTA	D	Tobacco Tax	-	-	-	-	✗	
Options under the CoTA	E	Entertainment and Amusement Tax	-	-	-	✗	-	
Options under the CoTA	F	Road Pricing (Cordon Charges)	✓	-	✓	-	-	
Additional Options Considered	U	Right Of Way Levy	✓	-	-	✓	✓	
Additional Options Considered	V	Flipping Tax	-	✓	-	-	-	
Additional Options Considered	W	Foreign Buyer Land Transfer Tax	-	✓	-	-	✓	
Additional Options Considered	X	Reusable Bag Levy	-	-	✗	-	-	
Additional Options Considered	Y	Plastic Cup Levy	-	-	✓	-	-	
Additional Options Considered	Z	911 Levy	-	-	-	✓	-	
Additional Options Considered	AA	Climate Sales Tax	-	-	✓	✓	-	
Additional Options Considered	AB	Building Performance Charge	-	-	✓	✓	-	
Additional Options Considered	AC	Large Retailer Surcharge	-	-	✓	-	✓	

	ID	Name Of Option	Keep Toronto moving	Maintain and Create Affordable Housing	Tackle Climate Change"	Investment in People and Neighbor hoods"	Equity	Alignment with City Objectives
Considered in Previous Analysis	G	Amend First Time Homebuyer Eligibility	-	✗	-	-	-	
Considered in Previous Analysis	H	Graduated Municipal Land Transfer Tax	-	✗	-	-	-	
Considered in Previous Analysis	I	Vacant Storefront Tax	-	-	-	-	✓	
Considered in Previous Analysis	J	Graduated Residential Property Tax Rates	-	✗	-	-	✓	
Considered in Previous Analysis	K	Graduated Commercial/Industrial Property Tax Rates	-	-	-	-	✓	
Considered in Previous Analysis	L	Downtown Parking Sales Tax	✓	-	✓	-	-	
Considered in Previous Analysis	M	Cannabis Tax	-	-	-	-	-	
Considered in Previous Analysis	N	Municipal Income Tax Based On Residency and / or Place Of Work	-	-	-	✗	✓	
Considered in Previous Analysis	O	Municipal Sales Tax	-	-	-	-	-	
Considered in Previous Analysis	P	Municipal Business Income Tax	-	-	-	-	✓	
Considered in Previous Analysis	Q	Municipal Gas Tax	✓	-	✓	-	-	
Considered in Previous Analysis	R	Development Levy	-	✗	-	-	-	
Considered in Previous Analysis	S	Carbon Tax	-	-	✓	✓	-	
Considered in Previous Analysis	T	Uber Registration Fee	-	-	-	-	-	

Legend: Requires Provincial Cooperation; CoTA Amendment Required; Within City's Control | ✓ Aligns with specific City objective | - No impact on specific City objective | ✗ Does not align with specific City objective | Less aligned — Most aligned

Sources: [1] City of Toronto Strategic Plan.

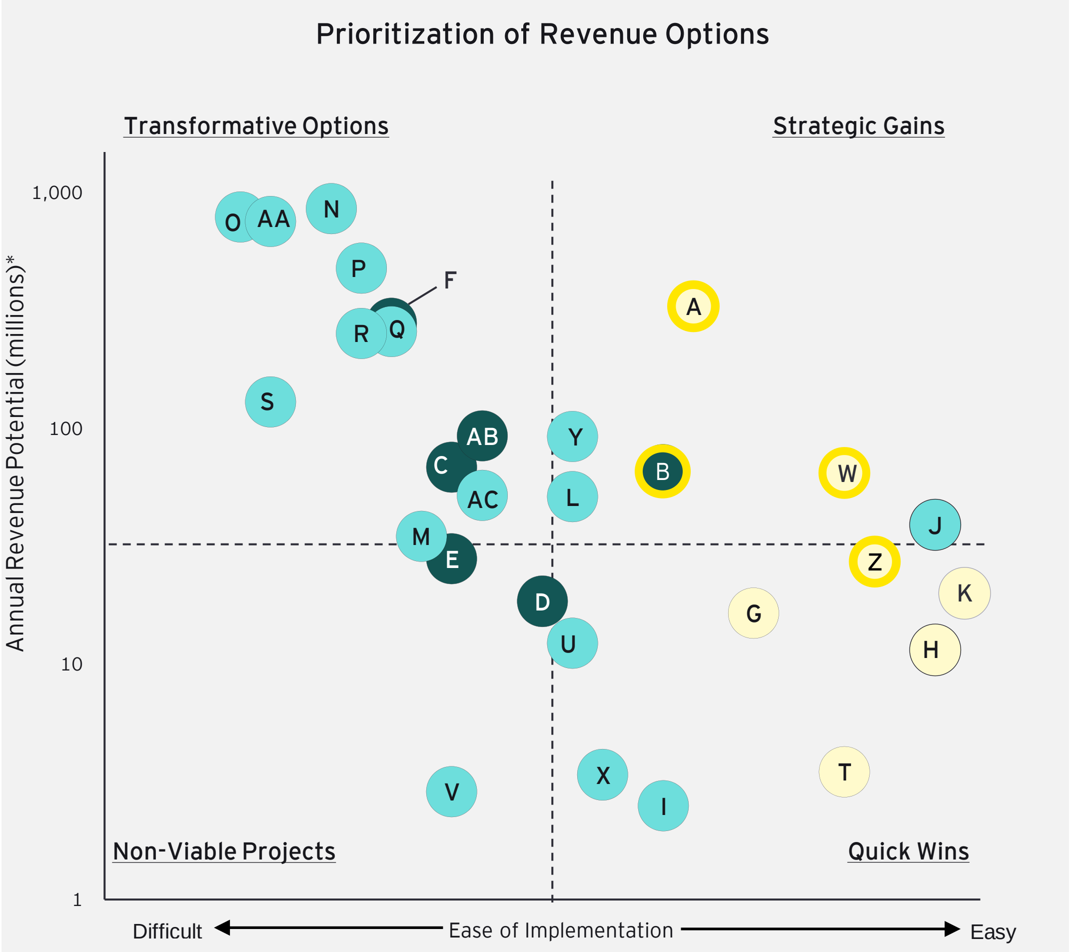
Results: Prioritization of Revenue Options

After evaluating 29 revenue options, EY identified **four options** that were chosen based on their revenue generation potential and ease of implementation. The assessment criteria included factors such as the City's control over the options, the need for CoTA amendment, and the level of provincial cooperation or support required.

ID	Revenue Options	Revenue Potential (millions)[4]
A	Downtown Parking Levy[1,5]	$173-490
B	Motor Vehicle Registration Tax[1,5]	$22-112
C	Alcohol Beverage Tax[1,5]	$5-132
D	Tobacco Tax[1,5]	$2-34
E	Entertainment and Amusement Tax[1,5]	$5-51
F	Road Pricing (Cordon Charges)[1,5]	$146-415
G	Amend First Time Homebuyer Eligibility[2]	$6-27
H	Graduated Municipal Land Transfer Tax[2]	$4-19
I	Vacant Storefront Tax[2]	$2-3
J	Graduated Residential Property Tax Rates[2]	$10-68
K	Graduated Commercial/Industrial Property Tax Rates[2]	$10-30
L	Downtown Parking Sales Tax[2]	$20-83
M	Cannabis Tax[2]	$3-67
N	Municipal Personal Income Tax[2]	$656-1,062
O	Municipal Sales Tax[2]	$784-802
P	Municipal Business Income Tax[2]	$192-769
Q	Municipal Gas Tax[2]	$64-454
R	Development Levy[1]	$145-364
S	Carbon Tax[1]	$52-208
T	Uber Registration Fee[3]	$3.5
U	Right Of Way Levy[1]	$12
V	Flipping Tax[1]	$3
W	Foreign Buyer Land Transfer Tax[1]	$65
X	Reusable Bag Levy[1]	$3
Y	Plastic Cup Levy[1]	$93
Z	911 Levy[1]	$27
AA	Climate Sales Tax[1,5]	$304-1,216
AB	Building Performance Charge[1]	$93
AC	Large Retailer Surcharge[1]	$39 - 65

Legend: High Potential Revenue Options

Notes: Revenue estimates from: [1]EY analysis and estimates 2023; [2]Finance Update 2023; [3]KPMG Revenue Options Study 2016; [4]Annual revenue potential. [5]Revenue ranges are based on range in rate/levy. Please see Appendix A.4 for detailed results.



Legend: Requires Provincial Cooperation; CoTA Amendment Required; Within City's Control

*In order to position revenue range visually, we utilized the average value between the upper and lower limits of the range.

Results: Key Takeaways

After evaluating **29 revenue options**, EY identified **four revenue options** that are currently permitted and fall into the Strategic Gains category as they are expected to provide high revenue and may be implemented with relative ease.

Option	Description	Revenue Potential	Implementation
Downtown Parking Levy (option A)	A levy that would be applied on a per parking area/spaces basis and collected along with property tax collection	$173-490 millions[1] ($0.50-$1.50 per day)	▸ Does not require provincial cooperation or CoTA amendment ▸ Relatively difficult to implement due to high cost, time and enforcement requirements ▸ Revenue potential will vary according to the levy chosen based on the $0.50-$1.50 range
Foreign Buyers Land Transfer Tax (option W)	An additional tax added to the land transfer tax when the buyer of a residential property is a non-resident	$65 millions[1] (10% rate)	▸ Does not require provincial cooperation or CoTA amendment ▸ The implementation time and the levels of public/industry opposition are expected to be low ▸ There is precedent in Canada for this revenue option at the provincial level
Motor Vehicle Registration Tax (option B)	A tax that would be applied on vehicle ownership when residents of the City renew their vehicle registration	$22-112 millions[1] ($20-$100 per vehicle every 2 years)	▸ Does not require CoTA amendment, and there is a precedent in the City of Montreal. It is a relatively low cost option but requires provincial cooperation to implement ▸ Medium to high level of enforcement difficulty and also likely public/industry opposition
911 Levy (option Z)	An additional monthly levy for every customer of a telephone service that can call 911	$27 millions[1] ($0.95 per month)	▸ Does not require CoTA amendment. There is a precedent across Canada at the provincial level (except for Ontario and Manitoba), and in British Columbia rates vary by municipality ▸ Relatively easy to implement in terms of cost, time and enforcement requirements

In addition to the four options selected, the table below outlines the options that may be prioritized based on the criteria specified.

Transformative Options

- Municipal Personal Income Tax and Municipal Business Income Tax options fall into the Transformative Options category as they are currently not permitted but may provide high revenue potential in the long term.
- Similarly, Municipal Sales Tax and Climate Sales Tax are estimated to have high revenue potential; however, they require CoTA amendment.[1, 2]

Quick Wins

- Graduated Commercial/Industrial Property Tax, Reusable Bag Levy, Graduated Municipal Land Transfer Tax and Uber Registration Fee, among others, are estimated to have relatively low revenue potential; however, these options are within City's control and may be implemented relatively quickly.[1, 2, 3]

Permitted under CoTA

- Among the options that are permitted under CoTA, Downtown Parking Levy, Road Pricing (Downtown Cordon Charges), and Alcohol Beverage Tax are estimated to have the highest revenue potential.[1]
- Downtown Parking Levy and Motor Vehicle Registration Tax are expected to be easier to implement. [1]

Aligned with City's Objectives

- Right of Way levy, Downtown Parking Levy, Motor Vehicle Registration Tax and Downtown Cordon Charges have high alignment with the City's Objectives. [1]
- Climate related revenue tools such as Building Performance Charges, Carbon Tax and Plastic Cup Levy have considerable revenue potential while also contributing to the City's climate and sustainability goals.[1]

Sources: [1] EY analysis and estimates 2023; [2] Finance Update 2023; [3] KPMG Revenue Options Study 2016.

Note: [4] Although polypropylene is considered less harmful to the environment and not subject to the upcoming federal ban under the Single-use Plastics Prohibition Regulations starting December 2023, its manufacturing process is environmentally damaging, and these cups do not biodegrade naturally.

Please note that further legal reviews are required to define the implementation approach, permissibility and the City's level of authority for each option, similar to the *Fees for 911 Service* Memorandum.

Appendix A.1: Description of Revenue Options

Description of Revenue Options

The table below provides definitions for each revenue option analyzed in the report.

ID	Revenue Option	Revenue Option Type	Descriptions
A	Downtown Parking Levy	Rates and Fees	A levy that would be applied on a per parking area/space basis and collected along with property tax collection
B	Motor Vehicle Registration Tax	Rates and Fees	A tax that would be applied on vehicle ownership when residents of City of Toronto renew their vehicle registration every 2 years
C	Alcohol Beverage Tax	Consumption Tax	A specific consumption tax on the sale of alcohol from vendors within the City limits
D	Tobacco Tax	Consumption Tax	A specific consumption tax on the sale of tobacco from vendors within the City limits
E	Entertainment and Amusement Tax	Consumption Tax	The entertainment tax is a type of sales tax that would be levied on the admission fees of ticketed events, including but not limited to movie theaters, live sports events, performing arts, and entry fees for museums, zoos, or other sites of historical or cultural significance in the City of Toronto
F	Road Pricing (Cordon Charges)	Rates and Fees	A cordon charge is a fee imposed on vehicles that enter and/or exit a specific area, which would be levied solely on cars accessing Downtown Toronto during the early hours of working days, from 6 am to 10 am
G	Amend first time homebuyer eligibility	Property Tax Base	This option would restrict the first time homebuyer eligibility criteria. Eligibility is assessed based on a maximum total household income and a maximum property value. Both or one would be reduced to limit eligibility for City of Toronto residents.
H	Graduated Municipal Land Transfer Tax	Property Tax Base	A tax on the sale of land within the City limits. The tax is graduated based on the sales price
I	Vacant Storefront Tax	Property Tax Base	Annual tax levy that applies to commercial properties that are unoccupied
J	Graduated Residential Property Tax Rates	Property Tax Base	An annual tax on residential property within the City limits. The tax rate varies based on the value of the property
K	Graduated Commercial or Industrial Property Tax Rates	Property Tax Base	An annual tax on commercial/industrial property within the City limits. The tax rate varies based on the value of the property
L	Downtown Parking Sales Tax	Consumption Tax	A specific consumption tax on the sale of parking in the City to be collected by vendors and passed to the City
M	Cannabis Tax	Consumption Tax	A specific consumption tax on the sale of cannabis in the City to be collected by vendors and passed to the City
N	Municipal Personal Income Tax	Income and Sales Tax	An additional income tax rate for people residing in the City of Toronto
O	Municipal Sales Tax	Income and Sales Tax	An additional sales tax rate for all non-exempt goods and services sold within the City

Legend: Requires Provincial Cooperation | Within City's Control | CoTA Amendment Required

Description of Revenue Options

The table below provides definitions for each revenue option analyzed in the report.

ID	Revenue Option	Revenue Option Type	Descriptions
P	Municipal Business Income Tax	Income and Sales Tax	An additional corporation tax rate for all businesses registered within the City
Q	Municipal Gas Tax	Consumption Tax	A specific consumption tax on the sale of gas in the City to be collected by vendors and passed to the City
R	Development Levy	Property Tax Base	A charge on all land that has been zoned for development in the City. This captures the gains in land value at the time of development and is based on the square footage of the land.
S	Carbon Tax	Climate Tax	This refers to a tax that puts a price on carbon emission. This can be implemented by: 1) emission trading systems where firms pay for emission allowances or 2) tax applied directly on greenhouse gas emissions
T	Uber Registration Fee	Rates and Fees	Annual fee that Uber drivers have to pay to register their car for commercial use in the City
U	Right of Way Levy	Rates and Fees	A payment for the use of the City's infrastructure and roads to deliver goods to residents. This is levied on a per package basis and is also known as the 'Amazon' tax
V	Flipping Tax	Property Tax Base	Profit accruing from the sale of property (bought within a certain period e.g., 365 days) is taxable as business income rather than capital gains and hence 100% of profit is taxable
W	Foreign Buyer Land Transfer Tax	Property Tax Base	This is an additional tax added to the land transfer tax when the buyer of a residential property is a non-resident
X	Reusable Bag Levy	Climate Tax	A levy on the sale of all reusable bags in the City
Y	Plastic Cup Levy	Climate Tax	Proposed levy on single-use plastic cups with polypropylene lids in the City. Although polypropylene is considered less harmful to the environment and not subject to the upcoming federal ban under the *Single-use Plastics Prohibition Regulations* starting December 2023, its manufacturing process is environmentally damaging, and these cups do not biodegrade naturally.
Z	911 Levy	Rates and Fees	This levy would be a additional monthly payment for every customer of a telephone service that can call 911 residing in the City of Toronto
AA	Climate Sales Tax	Climate Tax	An additional sales tax rate for all non-exempt goods and services sold within the City. The revenue generated would be used to support climate related initiatives.
AB	Building Performance Charge	Climate Tax	A regime that would place emission caps on buildings and penalties associated with not meeting prescribed performance standards
AC	Large Retailer Surcharge	Rates and Fees	This option would involve a tax rate charge applied on the gross sales of large retailers with revenues (nationally and within the City of Toronto) above a specified threshold

Legend: Requires Provincial Cooperation | Within City's Control | CoTA Amendment Required

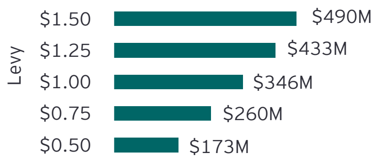
Appendix A.2: Detailed Revenue Option Profiles

Revenue Option Profile: Downtown Parking Levy (1/2)

Description	A commercial parking levy would be a levy applied on each parking space or a parking area basis. The charge could be applied to all non-residential paid and unpaid parking within the City of Toronto. Estimated revenue ranges are based on range in levy.
Jurisdictional Examples	► In the **City of Vancouver**, there is a parking sales tax of 24% on the purchase price of the parking rights sold to the customer before GST. In 2011, Vancouver changed the method of taxation from an area basis towards a tax based on parking sales which is collected by the parking vendor and remitted to TransLink, the transport authority in Vancouver. The parking sales tax in Vancouver generated $64.1 million in FY2023. ► In the **City of Montreal**, the parking tax rate is applied on a metre squared basis. The Montreal municipal government have defined 4 sectors in the island of Montreal where the parking tax rate varies. Sector A is the downtown financial district of Montreal where the tax rate is the highest. The tax revenue generation by the Montreal parking levy is estimated at $23 million annually.
Potential Structure in Toronto	In Toronto, a commercial parking levy could be applied to all non-residential parking. Exemptions will exist for certain parking types such as hospitals, universities, unpaid parking spaces etc. The City of Toronto could collect the parking tax by using the existing property tax collection system and adding a tax on parking spaces.

Revenue Potential
(Annual Gross Revenue)

$173 - $490 million



Key Assumptions

Volume of parking area and spaces are from 2023 City of Toronto budget briefing and Toronto Parking Authority. For annual revenue potential, all parking spaces are included in the calculation.

Sources: [1] City of Vancouver; [2] City of Montreal.

Revenue Option Profile: Downtown Parking Levy (2/2)

Implementation Considerations

Overall Ease of Implementation: Difficult to Implement —●— Easy to Implement

Cost of Implementation	High	The cost of developing and updating a city wide parking inventory is expected to be high. This work could be outsourced or completed using internal resources.
Has precedent in Canadian Municipalities	Yes	A downtown parking levy was implemented in the City of Montreal and the City of Vancouver.
Time to Implement	High	Development of an exhaustive parking inventory and dealing with an appeals process has taken up to 2 years in Vancouver and Montreal.
Enforcement Difficulty	Medium-High	Extensive court appeals by parking lot owners regarding the spaces in the lot and exemptions disputes.
Public/ Industry Opposition	Medium-Low	Parking levy can sometimes be disputed due to negative competitiveness impacts. Other jurisdictions did not face major challenges in this area.

Requires Provincial Cooperation/Support	No	**CoTA Amendment Required**	No

Economic Impacts

- The income generated from the commercial tax levy could be designated as a 'contribution to public transport' to fund the Toronto Transport Commission.
- The implementation of a parking levy may reduce future investment in commercial real estate resulting in a loss in economic activity.[1]
- Consumers will most likely feel the impact of the parking tax – this may also lead to a decrease in demand for parking.

Social Impacts

- A commercial parking levy would most likely be passed on to consumers by the parking vendors creating an additional cost to the cost of living of consumers who utilise paid parking regularly.
- If Toronto implemented a variable parking tax similar to Montreal where the most expensive areas are in the central downtown core and financial district, this may encourage people to use other forms of environmentally sustainable transport on their commute to work.

Sources: [1] Potential Economic Impacts of Introducing a Parking Levy in the City of Toronto, Altus Group, 2023.

Revenue Option Profile: Motor Vehicle Registration Tax (1/2)

Description

A Motor Vehicle Registration Tax (MVRT) places a tax levy on the registration of vehicle ownership. The tax applies to all road motor vehicles registered within the City of Toronto.

Jurisdictional Examples

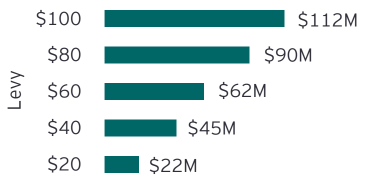
- In the **City of Montreal**, owners of vehicles registered are required to pay a Motor Vehicle Registration Tax which is called a 'contribution to public transport'. The tax levy is $45 for all registration renewals of road motor vehicles. Since the tax was introduced in 2011 it has contributed an additional $50 million to the Montreal Transport Authority. In Quebec, vehicle registration renewal (including the Montreal contribution to public transport) is due every year. [1]
- In **New York City** a registration renewal fee of $50 USD is imposed on all road vehicle owners registered within the jurisdiction of New York City. New York residents also pay an additional vehicle registration fee amount depending on the weight of the vehicle – ranging from $26 for vehicles of 0-1,650 lbs to $140 for vehicles greater than 6,950 lbs. In New York, vehicle registration renewal fees are due once every 2 years. [2]

Potential Structure in Toronto

In Toronto, a motor vehicle registration fee would be collected alongside the Ontario provincial vehicle registration process on a bi-annual basis. All road vehicles registered within the City of Toronto would be subject to the tax levy. The tax was implemented in Toronto in 2008 and then repealed in 2010 due to its unpopularity.

Revenue Potential
(Annual Gross Revenue)

$22 - $112 million



Key Assumptions

Population ratios were used to adjust Statistics Canada vehicle registrations from Ontario to Toronto. Vehicles per capita in Ontario and Toronto are assumed to be constant.

Sources: [1] Government of Quebec, 2023; Department of Motor Vehicles, New York State.

Revenue Option Profile: Motor Vehicle Registration Tax (2/2)

Implementation Considerations

Overall Ease of Implementation: Difficult to Implement —●— Easy to Implement

Cost of Implementation	Low	There is an opportunity to leverage existing provincial vehicle registration processes at the provincial level to reduce costs.
Has precedent in Canadian Municipalities	Yes	A Motor Vehicle Registration Tax has been implemented in the City of Montreal.
Time to Implement	Medium	Ontario recently stopped collecting registration fees. This may cause complications in the implementation process.
Enforcement Difficulty	Medium-High	Vehicle owners may avoid the tax by registering vehicles at second addresses outside the City.
Public/ Industry Opposition	Medium-High	This tax was repealed in 2010 due to it's unpopularity. We can assume this would be similar in 2023 due to adding to the high cost of living.

Requires Provincial Cooperation/Support	Implementation	**CoTA Amendment Required**	No

Economic Impacts

- The MVRT would be an additional cost for the transport industry – taxis, buses, moving and logistics firms.
- The tax levy may result in a minor decrease in demand for vehicles in the City of Toronto.[1]
- Similar to Montreal the tax could be designated to provide additional funding for the Toronto Transit Commission (TTC).

Social Impacts

- An increase in the cost of vehicle ownership may encourage residents of the City of Toronto to use more environmentally-friendly modes of transportation such as cycling, walking and public transport.
- While vehicle ownership may be an indicator of wealth, a fixed rate tax levy does not attempt to account for the vehicle owner's ability-to-pay. The tax would be partially regressive.

Sources: [1] Victoria Transport Institute.

Revenue Option Profile: Alcoholic Beverage Tax (1/2)

Description

- A tax that would be added on top of all alcohol sales within the City limits, at establishments licensed by Ontario's liquor board, such as Beer Stores, LCBO, and grocery stores, as well as licensed restaurants and bars.
- The Province implemented retail sales taxes on the purchase of alcoholic beverages, which includes: i) basic tax rate (% of purchase price), ii) volume tax (cents per litre), iii) environmental tax (flat tax = 8.93 cents/each non refillable container). Alcoholic beverages sold in Ontario are also subject to 13% of HST.
- The federal excise tax on beer is a rate per litre, according to the amount of absolute ethyl alcohol by volume.

Jurisdictional Examples

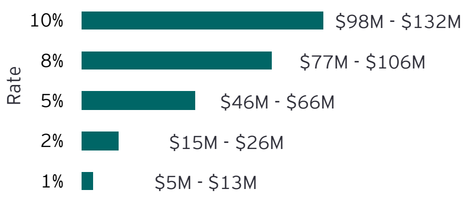
- There is no precedent for alcohol taxation by local levels in Canada.
- **Chicago** currently taxes beer, wine and spirits at rates ranging from 8.7 cents per liter of beer to 80 cents per liter of beverages containing 20% or more alcohol by volume. Taxes are collected from businesses that sell alcohol, with religious organizations using alcohol for religious purposes and purchases of an alcoholic beverage by a passenger on an interstate carrier being exempt from this tax. It is estimated that this tax brings in 2023 more than $32 million a year in revenue for the City.[1]

Potential Structure in Toronto

- The City could either tax all sales of alcohol beverages within its limits or implement a tax at retail point of sale on the price of alcoholic beverages before Harmonized Sales Tax (HST) in one or both of the two primary channels, which are store sales[2] and licensee sales.[3]
- The tax increase could be full passed-through to retail prices.

Revenue Potential[4] (Annual Gross Revenue)

$5 - $132 million



Key Assumptions

Per capita expenditure on alcohol in Ontario and Toronto are assumed to be similar. Population over legal drinking age in Toronto is adjusted using census 2021 data.

Notes: [1] 2023 Budget Overview, City of Chicago; [2] LCBO, agency stores, The Beer Store, small breweries, distilleries, wine retailers, and grocery stores; [3] bars, restaurants, nightclubs and entertainment venues, such as sporting events, and theatres; [4] Considers beers, wines, spirits, ciders, coolers, and other beverages; [5] Net income per capita of liquor authorities and government revenue from sale of beverages was deducted from the value of sales per capita; [6] Based on household spending (Statistics Canada).

Revenue Option Profile: Alcoholic Beverage Tax (2/2)

Implementation Considerations

Overall Ease of Implementation: Difficult to Implement —●— Easy to Implement

Cost of Implementation	Medium-Low	Costs are estimated as medium-low as spending on alcohol makes up a small portion of total spending in the City. Hence, the administration and implementation costs are estimated to be considerably lower than a general sales tax as the City deals with less vendors.
Has precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.
Time to Implement	Medium-High	A municipal specific consumption tax is unprecedented and hence the implementation will require extensive provincial and even federal cooperation.
Enforcement Difficulty	Medium-High	Vendors are expected to remit tax to the City. However, consumers may choose to purchase alcohol in nearby municipalities where possible.
Public/ Industry Opposition	Medium-High	The opposition will likely come from the alcohol industry who argue that the tax disproportionately affects businesses which are near City borders.

Requires Provincial Cooperation/Support	Implementation	**CoTA Amendment Required**	No

Economic Impacts

- A municipal tax could potentially lead to changes in retail purchasing behaviour, such as:
  - Decrease in demand for alcoholic beverages within the City of Toronto;
  - A municipal tax on alcoholic beverage would be an added expense for consumers;
  - If alcoholic beverages are not taxed at similar rates, including across different channels of sales, there can be several potential implications. This includes a substitution effect, where consumers may shift towards lower-taxed products or locations;
  - There could be a trade-off between tax rates and revenue generation. As tax levels increase, revenue growth may eventually remain constant or decline;
  - Additionally, to the extent that these shifts occur, there may be some impact on employment in the City of Toronto, considering beer is one of the major driver of Canada's economy.[1]

Social Impacts

- There is evidence[2] that increases in the price of alcohol resulting from higher taxation reduce the amount of alcohol consumed.
- Lower alcohol consumption resulting from higher taxes may lead to reduced healthcare costs.[3]
- An alcoholic beverage tax would be a regressive tax, it means a tax applied uniformly, taking a larger proportion of income from residents with lower incomes than from residents with higher incomes.

Notes: [1] According to the Conference Board of Canada and Brewers Association Of Canada, prior to the pandemic, the sale of beer in Canada supported nearly 150,000 jobs across the sector's value-chain; [2] The effectiveness of tax policy interventions for reducing excessive alcohol consumption and related harms. American journal of preventive medicine. 2010; At-a-glance - What proportion of the price of a typical alcoholic beverage is taxation in Canada and why does it matter? Health Promotion and Chronic Disease Prevention in Canada, Research, Policy and Practice. 2021; [3]Factors influencing risky single occasion drinking in Canada and policy implications. Arch Public Heal. 2017; Tackling Harmful Alcohol Use. Economics and Public Health Policy. 2015 (OCDE).

Revenue Option Profile: Tobacco Tax (1/2)

Description

- A tax that would be added on-top of all tobacco sales, just before Harmonized Sales Tax (HST), within the City limits. It would be similar to the tax imposed by the Province, which is a direct tax on tobacco products at a retail level payable by consumers. Alternatively, it could be added prior to distribution of tobacco products to retail locations (manufacturer's sales price tax).
- The current tax rates in Ontario are 18.48 cents per cigarette, 18.48 cents per gram or part gram of tobacco product other than cigarettes and cigars, and 56.6% of the taxable price of a cigar.[1] Tobacco products sold in Ontario are also subject to 13% of HST;
- The federal excise duty[2] on tobacco products are 15.83 cents per cigarette, $9.90 per 50 grams of manufactured tobacco other than cigarettes and tobacco sticks, and $34.46 per 1,000 cigars.

Jurisdictional Examples

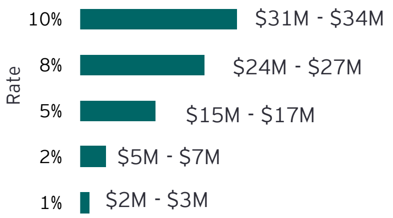
- There is no precedent for tobacco taxation by local levels in Canada.
- The **New York City** excise tax is US$1.50 per package of 20 cigarettes, in addition to the state excise tax rate, which is $4.35 per package. The city collected approximately US$400 million in local sales tax revenue from cigarette sales in fiscal year 2020.
- **City of Philadelphia** imposes 40% premium on all electronic and smokeless tobacco products such as e-cigarettes and vaping apparatuses, that has generated Philadelphia nearly US$1 million in 2019.

Potential Structure in Toronto

- The City could either tax all sales of tobacco within its limits or implement a product-specific sales tax at the retail level, including e-cigarettes, and smokeless tobacco.
- The tax increase could be full passed-through to retail prices.

Revenue Potential[3]
(Annual Gross Revenue)

$3 - $34 million



Key Assumptions

Per capita expenditure on tobacco and percentage of smokers in Ontario and Toronto are assumed to be similar.

Notes: [1] Source: Government of Ontario; [2] Other additional, and special duties can be applied; [3] Cigarette sales represent approximately 95% of the Ontario tobacco market (Ontario Convenience Store Association, 2013, Contraband Tobacco Butt Study); [4] Based on Ontario cigarette sales from Statistics Canada and prices before federal and provincial excise taxes estimated by Physicians for a Smoke-Free Canada (PSC) organization; [5] Based on household spending from Statistics Canada; [6] Represents demand changes after price changes: 1% change in price implies in -0.4% change in demand.

Revenue Option Profile: Tobacco Tax (2/2)

Implementation Considerations

Overall Ease of Implementation: Difficult to Implement ——●—— Easy to Implement

Cost of Implementation	Medium-Low	Costs are estimated as medium-low as spending on tobacco makes up a small portion of total spending in the City. Hence, the administration and implementation costs are estimated to be considerably lower than a general sales tax as the City deals with less vendors.
Has precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.
Time to Implement	Medium-High	A municipal specific consumption tax is unprecedented and hence the implementation will require extensive provincial and even federal cooperation.
Enforcement Difficulty	Medium-High	Although vendors are expected to remit all collections to the City, consumers may avoid the tax by purchasing tobacco products in other nearby municipalities.
Public/ Industry Opposition	Low	The public opposition is likely to be limited as tobacco products face tax rate increases in many jurisdictions with limited opposition.

Requires Provincial Cooperation/Support	Implementation	**CoTA Amendment Required**	No

Economic Impacts

- A municipal tax on tobacco would be an added expense for consumers, which could potentially lead to changes in retail purchasing behaviour. Some possible outcomes are:
  - The consumer may be affected assuming that it will be fully passed on to the final prices;;
  - Decrease in demand for tobacco within the City of Toronto;
  - If tax rates become too high, residents may opt to purchase tobacco from illegal sources;
  - If different tobacco products are not taxed at similar rates, there can be several potential implications, including a 'substitution effect' where consumers shift towards lower-taxed products or switch to alternatives such as e-cigarettes;
  - There could be a trade-off between tax rates and revenue generation. As tax levels increase, revenue growth may eventually remain constant or decline.

Social Impacts

- There is consistent evidence that increases in the price of tobacco resulting from higher taxation reduce the number of smokers and the consumption by smokers.
- Lower tobacco consumption resulting from higher taxes may lead to reduced healthcare costs.
- Excessive tax rates may incentivize the illegal market[1] to move from low-tax locations to high-tax locations or alternative sources.[2]
- A tobacco tax would be a regressive tax, similar to the tax on alcohol.

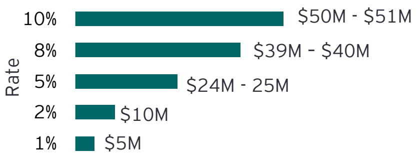
Notes: [1] Cigarette Taxes and Cigarette Smuggling by State, 2020 - Tax Foundation, a USA's tax policy non-profit organization; [2] Such as foreign cigarettes, and cartons sold for less than $61.33 or those sold in packages without a legal on duty paid Canada Droit Acquitté Tobacco Stamp are illegal.

Revenue Option Profile: Entertainment and Amusement Tax (1/2)

Description	The entertainment tax is a type of sales tax that would be levied on the admission fees of ticketed events, including but not limited to movie theaters, live sports events, performing arts, and entry fees for museums, zoos, or other sites of historical or cultural significance in the City of Toronto.
Jurisdictional Examples	▸ **City of New York** imposes an additional 4% tax on admission charges that exceed 10 cents, applied to various ticketed events. Additionally, the American cities of **Lockport and Niagara Falls**, as well as Niagara County, charge an 8% tax on admissions to clubs and cabarets. These types of events are exempted from the entertainment tax: motion picture theaters, live performances of dramatic, choreographic, or musical arts, grade, middle or high school sports events, admission charges already taxed under other state laws, live circus performances, and ride tickets inside amusement parks.[1] ▸ **City of Pittsburgh** imposes a 5% entertainment tax on admission fees for any amusement events. If the entertainment is conducted in a place where food and drink are served, and there is no fixed admission charge, the amusement tax is calculated based on 10% of the total amount paid for food and drink. If a cover charge is required, it is considered as the regular established price paid for admission.[2]
Potential Structure in Toronto	The City of Toronto can impose an entertainment or amusement tax on various events and venues, including movie theaters, live sports events, performing arts shows, and admission fees to museums and other historical sites. However, exemptions may be granted on a case-by-case basis for groups experiencing financial hardship.

Revenue Potential (Annual Gross Revenue)

$5 - $51 million



Key Assumptions

Average household entertainment expenditure on movie theaters, live sports events, performing arts shows, and admission fees in Ontario and Toronto are assumed to be similar.

Sources: [1] New York State - Department of Taxation and Finance; [2] City Of Pittsburgh Amusement Tax Regulations.

Revenue Option Profile: Entertainment and Amusement Tax (2/2)

Implementation Considerations

Overall Ease of Implementation: Difficult to Implement ——●———— Easy to Implement

Cost of Implementation	Medium-Low	Costs are estimated as medium-low as spending on entertainment and amusement makes up a small portion of total spending in the City. Hence, the administration and implementation costs are estimated to be considerably lower than a general sales tax as the City deals with less vendors.
Has precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.
Time to Implement	Medium-High	A municipal specific consumption tax is unprecedented and hence the implementation will require extensive provincial and even federal cooperation.
Enforcement Difficulty	Medium-High	Vendors are expected to remit all collections to the City; however, defining who this tax is applicable to will be challenging and may face appeals.
Public/ Industry Opposition	Medium-High	Public opposition to this tax may stem from the entertainment industry who believe it negatively impacts the affordability cultural and leisure activities.

Requires Provincial Cooperation/Support	Implementation	**CoTA Amendment Required**	No

Economic Impacts

- The imposition of an entertainment tax may prompt venues to relocate from the City to neighboring areas. This tax could impact the local entertainment industry's geographic distribution.
- Increasing tax rates may lead to a potential trade-off, where revenue generation reaches a plateau or experiences a decline.

Social Impacts

- Admissions tax levied on audience can discourage people from attending events; thus, this may have an adverse impact on the small artists and small promoters.
- Additional revenue generated from the entertainment tax can be used to fund various public programs, such as transportation infrastructure or education initiatives.

Revenue Option Profile: Road Pricing - Downtown Cordon Charges (1/2)

Description

A cordon charge is a fee imposed on vehicles that enter and/or exit a specific area, which would be levied solely on cars accessing Downtown Toronto during the early hours of working days, from 6 am to 10 am.

Jurisdictional Examples

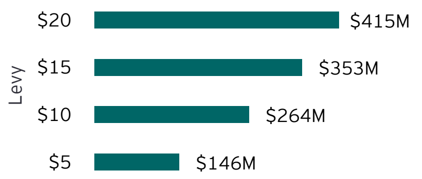
- **City of London, UK** has implemented a congestion charge, which is a fee levied on non-commercial motor vehicles driven within the Congestion Charge Zone (CCZ) in Central London. This charge applies between 7:00 am and 6:00 pm on weekdays and from 12:00 noon to 6:00 pm on Saturdays and Sundays.[1] Initially introduced in February 2003, the charge was set at £5 per vehicle per day, but it has since been revised four times and currently stands at £15 per vehicle per day.[1] According to reports, the scheme has possibly facilitated a 10% reduction in traffic volumes compared to the counterfactual, resulting in increased traffic speed and better air quality. Congestion charge net revenues reached £307 million in 21/22.[2]
- The **City of Stockholm** introduced a congestion tax to reduce traffic jams during peak periods. The tax was implemented at access and exit ramps of two interchanges resulting in a 22% reduction in traffic on city motorways within one week of implementation.[3] The tax varies based on the time of day and contributes to financing the extension of the Stockholm metro.

Potential Structure in Toronto

Private vehicles entering Downtown between 6:00 am to 10:00 am on working days will be subject to a one-time charge for the day, excluding emergency vehicles and public transit. The implementation will require the installation of detection cameras at all entry points. Downtown is bounded by Bloor Street to the northeast, Dupont Street to the northwest, and Lake Ontario to the south, while its eastern and western boundaries are defined by the Don Valley Parkway and Bathurst Street, respectively.

Revenue Potential
(Annual Gross Revenue)

$146 - $415 million



Key Assumptions

Workforce anticipated to work on-site or remotely in Ontario and Toronto are assumed to be similar.

Sources: [1] Transport for London – Policy Analysis Division; [2] OECD; [3] Trafikverket (Swedish Transport Administration).

Revenue Option Profile: Road Pricing - Downtown Cordon Charges (2/2)

Implementation Considerations

Overall Ease of Implementation: Difficult to Implement —●—— Easy to Implement

Cost of Implementation	High	The cost of a technology system to capture vehicle license plates at specified street locations is expected to be high.
Has precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.
Time to Implement	High	This levy would require the City to partner with a technology firm to set up a system to track traffic. This process can take up to two years as observed in Stockholm.[1]
Enforcement Difficulty	Medium	Enforcing the cordon charge requires a strong system of penalties and fines for non-compliance.
Public/ Industry Opposition	Medium	The opposition is expected from those who commute to downtown by car and businesses within the cordon zone.

Requires Provincial Cooperation/Support	Approval	**CoTA Amendment Required**	No

Economic Impacts

- The levy can increase the number of people using public transit, and the income generated from the downtown levy can be used to fund improvement of the Toronto Transport Commission.
- Cordon charges may help reduce traffic congestion, leading to faster traffic flow and reduced commute times.
- As the cost of travelling to Downtown Toronto increases, the demand for housing in and around Downtown may increase, leading to a rise in rent prices.

Social Impacts

- The levy may encourage the use of sustainable transportation, which may lead to healthier and more active lifestyles for residents.
- Improved air quality and reduced emissions may have positive impacts on public health and the environment.
- Reduced traffic congestion may lead to less stressful commutes and improved quality of life for residents.

Sources: [1] IBM – How Stockholm broke it's gridlock with congestion pricing;

Appendix A.3: Summary Revenue Option Profiles

Summary Revenue Option Profiles

Ease of Implementation Approach

(G) Amend First Time Home Buyer Eligibility

Annual Revenue Potential	$6-27 million[1]	Ease of Implementation	Difficult —●— Easy
Cost of Implementation	Low	Since this charge relates to a change in eligibility requirements, implementation costs will likely be relatively low.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this measure in a Canadian municipality.	
Jurisdictional Examples	No	An amendment to the first time home buyer eligibility requirements is unprecedented as a municipal revenue option.	
Time to implement	Low	As the City controls the land transfer tax collection system, any changes to related taxes can be implemented quickly.	
Enforcement Difficulty	Medium-Low	As this is a change in eligibility criteria the City could enforce this by allocating first time home buyer grants to fewer people.	
Public/ Industry Opposition	High	This tax may have a negative impact on the availability of affordable housing and may be viewed as a regressive tax.	
Requires Provincial Cooperation/Support	No	CoTA Amendment Required	No

(H) Graduated Municipal Land Transfer Tax

Annual Revenue Potential	$4-19 million[1]	Ease of Implementation	Difficult —●— Easy
Cost of Implementation	Low	Collection could leverage the pre-existing land transfer tax collection system and hence costs are expected to be low.	
Has Precedent in Canadian Municipalities	Yes	The City of Toronto currently implements a property tax collection system.	
Jurisdictional Examples	Yes	Within Canada properties are assessed on a graduated basis.	
Time to Implement	Low	As the City controls the land transfer tax collection system, any changes to property related taxes can be implemented quickly.	
Enforcement Difficulty	Medium-Low	The City controls the land transfer tax collection system and could enforce changes at with low risk of evasion.	
Public/ Industry Opposition	Medium-High	This tax may face opposition from the real estate industry who may argue that it stifles real estate investment, and increases housing costs.	
Requires Provincial Cooperation/Support	No	CoTA Amendment Required	No

Sources: [1] Finance Update 2023

Summary Revenue Option Profiles

Ease of Implementation Approach

(I) Vacant Storefront Tax			
Annual Revenue Potential	$2-3 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium	The City may leverage the existing property tax collection system; however, enforcement may be a big component of the costs.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	Yes	San Francisco taxes vacant commercial units at a rate of $250 per linear foot of frontage.[1]	
Time to Implement	Low	Any changes to property related taxes could be implemented quickly once the City identifies commercial properties that are vacant.	
Enforcement Difficulty	Medium-Low	Store owners may attempt to avoid this tax by not declaring a commercial property to be vacant.	
Public/ Industry Opposition	Low	Likely to not face significant public or industry opposition as the tax incentivizes property owners to use and revitalize vacant storefronts, thereby, contributing to local economies and communities.	
Requires Provincial Cooperation/Support	Approval	CoTA Amendment Required	Yes

(J) Graduated Residential Property Tax			
Annual Revenue Potential	$10-68 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Low	Collection can be an addition to the pre-existing property tax collection system; hence, cost of implementation is expected to be low.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this measure in a Canadian municipality.	
Jurisdictional Examples	No	A graduated residential property tax is unprecedented as a municipal revenue option.	
Time to Implement	Low	As the City controls the property tax collection system, any changes to property related taxes can be implemented quickly.	
Enforcement Difficulty	Low	The City controls the property tax collection system and can enforce changes with a relatively low risk of evasion.	
Public/ Industry Opposition	High	Significant opposition is likely, particularly in Toronto where property assessment values are much higher than other municipalities.	
Requires Provincial Cooperation/Support	No	CoTA Amendment Required	Yes

Sources: [1] City of San Francisco Treasury; [2] City of Toronto; [3] Finance Update 2023

Summary Revenue Option Profiles

Ease of Implementation Approach

(K) Graduated Commercial Property Tax			
Annual Revenue Potential	$10-30 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Low	Collection can be an addition to the pre-existing property tax collection system and cost of implementation is expected to be low.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this measure in a Canadian municipality.	
Jurisdictional Examples	No	A graduated commercial property tax is unprecedented as a municipal revenue option.	
Time to Implement	Low	As the City controls the property tax collection system, any changes to property related taxes can be implemented quickly.	
Enforcement Difficulty	Low	The City controls the property tax collection system and can enforce changes with low risk of evasion.	
Public/ Industry Opposition	Medium-High	Business community may argue that higher property taxes may lead to business closures, decreased economic activity, job losses, etc.	
Requires Provincial Cooperation/Support	No	CoTA Amendment Required	No

(L) Downtown Parking Sales Tax			
Annual Revenue Potential	$20-83 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium-Low	Costs are estimated as medium-low as spending on parking makes up a small portion of total spending in the City. The administration and implementation costs are estimated to be considerably lower than a general sales tax as the City deals with less vendors.	
Has Precedent in Canadian Municipalities	Yes	The City of Vancouver previously charged a levy on a per sq. ft basis before changing to the sales tax.	
Jurisdictional Examples	Yes	The City of Vancouver currently imposes a 24% sales tax on parking sales. [2]	
Time to Implement	Medium-High	A municipal specific consumption tax is unprecedented and implementation will require extensive provincial and federal cooperation.	
Enforcement Difficulty	Medium	Vendors will be legally required to remit taxes to the City. Parking lot owners may convert land for alternative uses due to the tax.	
Public/ Industry Opposition	Low	This tax is unlikely to face opposition if revenue is allocated to fund public transportation options and infrastructure development for driving alternatives.	
Requires Provincial Cooperation/Support	Implementation	CoTA Amendment Required	Yes

Sources: [1] City of Toronto [2] City of Vancouver, Translink ; [3] Finance Update 2023.

Summary Revenue Option Profiles

Ease of Implementation Approach

(M) Cannabis Tax			
Annual Revenue Potential	$3-67 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium-Low	Costs are estimated as medium-low as spending on cannabis makes up a small portion of total spending in the City. The administration and implementation costs are estimated to be considerably lower than a general sales tax as the City deals with less vendors.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	Yes	Cannabis taxes are applied in addition to the federal cannabis sales tax at a provincial level in Canada. [1]	
Time to Implement	Medium-High	A municipal specific consumption tax is unprecedented and implementation will require provincial and federal cooperation.	
Enforcement Difficulty	Medium	Although vendors will remit collections to the City, consumers may avoid the tax by purchasing cannabis products in nearby municipalities.	
Public/ Industry Opposition	Low	This tax is unlikely to face opposition if the revenue generated is allocated to public health initiatives and other community benefits.	
Requires Provincial Cooperation/Support	Implementation	CoTA Amendment Required	Yes

(N) Municipal Personal Income Tax			
Annual Revenue Potential	$656-1,062 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium-Low	It is likely the costs would be medium-low as the tax would be collected by the Province and federal tax collection systems.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	Yes	New York City applies a local income tax ranging between 3-4%. A municipal income tax has not been implemented in Canada. [2]	
Time to Implement	High	This tax would require extensive negotiation with the Province and the Canada Revenue Agency (CRA) and hence this would take time.	
Enforcement Difficulty	Low	If the City is successful in negotiating the introduction of this tax with the Province or the CRA, the tax will automatically be applied to personal incomes.	
Public/ Industry Opposition	High	Likely to be significant opposition, as no other municipalities enforce this on their residents in Canada.	
Requires Provincial Cooperation/Support	Implementation	CoTA Amendment Required	Yes

Sources: [1] Government of Canada; [2] New York City Department of Finance, [3] Finance Update 2023.

Summary Revenue Option Profiles

Ease of Implementation Approach

(O) Municipal Sales Tax			
Annual Revenue Potential	$784-802 million[3]	Ease of Implementation	Difficult —●—— Easy
Cost of Implementation	Medium-High	A general consumption requires extensive administration costs relating to dealing with local businesses and provincial government.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality. The Government of Quebec grants a portion of its sales tax to the municipalities.[4]	
Jurisdictional Examples	Yes	New York City applies a sales tax of 4% to all purchases above $110. A municipal income tax has not been implemented in Canada.[1]	
Time to Implement	Medium-High	Municipal Consumption Tax is without precedence in Canadian municipalities and would require a process to identify exempt and non-exempt goods and services.	
Enforcement Difficulty	Medium	No pre-existing systems exist for the City to leverage. Consumers also may avoid the tax by shopping in nearby municipalities.	
Public/ Industry Opposition	High	Opposition is likely from businesses or consumers who may argue that the tax increases costs and hampers businesses' competitiveness.	
Requires Provincial Cooperation/Support	Implementation	CoTA Amendment Required	Yes

(P) Municipal Business Income Tax			
Annual Revenue Potential	$192-769 million[3]	Ease of Implementation	Difficult —●—— Easy
Cost of Implementation	Medium-Low	It is likely the costs would be low as the tax would be collected by Implement and federal business tax collection systems.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	Yes	New York City applies different business income taxes depending on the type of company. A municipal income tax has not been implemented in Canada. [2]	
Time to Implement	High	This tax would require extensive negotiation and cooperation from Implement and the CRA and hence this would take time.	
Enforcement Difficulty	Medium-Low	The tax could automatically be applied to corporate incomes, and remitted to the City by Implement or by the CRA.	
Public/ Industry Opposition	Medium	This tax is likely to face public opposition from the business community on the basis of negatively impacted business competitiveness.	
Requires Provincial Cooperation/Support	Implementation	CoTA Amendment Required	Yes

Sources: [1,2] New York City Department of Finance, [3] Finance Update 2023, [4] Government of Quebec, *Le partenariat 2020-2024*

Summary Revenue Option Profiles

Ease of Implementation Approach

(Q) Municipal Gas Tax			
Annual Revenue Potential	$64-454 million[2]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Low	The Province already implements a gas tax and remits to the City. Hence, existing processes could be leveraged and the costs would be low.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	Yes	Currently, Ontario collects a provincial gas tax and remits the revenue to municipalities within Implement.[1]	
Time to Implement	Medium-High	A specific consumption tax is without precedent in the City and would be difficult to implement. Implement already collects a gas tax; therefore, existing processes could be utilized.	
Enforcement Difficulty	Medium-Low	If the City is successful in negotiating the introduction of this tax with Implement, the additional tax could automatically be applied.	
Public/ Industry Opposition	Medium-High	Ontario currently collects a gas tax and remits the revenue to the City. Hence, the public may dispute the rationale for a further tax.	
Requires Provincial Cooperation/Support	Implementation	CoTA Amendment Required	Yes

(R) Development Levy			
Annual Revenue Potential	$145-364 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium	While the City can use existing processes for collection, each property under development would have to be valued pre and post development.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	No	A development levy is unprecedented as a municipal revenue option.	
Time to Implement	Medium	May be able to be implemented in the medium term with cooperation from Implement and can leverage pre-existing processes.	
Enforcement Difficulty	Medium-Low	Implement can leverage pre-existing processes to enforce the tax for the City.	
Public/ Industry Opposition	Medium-High	This tax is likely to face considerable public opposition as cost of housing and supply of housing may be negatively impacted.	
Requires Provincial Cooperation/Support	Approval	CoTA Amendment Required	Yes

Sources: [1] Government of Ontario, [2] Finance Update 2023, [3] EY analysis and estimates 2023

Summary Revenue Option Profiles

Ease of Implementation Approach

(S) Carbon Tax			
Annual Revenue Potential	$52-208 million[2]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium-High	High initial implementation costs involved in creating a system for quantifying total emissions.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	Yes	Carbon taxes are applied in Canada at a provincial and federal level. Toronto can become a pilot city to support the development of local carbon pricing.[1]	
Time to Implement	Medium	A system for the measurement of the carbon impact of companies could be designed in the medium term.	
Enforcement Difficulty	Medium-High	The tax relies on the integrity of companies to declare all emissions. The City may require an auditing process to enforce the tax.	
Public/ Industry Opposition	Medium-High	This would be a second carbon tax in addition to the existing federal carbon tax. This may have an impact on costs for businesses and consumers.	
Requires Provincial Cooperation/Support	Approval	CoTA Amendment Required	Yes

(T) Uber Registration Fee			
Annual Revenue Potential	$4 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium-Low	Cost of implementation is assumed to be low as City of Toronto already collect fees on a per-trip basis from ride-sharing companies.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	No	A ride-share registration fee is unprecedented as a municipal revenue option.	
Time to Implement	Medium-Low	The City would have to set up a system to collect the fee from all ride-share service providers.	
Enforcement Difficulty	Low	As ride sharing operators should have a definitive list of all drivers operating in the City, avoidance is expected to be difficult.	
Public/ Industry Opposition	Low	Opposition is likely to be low to this revenue option due to the limited numbers taxable individuals.	
Requires Provincial Cooperation/Support	No	CoTA Amendment Required	No

Sources: [1] Government of Canada, [2] EY analysis and estimates 2023, [3] KPMG Revenue Options Study 2016

Summary Revenue Option Profiles

Ease of Implementation Approach

(U) Right of Way Tax			
Annual Revenue Potential	$12 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium	The City is expected to incur costs designing the system to collect information on the quantity and location of packages delivered in the City.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	Yes	Right of Way taxes have been implemented in the State of Colorado and Barcelona charging on a per packages basis.[1]	
Time to Implement	Medium	Time to implement is assumed to be medium given the amount of work required to build the system for the City.	
Enforcement Difficulty	Low	Enforcement difficulties are expected to be low as taxable companies would be legally required to remit the taxes owed to the City.	
Public/ Industry Opposition	Medium	Likely to cause e-commerce industry opposition particularly from large industry players such as Amazon.	
Requires Provincial Cooperation/Support	Approval	CoTA Amendment Required	Yes

(V) Flipping Tax			
Annual Revenue Potential	$3 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium-Low	The City could leverage existing systems such as the land transfer system which may help lower implementation costs.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	Yes	An anti-flipping tax has been implemented at a federal level in Canada which raises the taxable income in Canada to 100% of the profit generated.[2]	
Time to Implement	Low	Can leverage existing processes such as the land transfer system so any changes to property taxes can be implemented quickly.	
Enforcement Difficulty	Medium-Low	Enforcement difficulties are expected be relatively limited. However, some property flippers may attempt to claim exemptions.	
Public/ Industry Opposition	Medium-High	This tax may face industry opposition as it could potentially reduce profitability and discourage investment in real estate.	
Requires Provincial Cooperation/Support	Approval	CoTA Amendment Required	Yes

Sources: [1] The State of Colorado; [2] Government of Canada, [3] EY analysis and estimates 2023

EY

Summary Revenue Option Profiles

Ease of Implementation Approach

(W) Foreign Buyer Land Transfer Tax			
Annual Revenue Potential	$65 million[3]	Ease of Implementation	Difficult —●— Easy
Cost of Implementation	Medium-Low	Can leverage existing systems such as the land transfer system so any changes to property related taxes can be implemented cheaply.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax at the municipal level, but there are examples at the provincial level. British Columbia imposes variable rates for a number of municipalities. The Province of Ontario also implements a province-wide foreign buyer tax of 25%.[1]	
Jurisdictional Examples	Yes	There are Canadian examples at the provincial level. In British Columbia, the tax applies to a number of municipalities.	
Time to Implement	Low	The City could leverage existing processes such as the land transfer system; therefore, changes to property related taxes could be implemented quickly.	
Enforcement Difficulty	Medium-Low	Enforcement difficulties are expected to be relatively limited as the tax would be difficult to avoid.	
Public/ Industry Opposition	Low	This tax will likely not face public opposition as it is designed to create affordable and abundant housing supply for Toronto residents.	
Requires Provincial Cooperation/Support	No	CoTA Amendment Required	No

(X) Reusable Bag Levy			
Annual Revenue Potential	$3 million[3]	Ease of Implementation	Difficult —●— Easy
Cost of Implementation	Low	This levy would be collected by vendors and remitted to the City. Hence costs would be low.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	No	A reusable bag levy is unprecedented as a municipal revenue option.	
Time to Implement	Medium-Low	This revenue option is within the City's control and could be implemented relatively quickly.	
Enforcement Difficulty	Medium-Low	Enforcement difficulties are expected to be relatively limited as the tax would be difficult to avoid.	
Public/ Industry Opposition	Medium-High	This tax may face public opposition as it discourages the use of a product which is seen to be environmentally friendly.	
Requires Provincial Cooperation/Support	Implementation	CoTA Amendment Required	Yes

Sources: [1] Government of Ontario; [2] Government of British Columbia, [3] EY analysis and estimates 2023

Summary Revenue Option Profiles

Ease of Implementation Approach

(Y) Plastic Cup Levy			
Annual Revenue Potential	$93 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Low	Tax would be collected by vendors and remitted to the City and hence costs would be low.	
Has Precedent in Canadian Municipalities	Yes	A plastic cup levy was implemented in the City of Vancouver.	
Jurisdictional Examples	Yes	A plastic cup levy has been implemented in the City of Vancouver at a rate of 0.25 per cup.[1] A plastic bag levy was previously implemented in Toronto in 2008 before being repealed in 2010.	
Time to Implement	Medium-Low	The City could leverage experience from Vancouver and the plastic bag levy to implement this option relatively quickly.	
Enforcement Difficulty	Medium-Low	Enforcement difficulties are expected to be relatively limited as the tax is expected to be difficult to avoid.	
Public/ Industry Opposition	High	Extensive legal issues with plastic industry associations occurred when a plastic product levy was previously implemented in Toronto.	
Requires Provincial Cooperation/Support	Implementation	CoTA Amendment Required	Yes

(Z) 911 Levy			
Annual Revenue Potential	$27 million[3]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium-Low	The implementation would require cooperation with telephone service providers who would then remit the tax to the City.	
Has Precedent in Canadian Municipalities	Yes	Municipalities in British Columbia have varying 911 levies, but not all municipalities charge these levies.[2]	
Jurisdictional Examples	Yes	Ontario and Manitoba are the only provinces in Canada without a 911 levy. Other provinces in Canada have implemented 911 levies at various rates (e.g., $0.95 per month in Alberta, and $0.46 in Quebec).	
Time to Implement	Medium-Low	Cooperation with telephone service providers is necessary and potential legal issues with requesting the addresses of customers of these telephone service providers may arise.	
Enforcement Difficulty	Medium-Low	Enforcement is expected to require extensive cooperation from telephone service providers.	
Public/ Industry Opposition	Medium-High	Public opposition could argue that existing taxes already pay for public services such as the 911 service.	
Requires Provincial Cooperation/Support	No	CoTA Amendment Required	No

Sources: [1] City of Vancouver; [2] Toronto Police Service , [3] EY analysis and estimates 2023

Summary Revenue Option Profiles

(AA) Climate Sales Tax			
Annual Revenue Potential	$304-1,216 million (tax rate 0.5%-2.0%)[2]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium-High	A general consumption requires extensive administration costs relating to dealing with local businesses and provincial government.	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.	
Jurisdictional Examples	No	A municipal sales tax has been implemented in New York City however the revenue is not allocated for climate related initiatives.[1]	
Time to Implement	Medium-High	Municipal Consumption Tax is without precedence in the City and would require a process to identify exempt and non-exempt goods and services.	
Enforcement Difficulty	Medium	Complications may arise due to the requirement for a new implementation approach with no related pre-existing systems to leverage.	
Public/ Industry Opposition	Medium-High	Opposition to this tax is likely, due to creation of an additional cost of living. Allocation for climate-related initiatives may help reduce opposition marginally.	
Requires Provincial Cooperation/Support	Implementation	CoTA Amendment Required	Yes

(AB) Building Performance Charge			
Annual Revenue Potential	$93 million[2]	Ease of Implementation	Difficult — Easy
Cost of Implementation	Medium-High	High initial implementation costs involved in creating a system for quantifying total emissions.	
Has Precedent in Canadian Municipalities	Yes	The City of Vancouver has passed a bylaw to implement building performance standards and associate fines and penalties.	
Jurisdictional Examples	Yes	Building performance charges and penalties are in operation in New York City, Washington DC and the City of Vancouver.	
Time to Implement	Medium-High	The creation of a system for the measurement of the environmental impact of buildings could be ready in the medium-long term.	
Enforcement Difficulty	Medium-High	The tax relies on the integrity of building owners to declare all emissions. The City may require an auditing and compliance process to enforce the tax.	
Public/ Industry Opposition	Low	This charge would not face much opposition as it is used to incentivize energy-efficient building practices, reduce carbon emissions, and lower long-term operating costs for property owners.	
Requires Provincial Cooperation/Support	Implementation	CoTA Amendment Required	No

Sources: [1] New York City Department of Finance, [2] EY analysis and estimates 2023

Summary Revenue Option Profiles

(AC) Large Retailer Surcharge		
Annual Revenue Potential		Ease of Implementation — Difficult / Easy
Cost of Implementation	Low	
Has Precedent in Canadian Municipalities	No	There is no precedent of this tax in a Canadian municipality.
Jurisdictional Examples	Yes	A large retailer surcharge of 1% on the gross sales of firms is in place in Portland.[1]
Time to Implement	Medium-High	Similar to the business income tax, this tax may require extensive negotiation with the CRA to remit the tax to the City.
Enforcement Difficulty	Medium-Low	This tax applies to a limited number of specific retailers. Hence, it will be difficult to avoid.
Public/ Industry Opposition	Low	This surcharge will likely not face significant public opposition as it ensures large businesses pay taxes to contribute to local community development and services.
Requires Provincial Cooperation/Support		CoTA Amendment Required

Sources: [1] City of Portland, [2] EY analysis and estimates 2023 ;

Appendix A.4: Detailed Results: Prioritization of Revenue Options

[4] Legend

Revenue Option Category	Revenue Potential	Implementation

Detailed Results: Prioritization of Revenue Options

Listed below are the potential revenue estimates, revenue option category, as well as the key drivers, and considerations for the options considered in the 'Options Under the CoTA' and 'Additional Options Considered' portfolios.

	ID	Name Of Option	Revenue Potential (millions)	Ease of Implementation[2]	Alignment with City Objectives[3]	Revenue Option Category[4]	Key Considerations
Options under the CoTA [5]	A	Downtown Parking Levy	$173-490 [1]			SG	▸ Establishing a complete City-wide parking inventory has taken up to 2 years in other jurisdictions. ▸ The City has the option to vary the parking levy rate in different sectors of the city – as seen in Montreal.
	B	Motor Vehicle Registration Tax	$22-112 [1]			SG	▸ The cost efficient collection of revenue depends on cooperation with the Province to leverage existing systems. ▸ This tax was previously implemented in Toronto in 2008 but was overturned in 2010 due to it's unpopularity.
	C	Alcohol Beverage Tax	$5-132 [1]			TO	▸ There is no precedent for local level alcohol taxation in a Canadian municipality. ▸ Variable tax rates are used depending on alcohol type – as has been implemented in Chicago.
	D	Tobacco Tax	$2-34 [1]			QW	▸ Retailers may have to obtain a tobacco retailer's permit so that the City can clearly identify all vendors. ▸ The City could leverage pre-existing systems of tobacco taxation in the province.
	E	Entertainment and Amusement Tax	$5-51 [1]			NV	▸ The City will be responsible for the enforcement and compliance of all entertainment and amusement vendors. ▸ The City may need to engage with art and entertainment industry stakeholders to address concerns.
	F	Road Pricing (Cordon Charges)	$146-415 [1]			TO	▸ Implementation will require a technology partner to implement the license plate capture system. ▸ This revenue option has high costs involved in the initial implementation.
Additional Options Considered [6]	U	Right of Way Levy	$12 [1]			QW	▸ Right of Way taxes provide a scope to recover the tax base lost due to the rise in e-commerce. This has resulted in a decline in municipal commercial property tax revenues due to the decline in brick and mortar retail stores.
	V	Flipping Tax	$3 [1]			NV	▸ The City has the opportunity to leverage pre-existing land transfer tax systems for collection. ▸ This option may result in a social benefit of discouraging speculative investing which raises property values.
	W	Foreign Buyer Land Transfer Tax	$65 [1]			SG	▸ This revenue option aligns with the City objective of creating affordable housing for its residents. ▸ The City has the opportunity to leverage pre-existing land transfer tax systems for collection.
	X	Reusable Bag Levy	$3 [1]			QW	▸ A reusable bag levy may face considerable public opposition as it discourages the use of a environmentally-friendly product.
	Y	Plastic Cup Levy	$93 [1]			SG	▸ Plastic product levies have faced considerable legal opposition from the plastics industry in Toronto. ▸ This revenue option aligns with the City objective of tackling climate change.
	Z	911 Levy	$27 [1]			SG	▸ Extensive cooperation is necessary with telephone services providers to identify their customers who reside within the City of Toronto.
	AA	Climate Sales Tax	$304-1,216 [1]			TO	▸ Provides an opportunity to implement a Municipal Sales Tax while potentially creating less public opposition due to the allocation of funding for climate related initiatives.
	AB	Building Performance Charge	$93 [1]			TO	▸ This option would involve the creation of a standardised system for measuring building emissions. ▸ The City can leverage pre-existing property tax collection systems for the collection of the tax.
	AC	Large Retailer Surcharge	39-65 [1]			TO	▸ The small number of taxable firms should help to keep administration costs low. ▸ The levy could be implemented relatively quickly, once the chargeable firms are identified.

Legend: Requires Provincial Cooperation | Within City's Control | CoTA Amendment Required | Less aligned — Most aligned | Most Difficult Level of Implementation | Easiest Level of Implementation

Notes: [1] EY analysis and estimates 2023. [2] Considers "time required for implementation", "enforcement difficulties", "chances of public opposition", "CoTA Amendment Required", "requires Provincial cooperation" and "comparative ranking of the cost" aspects. [3] Considers strategic priorities of the City of Toronto: "Keep Toronto moving", "Maintain and create affordable housing", "Tackle climate change and build resilience", "Invest in people and neighborhoods", "Equity". [4] Revenue Prioritization Legend [5] EY conducted comprehensive analysis of these revenue estimates including development of the prioritization framework, [6] EY calculated summary level estimates of these revenue and developed the comprehensive prioritization framework.

Detailed Results: Prioritization of Revenue Options

Revenue Option Category	Revenue Potential	Implementation
SG (Strategic Gains)	Higher	Easier to implement
TO (Transformative Options)	Higher	Significant obstacles and challenges
QW (Quick Wins)	Lower	Easier to implement
NV (Non-Viable project)	Lower	Significant obstacles and challenges

[4] Legend

Listed below are the potential revenue estimates, revenue option category, as well as the key drivers, and considerations for the options considered in the 'Options Under the CoTA' and 'Additional Options Considered' portfolios.

Considered in Previous Analysis [7]

ID	Name Of Option	Revenue Potential (millions)	Ease of Implementation[4]	Alignment with City Objectives[5]	Revenue Option Category[4]	Key Considerations
G	Amend First Time Homebuyer Eligibility	$6-27 [2]			QW	▸ As this involves the changing of eligibility requirements, this tax option could be implemented relatively quickly. ▸ This tax option may face considerable public opposition as its reduces the availability of affordable homes.
H	Graduated Municipal Land Transfer Tax	$4-19 [2]			QW	▸ This economic impact of this tax will be particularly significant in Toronto as land value is relatively high. ▸ This option may slow down real estate transactions and cause economic distortion to the property market.
I	Vacant Storefront Tax	$2-3 [2]			QW	▸ This may stimulate economic activity by encouraging property owners to explore alternative land uses. ▸ Audit and compliance monitoring is a key component of the cost of implementation for this option.
J	Graduated Residential Property Tax Rates	$10-68 [2]			SG	▸ Public opposition is likely due to the high assessment values of Toronto residential property. ▸ The City has the opportunity to leverage the pre-existing property tax system for collection.
K	Graduated Commercial/Industrial Property Tax Rates	$10-30 [2]			QW	▸ Business owners may argue the additional costs negatively impacts their competitiveness. ▸ The City has the opportunity to leverage the pre-existing property tax system for collection.
L	Downtown Parking Sales Tax	$20-83 [2]			SG	▸ This revenue option may encourage land use conversion of parking lots and funding for public transportation. ▸ Implementation of a specific consumption tax is unprecedented and requires extensive provincial cooperation.
M	Cannabis Tax	$3-67 [2]			TO	▸ This revenue option will require CoTA amendment to implement i.e. an amendment to the CoTA. ▸ Implementation of a specific consumption tax is unprecedented and requires extensive provincial cooperation.
N	Municipal Personal Income Tax	$656-1,062 [2]			TO	▸ A municipal personal income tax would require extensive cooperation with the CRA and the Province. ▸ If the City are successful in negotiating with the CRA, costs would be minimal as the CRA will remit the tax.
O	Municipal Sales Tax	$784-802 [2]			TO	▸ This option may reduce the competitiveness of businesses within the City, particularly those near other municipalities. Consumers who live near Toronto borders can choose to shop in other municipalities.
P	Municipal Business Income Tax	$192-769 [2]			TO	▸ A business income tax may reduce Toronto's attractiveness as a location for business investment. ▸ To implement this tax, CoTA amendment and provincial cooperation is required.
Q	Municipal Gas Tax	$64-454 [2]			TO	▸ This revenue option may encourage the use of alternative methods of transport and energy-efficient vehicles. ▸ The province currently collects a gas tax and remits the revenue to the City.
R	Development Levy	$145-364 [1]			TO	▸ As development charges are already implemented, a change in the charge rate may be easier to implement. ▸ The implementation of this tax may result in a shortage of housing supply in the future.
S	Carbon Tax	$52-208 [1]			TO	▸ This revenue option aligns with the city strategic objective to tackle climate change. ▸ The implementation would requires the cooperation of both provincial and federal governments.
T	Uber Registration Fee	$3.5 [3]			QW	▸ City will have to identify the ride-sharing companies that are taxable – not just Uber. ▸ The costs of administration should be minimal as the City currently collects taxes from Uber on a per-trip basis.

Legend: Requires Provincial Cooperation · Within City's Control · CoTA Amendment Required | Less aligned – Most aligned | Most Difficult Level of Implementation · Easiest Level of Implementation

Notes: [1] EY analysis and estimates 2023, [2] Finance Update 2023, [3] KPMG Revenue Options Study 2016. [4] Considers "time required for implementation", "enforcement difficulties", "chances of public opposition", "CoTA Amendment Required", and "comparative ranking of the cost"aspects. [5] Considers strategic priorities of the City of Toronto: "Keep Toronto moving", "Maintain and create affordable housing", "Tackle climate change and build resilience", "Invest in people and neighborhoods", "Equity". [6] Revenue Prioritization Legend. [7] The revenue numbers were estimated by EY or sourced from either the Finance Update and the KPMG Revenue Options Study 2016, while the remaining analyses, including the prioritization framework, has been conducted by EY.

Appendix 2 - Operating expenditure reduction business cases

Note – references to Principles in the following business cases refer to the City's 2018 report, *"The City of Toronto's Roadmap to Financial Sustainability"*

A. Reduce Cost of Service

1. Enforcement and improvement in contract compliance

Over the lifespan of a given contract, there is a gap between the expected and actual value, due to non-compliant or inappropriate charges. This gap tends to grow over time, and is most prevalent in large, high-complexity contracts.

Division: All	
Current State	**Opportunity**
According to City financial data for 2023, the budgeted expenditure for contracted services across the City of Toronto is $1.91B. Approximately one- third of this amount can be attributed to construction contracts that are typically the prime culprits of value leakage. This is principally because construction contracts, due to their complexity, tend to be difficult for the public sector to manage.[1] There is a technical skills gap for existing Purchasing and & Materials Management Division (PMMD) to understand how construction project change orders are managed and PMMD is not involved in the change order process. Certain service-oriented contracts have also proven to be challenging for the City to manage, according to Auditor General reports.[2,3] These particular cases have resulted in the loss of millions of dollars every year due to poor contract oversight practices. Implementing Auditor General recommendations for cleaning contracts alone have saved the City $2.4M annually.[4] Similarly, the Auditor General has noted that some lease management practices have been poor, resulting in millions of dollars lost due to lapsed leases not being renegotiated, rents and recoveries going unbilled, and percentage rent and capital improvements associated with the	The City could institute a contract compliance oversight role of all material City contracts. The benefits to the City could occur in three ways: 1. Savings, realized through the prevention of full payment for items or services received that did not meet with the agreed standard; 2. Recoveries, through negotiation with suppliers of previously paid invoices or contracts; and, 3. Value gain, through delivery of compliant goods or services, that would have otherwise not have been received. As an outcome of a rigorous contract compliance regime being implemented, a vendor management program could be established to streamline supplier management operations, which would provide insights into contract and vendor performance for improved decision making, and improved contract management through KPI monitoring. PMMD would require a Council mandate to successfully implement this on an ongoing basis, and ongoing council support for this initiative. Successful implementation would require a change in process and mandate divisions that PMMD are consulted. Generally, the largest areas in which one expects to find material cost savings through contract compliance and vendor audits are in construction

[1] Public Transit Construction Contract Awarding and Oversight and Road Infrastructure Construction Contract Awarding and Oversight, Ontario Auditor General Annual Report (2016)
[2] Ensuring Value for Money in Tree Maintenance Services, Auditor General Report (April 2019)
[3] Audit of City Cleaning Services Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services, Auditor General Report (June 2016)
[4] Demonstrating the Value of the Auditor General's Office, Auditor General Annual Report (January 2023)

lease agreements not being validated or tracked.[5] In a 2016 and 2017 Audit of Employee Health Benefits, the Auditor General identified unusual claims. Implementing recommended actions to better manage health benefits saved the City $5.45M in annual health benefits. Including TPS in the procurement process saved an additional $1.6M annually.[6]	and capital-intensive divisions / agencies (Transportation, Water, Solid Waste, TTC, TCHC), contracted services with a significant labour component, and third-party service contracts. Another area of investigation that the City may want to pursue is validating that supplier credits (such as volume discounts) are being applied consistently across contracts with the same vendor. Typical cost savings in construction or time and materials contracts are from labour (35%), equipment (25%), and materials / third-party services (20%). A logical starting point for the City outside of construction contracts may be large outsourced functions, such as winter and summer maintenance.

Rationale

As a general principle, the City should strive to ensure that it is obtaining full value for each dollar spent. Contract compliance oversight processes are a standard method for doing so in both the public and private sector. Implementing contract compliance solutions have been shown to help organizations recover between 1% - 5% of their contract costs by preventing value leakage. It also results in productivity gains by eliminating the time and effort involved in manual verification of charges on invoices vs. terms and conditions on contracts. Productivity gains would be assisted through the use of other tools such as catalogues.

Ongoing Initiatives

The City has already chosen to focus on maximizing value through existing purchasing. There are significant initiatives currently underway at the City that align with this business case. Work completed in 2022 identified a series of ready to implement opportunities totalling $35-40M in annual savings as part of the strategic sourcing roadmap.[7] These include opportunities in construction and maintenance, Transportation Services, Facilities Management, Fleet and Refuse Management.

The City is implementing multiple Auditor General recommendations around managing contracts, including recently completing recommendations to install a Global Positioning System (GPS) tracking system on the vehicles used by Urban Forestry staff for tree maintenance activities following previous reports of contractors potentially not performing services agreed to.

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[5] Enhance Focus on Lease Administration of City-owned Properties, Auditor General Report (June 2018)

[6] Demonstrating the Value of the Auditor General's Office, Auditor General Annual Report (January 2023)

[7] City of Toronto Category Management and Strategic Sourcing Update #3, June 2022: https://www.toronto.ca/legdocs/mmis/2022/gl/bgrd/backgroundfile-227660.pdf

Jurisdictional Evidence & Independent Research

Evidence to support the opportunity to extract savings through contract compliance is known through both EY's expertise and experience, and through case studies of contract management review projects with various large organizations, including public sector entities, in North America. These include:

- The Government of Ontario uses customized software for contract and knowledge management. Reports are generated automatically for managerial review. For specific contracts, they utilize a system that measures the performance of the vendor against pre-set key performance indicators.
- A major global oil and gas firm based in Alberta conducted a contract and payment compliance review of vendors across all business operations which yielded findings related to non-compliant payments and missed contractual commitments. Total non-compliant or unsupported charges amounted to over 45M.
- Contractor cost review for a Provincial Agency let to the identification of over $20 million in recoveries which amounted to close to 20% of the total spend under review.
- Manitoba Hydro conducted an assessment of the performance of its procurement services, materials management, and fleet management functions, which resulted in the identification of over $50 million in annual, recurring cost savings from strategic sourcing projects. This included the development of an operating model to leverage category management and strategic sourcing, with $9M of the savings achieved to date because of new strategic sourcing contracts.

Financial Impact

Addressable Spend	2023
City Divisions: Services (Non-construction)	$1,227M
City Divisions: Construction Services	$352M
ABCs: Goods and Services (Non-construction)	$10M
ABCs: Construction Services	$104M

Financial Assumptions

- City Division spend data are based on 2023 operating budget for contracted services, excluding rate-based programs.
- The addressable spend is assumed to be division spend on services only, such as real estate, facilities management, public works etc. It does not include goods procured.
- ABC spend data are based on available 2023 operating budget for contracted services, and should be reviewed.
- The City and ABCs do not consistently apply rigorous contract compliance policies and processes.
- Higher savings are assumed to be identified through construction contracts versus other services based on experience recovering costs through comparable vendor contract audits.
- Savings would phase in based on implementation timelines, and increase and remain constant when fully ramped up; this will depend on the total contract spend in a given year. Beyond year 3, it is possible that contractor behaviour will shift given rigorous contract management, resulting in less leakage/cost recoveries.
- The estimated percentage savings are conservative and based on previous client experience, as outlined above. Savings are extracted by modeling the contracts, then analyzing the charges as they occur, and ongoing monitoring through the use of computer-generated dashboards. The process is automated to reduce human error and increase the speed of analysis and cost recovery.

- Savings are calculated based on the 2023 addressable spend and do not consider inflation or timeline to achieve the savings. It is anticipated that savings would grow at the same rate as addressable spend.
- Additional savings could be achieved though expanding contract compliance to rate-supported programs to deliver additional value to ratepayers however this will no impact the tax-supported operating budget.

Area and Description of Opportunity	Annual Savings When Fully Implemented
City Divisions: Services (non-construction – 2% of spend in savings)	$24.5M
City Divisions: Construction (3% of spend in savings)	$10.6M
ABCs: Goods and Services (non-construction – 1% of spend in savings)	$0.1M
ABCs: Construction (3% of spend in savings)	$3.1M

Implementation Cost	
Total cost of implementation – upfront costs	10% of the estimated savings

Implementation Assumptions

- The program should be led at a corporate level in order for it to be consistently applied and for savings to be captured both during the year in which they are realized as well as incorporated into future budgets.
- Time and materials and reimbursable contracts should be the City's priority during their contract compliance program; lump-sum contracts generally have lower recovery rates, and therefore are likely a lower priority to assess.

Implementation Roadmap

Activity	Year1	Year 2	Year 3
Develop inventory of current contracts. Validate addressable spend, spend categories and amounts.	■		
Determine implementation methodology (e.g., staff or external advisors).		■	
Develop framework for current state assessment and gather information through contract reviews and stakeholder interviews		■	
Assess current state, evaluate contract management practices, complete gap analysis, and develop opportunities for improvement		■	
Validate, finalize, and implement recommendations for contract compliance		■	■

Implementation Risks

- Contracts that have been reviewed where payment has been prevented may result in disputes with the contractor, which might create additional cost and/or vendor relations issues.

Implementation Dependencies *(Includes Council, Provincial and Board Approvals)*

- Council direction to provide PMMD mandate for contract oversight processes.
- Any roll-out to ABCs would require Council direction and Board approval.

Multi-Year Service Impacts

Positive – increasing value from contracts for goods and services or financial benefits that can be reallocated to services.

Equity Impacts and Considerations

There are no anticipated equity impacts at this time.

Alignment to 2018 Long Term Financial Plan

Aligns with Principle 2 in the Long-Term Financial Plan (LTFP) regarding improving value for money. Specifically, under the 'Transform procurement' section, the following is noted: "Transform procurement policies, processes and technologies in order to achieve the highest value for money for all procurements."

Previous Council Direction and Alignment to Current Priorities

Council approved the 2018 LTFP where procurement transformation is noted as an opportunity to improve value for money.

In 2013, Council directed the Deputy City Manager & Chief Financial Officer to begin implementation of various short-term shared services opportunities and to report back on a multi-year implementation plan for longer term shared services opportunities. One of the long term shared services opportunities was to implement category management and strategic sourcing.[8]

Based on the recommendations of the Auditor General, City Council has requested real estate services, in consultation with other City divisions, to perform a complete review of all leases to identify if rents/utility payments were missed and recover any unbilled/uncollected payments from prior periods. This was expected to yield $1.1M in one-time payments and annual recurring rent revenues over a five-year period and an additional $697,000 one-time rents and operating costs in 2020[9].

Change Management Considerations

- Gathering contract information will require a high level of collaboration across the City and will require Divisions to co-operate with the central process, where they previously had full autonomy.
- Some Divisions may already conduct contract compliance; efforts will have to be standardized and centrally managed.
- As contractor relationships might be impacted, it will be critical to have full Divisional buy-in and co- operation as the program is being implemented.
- Historically, the City of Toronto has been risk averse and therefore willing to pay a higher price for services that mitigate risks in order to avoid presenting project disruptions to Council or the public.

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[8] City Council Decision (June 2013): http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX32.3

[9] Attachment 1: Auditor General's 2022 Annual Report – Demonstrating the Value of the Auditor General's Office (toronto.ca): https://www.toronto.ca/legdocs/mmis/2023/au/bgrd/backgroundfile-234111.pdf

2. Improved procurement practices

Further expansion of the scope of category management could allow the City to best leverage its consolidated purchasing power to generate the highest value for money enterprise wide.

<table>
<tr><th colspan="2">Division: City Divisions and ABCs</th></tr>
<tr><th>Current State</th><th>Opportunity</th></tr>
<tr><td>The Purchasing and Materials Management Division (PMMD) is progressing the transformation of its procurement function. The division has processes for Category Management and Strategic Sourcing (CMSS) within PMMD and has been implementing category management with the goal of reducing spend, improving service levels, and developing mutually beneficial supplier relationships. CMSS has been working with City Divisions to identify and execute savings opportunities in five spend categories:
‣ Construction and Maintenance
‣ Facilities
‣ Fleet
‣ Refuse Management
‣ Technology

The City has progressed the Strategic Sourcing and Category Management initiatives through two phases. There are two areas that have slowed the speed of implementation and ability to capture annual savings.
‣ Buy-in from city departments - There has been push-back from areas in the City resistant to change and reluctant to use the PMMD as a shared service.
‣ Resource constraints within PMMD - Incremental resources would enable looking at more contracts and opportunities to partner better with other city divisions.

In addition to the procurement transformation work, the City is also working with the Greater Toronto and Hamilton Area (“GTHA”) to collaborate on procurement tables for Fleet and IT spend categories. The collaborative effort includes leveraging economies of scale, streamlining contracts and aligning prices across the region.</td><td>The opportunity for increased savings can be driven on several fronts:
‣ Further savings could be realized by bringing more categories into the category management fold.
‣ Category management is currently not mandated for divisions and as such the Category Management and Strategic Sourcing team has limited ability to influence procurement strategy and address spend that may optimize value for money for the City. Driving towards less optionality on the part of divisions increase the number of projects initiated. This could be expanded to provide PMMD the mandate to procure on behalf of all City divisions to drive a consolidation of contracts.
‣ The efforts to date have largely focused on Strategic Sourcing, which is one lever within the Category Management framework, typically resulting in lower costs for acquisition of a given commodity. Additional value levers include demand management, process re- engineering/improvement, operating model changes, etc. By way of an example, consider road resurfacing. It is one thing to strategically source contracts for this activity and achieve cost savings, but much greater opportunity for savings can be found in adopting processes that increase the time between resurfacing – different methods, planning to ensure that underground watermain replacements and utility upgrades are performed before resurfacing the road, and so on. This view towards the management of total life-cycle costs within categories of spend is significantly more powerful than the traditional strategic sourcing approach. Further adoption of these concepts by the divisions would create opportunities for more substantive savings opportunities.
‣ The City has focused on City divisions’ category spend umbrella, and do not include the procurement spend of Agencies, Boards,</td></tr>
</table>

	and Commissions (ABCs), although the TTC has participated in the procurement of bulk fuel. By incorporating ABC procurement within the category management model, there is an opportunity to potentially generate additional annual savings.

Rationale

As part of the ongoing work to implement category management at the City, some categories (or sub-categories) have been strategically sourced leading to considerable benefits. To date the City has achieved approximately $83M of confirmed benefits through fifteen strategic sourcing projects. Benefits achieved from the strategic sourcing events were in the form of either operating or capital budget cost reduction or cost avoidance. Such examples reinforce that implementing category management and strategic sourcing will improve service delivery to client divisions through advanced planning, streamlined processes and proactive spend management. The City will generate annual financial benefits and savings from a reduced total cost of ownership (TCO) and extract better value from its contracts rather than just the lowest purchase price.

Ongoing Initiatives

In addition to the $83.0M in financial benefits already achieved, the City has identified an additional pipeline of strategic procurement opportunities which are in the discovery phase (as at June 2022), and have the potential to yield $46.6M in additional financial benefits for the City. Any cost reduction or cost avoidance as a result of Category Management and Strategic Sourcing actions have been considered as part of the annual budget process and will continue to be during future years.[10]

The City is also currently working with other municipalities in the Greater Toronto and Hamilton Area (GTHA) as part of the GTHA Procurement Table, looking to identify ways to enhance regional collaboration in procurement and estimate potential benefits for all stakeholders. For the identified financial benefits to be achieved, all municipalities would need to participate in the initiatives.

Jurisdictional Evidence & Independent Research

Category Management (including strategic sourcing) is a leading approach to driving efficiencies, in both the public and private sectors. Public sector examples include Manitoba Hydro, which undertook a review of its supply chain operating model in 2014. A new operating model that leveraged category management and strategic sourcing generated up to $50M in annual recurring benefits over five years.

Auckland Council set out a CDN $31M annual procurement savings target in construction, general contracting and engineering. An external consultant was able to find significantly more savings through supplier synergies and category consolidations across the seven council-controlled organizations through benefit tracking tools and spend analytics. CDN $62M in savings were achieved in year one and CDN $106M in year 2.

[10] City of Toronto Category Management and Strategic Sourcing Update #3, June 2022: https://www.toronto.ca/legdocs/mmis/2022/gl/bgrd/backgroundfile-227660.pdf

Financial Impact

Addressable Spend	2023
Spend in IT	$58.3M
Spend in Facilities Management	$215.4M
Spend in Construction (Road Resurfacing, Watermain Relining, Watermain Replacement, Sewer Rehabilitation, Basement Flooding, Stormwater Management)	$691.9M

Addressable spend for the GTHA Procurement table amounts to $559M for Technology, Fleet, Fuel and MRO (Tranche A) across all participants.

Financial Assumptions

- Addressable spend derived from 2021 spend numbers and grown by inflation at 2% to 2023
- There are two categories of savings estimates:
  - A. Financial benefit estimates are based on strategic sourcing of key goods and services as well as implementation of additional value levers developed through short- and medium-term initiatives within category management. This is calculated based on the category strategy spend identified, a portion of which is considered addressable spend, along with experience of addressability and savings benchmark to calculate the benefits.
  - B. A portion of the total estimated benefits from the GTHA Procurement Table for the City are included, the breakdown by municipality is calculated at a high level. These benefits are only feasible if all members agree to execute the GTHA project and savings depend on aligning terms and conditions for purchasing.

Savings are calculated based on the 2023 addressable spend and do not consider inflation or timeline to achieve the savings. It is anticipated that savings would grow at the same rate as addressable spend. While the estimates are annualized, it may take a couple of years to realize the benefits given the complexity and change management needed, particularly for initiatives with the GTHA Procurement Table.

Estimated savings in future years (beyond Year 3) may be higher if:

- Appropriate number of qualified internal staff are in place within PMMD to work on the opportunities. Funding would be required to review the skill gap of all procurement staff and provide additional training to address the skills gap.
- Divisions provide full commitment to work with CMSS under the category management operating model (including established governance structure).
- Scope and size of potential savings could increase significantly if the opportunity were expanded to ABCs.

Area and Description of Opportunity	Annual Savings* When Fully Implemented
A. Estimated benefits from opportunities identified in category strategy (for construction, facilities management, and IT)	$59 - $92M
B. Potential benefits for the City from streamlining contracts and aligning prices across the region through the GTHA table for IT and Fleet categories	$13 - $16M

** Savings may include budget savings or cost avoidance*

Implementation Cost	
Total cost of implementation - upfront costs for implementation and ongoing costs for program sustainment	8% - 15% of total savings

Note: Current CMSS complement of resources may have to be reviewed based on portfolio of opportunities

It is estimated that the City will be required to ramp-up internal resources to pursue the identified benefits. In addition, the City could consider supplementing internal staff capabilities with specialist external support to accelerate realization of identified benefits as well as help further operationalize the category management concepts. A high-level estimate of the implementation costs is provided in the table below. Note that the estimates below are one-time implementation costs that would result in significant recurring benefits for the City.

Implementation Assumptions

- Shift to category management formally communicated to relevant stakeholder groups within one year.
- Scope expansion follows the same project methodology and implementation as existing category management exercise.
- The GTHA Procurement Table implements Tranche A opportunities.

Implementation Roadmap

Activity	Year1	Year 2	Year 3
Confirm scope for expansion across City, and mandatory nature of new scope and prepare procurement documents	■		
Determine and action implementation methodology (e.g., staff or external advisors)	■		
Execute already identified opportunities	■		
Define new opportunities in category strategies and execute	■	■	■
Implement IT and Fleet opportunities with the GTHA Procurement	■		

Identify and execute additional opportunities with the GTHA Procurement Table			
Confirm scope for expansion to ABCs, develop Governance model, and conduct detailed analysis of ABC spend			
Define opportunities at ABCs and execute			

Implementation Risks

- Potential difficulties regarding the technology rollout of SAP for categories rated as high implementation complexity.
- Risk of City divisions pushing back against PMMD and not collaborating for implementation of opportunities without a clear mandate from Council.
- Ongoing risk of PMMD being able to track contract compliance and having visibility of organization spending.
- City Council could question need for additional FTEs and request procurement transformation happen within existing headcount.
- Risk of GTHA Procurement Table opportunities not proceeding as all members are required to extract full value.
- Without the capital plan as developed as it could be in the outer years, proper procurement planning cannot occur and as such category management cannot be achieved effectively.

Implementation Dependencies *(Includes Council, Provincial and Board Approvals)*

- Potential council approval to allow project scope expansion of the PMMD Category Management implementation, and subsequent funding for its implementation.
- Realization of savings stated for initial wave and completion of education/training of category management resources.
- Achieving savings from the GTHA Procurement Table requires all members to agree to execute.

Multi-Year Service Impacts

Positive service impacts through faster and more visible procurement process, allowing strategic initiatives to be delivered sooner. Reduced costs also free up expenditures for improved services or investments in the same or other areas of the City. Since the introduction of Category Management & Strategic Sourcing, divisions are actively identifying large, high risk and highly complex projects and requesting strategic sourcing, particularly within the top five spend categories. The result is an increasingly positive relationship between PMMD and Divisions, which will contribute to future positive outcomes and increased benefits associated with strategic sourcing through Category Management and Strategic Sourcing.

Equity Impacts and Considerations

No equity impacts are anticipated.

Alignment to 2018 Long Term Financial Plan

This opportunity aligns with Principle 2 (“Improve Value for Money”) of the City’s Long Term Financial Plan, specifically through goods and services procurement, which the City has identified as a significant cost driver. It notes the City may not be achieving full value in its competitive bid process due to the high barriers to entry in the public market place. It recommended the strategic sourcing project currently underway with an emphasis on modernizing the procurement operating model to maximize value for money.

Previous Council Direction and Alignment to Current Priorities

Council approved the commencement of the Supply Chain Transformation Program in 2015, with the approval of SAP Ariba implementation in 2016. The Long-Term Financial Plan had recommended a three-year sourcing procurement transformation based on a savings target consistent with comparable market benchmarks and maturity. In 2020, Council authorized the Controller to enter a contract with external consultants to assist the Purchasing and Materials Management Division on implementing Phase 2 of Category Management and Strategic Sourcing with a goal of achieving $110M in benefits. Three subsequent reports were delivered to the General Government and Licensing Committee over the course of 2021 and 2022.

Change Management Considerations

- Continue to deliver on the training program developed as part of the current CMSS project.
- Communicate results from the current work undertaken by CMSS to wider stakeholders and leverage this to generate further buy-in for expansion of category management.
- Update Category governance process descriptions, reporting requirements as expansion plans are formalized.

3. Review transit expansion plans

Indefinite deferral of operations of Eglinton Crosstown (Line 5) & Finch West (Line 6) beyond 2024

Division: *TTC*	
Current State	**Opportunity**
Eglinton Crosstown (Line 5) & Finch West (Line 6) are nearing completion in 2023 and scheduled to commence operations in 2024, promising improved connectivity and expanded service coverage. Separately, the Scarborough Rapid Transit (SRT) is reaching the end of its life and will be decommissioned in November 2023; to ensure continued service, an incremental bus service will replace the SRT for several years. The SRT does not present an opportunity as there is no clear alternative to consider at this time, but is noted here for completeness of the discussion of current state rapid transit projects requiring short term decisions.	The opportunity exists to achieve significant cost savings by deferring the operation of Eglinton Crosstown (Line 5) and Finch West (Line 6), currently planned for 2024. By postponing their operational launch, the City can potentially realize gross savings of $133.3M per annum. This would be partially offset by incremental expenses of $17.4M per annum for the use of buses as an augmented transportation solution and a projected loss of revenues amounting to $9.8M per annum. Overall, this decision would result in a net savings of $106.1M per annum, contributing to the City's objective of reducing fiscal pressures.

Rationale

Medium-long term suspension of Line 5 and Line 6 operations presents a viable solution to assist in addressing the increased fiscal pressure faced by the City. By carefully evaluating the financial implications, potential cost savings, and alternative transportation options, the city can optimize resource allocation, improve financial stability, and ensure efficient service delivery. This initiative aligns with the City's objective of responsible budget management while prioritizing critical investments and maintaining a sustainable public transportation system.

Ongoing Initiatives

NA

Financial Impact

Addressable Spend	2023
Annual operating costs for Line 5 & Line 6	$133.3M
Less: Offsetting annual expenses and loss of revenues	($27.2M)

Financial Assumptions

See Implementation Risks section below

Area and Description of Opportunity	Annual Savings When Fully Implemented
Net Savings (gross savings and offsetting expenses shown above)	$106.1M

Implementation Roadmap

Activity	Year1	Year 2	Year 3
Make decision with regards to commencing operations or not re each of Line 5 and Line 6 and execute decision.	■		

Implementation Risks

1. This opportunity is dependent on the City's negotiations with the Province of Ontario, with deferral possible only if the Province also does not assume the funding responsibility that the City is not financially equipped to cover.
2. Collective bargaining agreements and the management of labour negotiations pose potential challenges and costs for delaying launch.
3. Political and reputational risks from the deferral, specifically the perception that the considerable capital investments from tax-payer funding are wasted.
4. Incremental costs for future launch and ongoing maintenance must be considered for ensuring safety and integrity of assets.
5. Prolonged bus operation may result in incremental capital and operating & maintenance costs.
6. Legal obligations made to third parties can lead to financial penalties and disruptions.

Implementation Dependencies

Coordination with other transit services.

Multi-Year Service Impacts

The specific trade-off between buses and rapid transit is to be determined, leading to uncertainties regarding the long-term service impacts. However, the potential increases in wear and tear on roads, and other traffic- caused issues, resulting from the introduction of bus service should also be considered. Further evaluation is required to assess the precise effects on service quality and efficiency.

Equity Impacts and Considerations

- Delaying the operation of Line 5 and Line 6 will lead to a temporary loss of rapid transit access for some residents and could disproportionately affect individuals who rely on efficient public transportation for essential services, employment, and daily commuting needs.
- Implementing additional bus services instead of Line 5 and Line 6 may have ESG implications by potentially contributing to elevated greenhouse gas emissions, air pollution levels, traffic congestion, and noise pollution, which could adversely impact the environment and the quality of life in affected areas.

Alignment to 2018 Long Term Financial Plan

This opportunity aligns with Principle 4 - Improve focus on financial balance sheet & health - and additionally with Principle 2 - Improve value for money. In particular, it aligns to the following sub-pillars:

- Financial health metrics (Principle 4): By closely monitoring key financial health metrics, the City can ensure transparency, accountability, and effective resource allocation. This commitment to financial health metrics promotes long-term financial stability and prudent financial management, aligning with the goal of improving the City's financial balance sheet and health.
- Address capital financing and funding costs (Principle 2): By addressing capital financing and funding costs, the City can maximize the value obtained from financial investments, aligning with the goal of improving value for money. Strategic management of financial resources can help minimize costs and ensure sustainable financing for capital projects.

Council Direction and Alignment to Current Priorities

NA

Jurisdictional Evidence & Independent Research

NA

Change Management Considerations

NA

B. Improve Productivity

1. Embed digital principles in service delivery

Accelerate the transition of services to online and digital channels to improve resident and business experience by maximizing self-service, providing a consistent customer service experience, build trust in the City's services, and optimize customer service delivery in a cost-effective manner.

<table>
<tr><th colspan="2">Division: All resident facing divisions starting with 311 for digital & back office functions for automation</th></tr>
<tr><th>Current State</th><th>Opportunity</th></tr>
<tr><td>The City of Toronto has been progressively increasing the use of technology to improve resident and business customers' experiences and service delivery:

▸ In January 2023 the City introduced the Customer Experience Division (CXD) to design services around users and their cross-divisional journeys, and drive clarity on outcomes and benefits associated with technology investment.
▸ 311 invested in an omni-channel customer engagement platform that has substantially driven down costs per interaction and has the potential to scale, providing a more consistent experience across divisions.
▸ MLS has introduced the ability for residents to renew pet licenses online, both PTC Licenses and Business License Renewals are principally done online, and PFR has over 80% of its program activities booked through online channels.
▸ In the Social Services sector, Human Services Integration has been steadily progressing for several years.
▸ The City implemented a Salesforce CRM solution at an enterprise level to centralize, track, and manage resident interactions with the City, and in 2023 will be requesting Council approval for the implementation of a new a Program Registration and Recreation Facilities/Space Booking System.[11]

Although this change is ongoing, it is evident that digitization in the City is still largely happening in silos and from a divisional</td><td>The City should invest in people, processes and technology to take further steps to make services accessible through digital channels to enhance customer experience, lower the operating cost of service delivery, and allow staff to focus on more complex cases that require human intervention. Specific opportunities to enhance and embed digital service delivery across the City include:

Empower the Customer Experience Division (CXD): The City's CXD should be empowered to identify, prioritize, quantify, and measure benefits realization from its portfolio of projects as well as for future digital initiatives. Clear governance and a clear mandate are required to empower CXD, augmented by a plan to collapse transformation teams into his division over time to grow digital talent and expertise, empower agile and multi-disciplinary teams, and ensure some enforcement of City standards rather than having divisions independently making decisions.

Technology and process standardization: Provide a mandate to support the framework for the standardization of business processes and technology solutions. Strengthen architectural frameworks to protect City standards for security, privacy, and accessibility, while encouraging loud-based vendor relationships that make sense, especially ones that are compensated for creating value or adoption (e.g., PayIt). Economies of scale can be leveraged from a purchasing perspective as well as efficiencies gained through process reengineering and increased speed of</td></tr>
</table>

[11] City of Toronto Council Agenda Item - 2023.GG4.21, May 2023: https://secure.toronto.ca/council/agenda-item.do?item=2023.GG4.21

perspective; therefore, customers continue to experience fragmented practices. In 2022, the City adopted the Digital Infrastructure Strategic Framework (DISF) to guide a standardized, integrated approach to decision-making related to the City's digital infrastructure.[12] The goals are to provide: ▸ A clear framework to guide questions about proposed or deployed digital infrastructure in Toronto; ▸ Enhanced transparency and insight into decision- making associated with digital infrastructure enabling greater trust and confidence in government services; and ▸ Consistent guidance and standards for new digital infrastructure initiatives for City divisions and services, particularly for emerging issues such as digital equity and inclusion. From an internal services perspective, the City and its ABCs have considerable scope to introduce and expand the use of emerging technologies, such as Robotic Process Automation (RPA). Numerous interviews and engagement sessions have identified that City processes, particular those in payroll, AP/AR, finance, human resources onboarding, and purchasing, tend to be complex, difficult to change, frustrating for staff, and overly strict. Back office process frustrations can encourage the development of shadow functions, reduce the effectiveness of resident- and business-facing service delivery, and result in increased costs.	implementation. This includes creating a 5-10 year roadmap for the use of technology. 311 Digitization: Introducing more digital services on the City's established customer engagement platform and leveraging technologies such as RPA and Machine Learning could result in opportunities to repurpose staff to more value-add services or generate savings. Increasing digitization could provide more self-service options to clients and could allow staff to focus on the increasingly complex cases that are most challenging and highest risk, without compromising service times. 311 Expansion: Merging the operations of ABC call centres into 311 Toronto provides the potential for cost-savings and standardized service levels while establishing 311 as the City's central hub for citizen- facing service information. Increased automation: Opportunities exist to implement Robotic Process Automation (RPA) to automate manually intensive processes, resulting in savings, service level improvements, and reduction in manual errors. RPA solutions are potentially viable in a number of back office areas including payments processing, procurement, human resources, and accounting, and have been broadly implemented in the private and public sectors. RPA is particularly viable in high volume, high frequency transaction areas, as it can process 24 hours a day, 7 days a week, often more efficiently and with fewer errors than a human. This is particularly true for tasks that include data input, data output, data validation, and data quality management.

[12] City of Toronto Digital Infrastructure Strategic Framework: A new principles-based approach for the planning and use of technology and data in Toronto, March 2022: https://www.toronto.ca/legdocs/mmis/2022/ex/bgrd/backgroundfile-222957.pdf

Rationale

This opportunity is expected to deliver the following benefits:

- An empowered Customer Experience Division, that can help to drive a consistent approach to digital service delivery across the City driving self-serve adoption and maximizing the value of investments in technology and personnel;
- Savings from increased 311 digitization, 311 expansion, and leveraging RPA;
- Releasing staff time from manual and repetitive processes towards higher value-added activities;
- Mitigate risks associated with not digitizing and maintaining paper-based documents, manually intensive processes, and losing or failing to attract quality resources.

Ongoing Initiatives

311 digitization is ongoing as part of a multi-year program, including examining opportunities to expand service delivery into non-emergency calls for ABCs, where engagement and discussions are ongoing.

The City has also rolled out is Customer Relationship Management (eCRM) software and there is ongoing work to leverage this as a single platform for customer engagement.

- Phase 1 of implementing an eCRM platform was launched in 2019 with an initial pilot consisting of Toronto Water and Municipal Licensing & Services. Benefits included a reduction in integrations time from over a year down to three months, and a 47% reduction in the number of clicks to create a Service Request (SR) which equated to a 26% reduction in SR handling time.
- In Q4 of 2021, Phase 2 was implemented with the full launch of the new eCRM. In January 2022, a mobile app and the online self-serve portal were launched as part of the vision to transform and modernize the way residents connect with the City. After the launch of Phase 2 and with the digitization of over 600 SRs, 311 has noticed a 55% increase in self serve online requests (deflection from manual channels). This equates to a savings of approximately $417K per year in operating expenses, wit the savings redistributed into 311 for expansion of services and further digitization efforts.
- It is estimated that with the eCRM, the total cost of ownership benefits would result in $10.8 million in savings over the next 7 years, comprised of deflection of calls to self-serve channels, lower in-house sustainment costs, process improvements such as less clicks needed to create a SR, and more general inquiries phone traffic pushed onto the 311 Knowledge Base.

Priority initiatives for 2023 include Close the Loop (311 case closing and call completion), managing complaints and compliments, and expanding MyToronto Pay for more personalized online payment experiences with notifications, e-billing, and auto-pay features.

To-date, there have been no mergers of call centers into 311; however, potential for such integration holds promise for streamlining operations and achieving greater efficiency. The City created the CXD in 2023 to have a center-led approach that promotes standardization of processes, policies, and technologies across the organization. This approach would not only enhance coordination and information sharing but also result in economies of scale, reducing duplication of efforts and associated costs. To achieve call centre consolidation, strong centre-led direction and a change in culture are required. Shelter, Support & Housing Administration (SSHA) counters will physically be collocated at Metro Hall by Q3 2023 providing an opportunity for closer collaboration and integration with 311. Additional consolidations and mergers to be explored for other City divisions and teams, including Toronto Water Customer Care, Municipal Licensing & Standards, Toronto Public Health, Toronto Building, Human Services Integration, and SSHA.

Jurisdictional Evidence & Independent Research

- Service Ontario: Service Ontario has achieved significant cost savings by expanding digital offerings and online services, reducing its cost per client served from approximately $11.00 for in-person transactions to $4.72 for online transactions.[13]
- Driver & Vehicle Licensing Agency (DVLA), UK: DVLA has invested significantly in incorporating digital and online service offerings to streamline driver and vehicle licensing in the UK. DVLA has achieved an over 90% take-up of its total service offerings, including over 70% of people applying for their first license online and over 33 million individuals paying their vehicle tax online. In addition to enhancing client service and streamlining its operations, DVLA achieved a 19% operating expenditure reduction by 2016 compared to its 2013/14 budget, with a further expected £200M in savings from exiting a longstanding outsourced IT contract.[14]
- RPA with a Provincial Government: A Canadian provincial government implemented RPA to transform its Accounts Payable (AP) process. The government started by conducting a pilot with a single ministry's AP volume, automating the distribution, processing, and verification of over 30,000 invoices on an annual basis. The provincial government deployed RPA to automate the process, increasing the speed and efficiency of invoice processing by a minimum of 300%. The success of the pilot has led the provincial government to release an RFP to significantly expand its RPA usage.
- RPA at a global professional services firm: A global professional services firm implemented RPA to streamline its new hire and onboarding process. RPA was introduced to validate the information in new hire forms, engage over email with new hires to correct missing information, replicate information into HR, payroll, and other core systems and notify internal parties of each new hire's start date. Prior to implementing, the new hire process took approximately two hours and fifteen minutes; with RPA implemented the process takes 3.5 minutes, a 97% reduction in effort. Leveraging RPA allowed over 80 human resources professionals to be redeployed internally to more value-added activities such as talent management.

Financial Impact

Addressable Spend	2023
311 Service Delivery operating budget	$17.8M
City division back-office salaries, wages and benefits (HR, Payroll, Accounting, Revenue Services, and Purchasing)	$136.5M
Major ABC back-office salaries, wages and benefits (HR, Payroll, Accounting, Revenue Services, and Purchasing across the TTC, TCHC, TPS, and TPA)	$81.2M

Financial Assumptions

- To estimate City back-office salaries & wages, 2022 actual salaries and benefits data was provided by the City and grown by 2% inflation to 2023.
- To estimate ABC back-office salaries & wages, 2018 actual salaries and benefits data was used and grown by 2% inflation to 2023. ABC data for more recent years was not readily available.

[13] MGCS "Big Bold Ideas", Omnibus Digital bill in Spring 2019 Section
[14] Making a Success of Digital Government. Institute for Government. October 2016.

311 Digitization and Expansion:

- Shifting the channel of low to medium complexity calls ($7-$11 per call) into web and mobile channels to achieve a target of 30%-40% online interactions. Savings is dependent on the adoption of the platform which drives economies of scale. Assume complex calls and counter interactions would remain unchanged.
- Does not assume service volume increases; if service volumes were to increase (they have been historically estimated to increase 2% per year) the mix of online and email channels would still be lower cost channels to resolve these service requests and growth should be driven to these channels.
- With additional financial investment, the City could further enhance the digitization efforts and achieve benefits beyond the above-mentioned targets. The City anticipates that a reasonable goal of 55% online interactions is attainable through the integration of Artificial Intelligence (AI) technology. 311 can utilize AI to further drive automation of a significant portion of the general inquiry calls (which represent approximately 70% of total call volumes). Further investments in technology infrastructure, AI research, and development would be necessary to achieve this.

Intelligent Automation:

- A conservative approach has been used to estimate savings; implementations at other Canadian municipalities are targeting between 40%-60% (Low) and 70%-90% (High) automation of a process with no manual intervention.
- Implementation efforts depend on the complexity of processes, number of variations, number of escalations (manual interventions), and number of interfaces designed. Includes process mapping, analysis and assessment and RPA development and deployment from include:
    a. Implementation costs range from $500k - $1.0m
    b. RPA license (annual cost): $100k for every 200k transactions, with a minimum of approximately $50k.

Area and Description of Opportunity	Annual Savings* When Fully Implemented
311 Digitization: shifting calls to online (web and mobile) channels to achieve 30%- 40% of interactions though online and email channels	$1.7M - $3.8M
Back-office RPA	$7.6M - $18.5M

** Savings may include budget savings or cost avoidance*

Implementation Cost	
311 Digitization: Social media advertising to drive online take-up (does not include use of Toronto.ca, Toronto branded social media accounts, and 311 call centre)	$0.25M
Intelligent Automation (front-line or back-office) implementation pilot	$0.5M - $1.0M
Intelligent Automation licence fees per 200,000 transactions	$0.1M

Implementation Assumptions

- Based on previous discussions with business areas, and on the portfolio of other technology projects underway or being considered (Salesforce CRM, SuccessFactors, Kronos Time and Attendance), the first wave of RPA projects should likely be targeted towards Accounting and Payroll (PPEB). These areas are less likely to be disrupted by other technology implementations in the short term and could recognize significant benefit from early adoption.
- 311 Digitization and Expansion:
  - 311 digitization assumes a clear CXD mandate, funding, and roadmap of services is approved and that shifting services online can be managed through existing resources at 311 and CXD.
  - Migration of tier 0 and tier 1 service delivery to 311/CXD plus transformation project teams to CXD to accelerate digitization.
  - CXD / TSD accountability for driving business change and technology enablement respectfully.
  - Clear set of enterprise technology tools for end-to-end digital CX including single login, customer engagement, payments, income verification, etc.
- Intelligent Automation:
  - Percentage of staff with transactional processes eligible for automation ranges by service area, but in each case a low and high range has been used to identify a potential benefits range.
  - Percent of eligible processes pursued for automation varies by process area, based on prior experience of implementing RPA.
  - Examples of processes that could be targeted:
    - HR: Onboarding and cross-boarding; compensation changes; managing compliance with professional standards (continuing professional education, mandatory learning, etc.)
    - Payroll: Seniority calculations; variance reporting calculation and verification; variance reporting reconciliation for EMS; WSIB calculation.
    - Accounting: Account reconciliations; accounts payable; accounts receivable
    - Purchasing: Purchase order update; goods receivable note; invoice processing
  - Implementation considerations include:
    - Implementation pilot including initial assessment, process mapping and analysis, development, testing and deployment for simple to complex processes.
    - Potential professional services costs are one-time costs specific to each implementation.
    - RPA license costs are annual operating costs.
    - Some RPA products operate on a price-per-process basis as opposed to a number of bots deployed basis; early stages of the RPA roadmap and strategy should include an understanding of which technologies / vendors operate on which basis, and the relative strengths of those technologies.

Implementation Roadmap

Activity	Year1	Year 2	Year 3
311 Digitization: Identify high volume / high cost services to accelerate			
Align service acceleration with CXD digital plan			
Shift services online			
Engage Communications for social media/web campaign			
Social media/web campaign execution			
311 Expansion: Identify opportunities to accelerate adoption of ABC call centre services			
Develop governance model for service delivery and implementation plan for expansion			
Broaden adoption and digitization of ABC call centre services			
RPA: Develop roadmap for RPA process transformation			
Procure vendors and implementation support and identify appropriate RPA technology(ies) to implement			
Launch first wave of RPA projects			
Assess benefits and refine strategy			
Launch second wave of RPA projects			

Implementation Risks and Considerations

- Labour groups may have concerns due to potential changes to workforce complement and staffing requirements. The City must also be prepared to manage potential public opposition or concern over any consolidation undertakings.
- The opportunity may also face ABC pushback regarding potential autonomy concerns resulting from the integration, as well as any policy, regulatory, and legal changes that may be required to consolidate an ABC service within a City division.
- Engaging in process improvement activities in parallel with implementing RPA can generate increased benefits over automating poor processes.
- Conducting an effective technology selection process will reduce the risk of regret capital.
- There may be opportunities to use savings generated from initial RPA implementations to fund expansion of RPA, demonstrating value while keeping momentum behind the implementation.
- Additional factors such as increased population growth, societal trends towards equitable channels of choice, and unprecedented events such as COVID, the Vacant Homes Tax, or the upcoming FIFA 2026 World cup are potential challenges that can hinder reaching the aspirational digital targets.

Implementation Dependencies *(Includes Council, Provincial and Board Approvals)*

- Board approvals may be required for ABC participation in 311.
- Policy changes would accelerate digitization, such as ‘mandatory online’ and empowering community providers in the social services space.

Multi-Year Service Impacts

Increased automation and digitization should improve access to services for residents; in-person and phone services will also continue to exist, resulting in minimal impact for those who do not access online services. To drive adoption of digital channels, service levels for phone lines may need to be intentionally decreased.

Equity Impacts and Considerations

There are no anticipated equity impacts, assuming that channel access would still be provided for individuals without access to required technology

Alignment to 2018 Long Term Financial Plan

This opportunity strongly aligns to Principle 2: Improve value for money. In particular it aligns to the following sub-pillars:

- Human resources and staffing: Digitization represents an opportunity to reduce staffing-related costs associated with call centre operations, allowing resources to focus on higher-value and more complex cases
- ABC costs: Opportunities exist to expand 311 services to non-emergency call centres
- Investing in modernizing government: Digitization is an innovative solution to provide value for money and enhance customer experience

Previous Council Direction and Alignment to Current Priorities

This opportunity strongly aligns to Principle 2 of the Long-Term Financial Plan: Improve Value for Money. In particular, it supports rationalizing human resources and staffing, supporting reductions in ABC costs, and investing in modernized government.

Change Management Considerations

- 311 Digitization: Change management considerations associated with employees changing job roles may be required in 311.
- RPA: Maximizing benefits from RPA implementations often involves transforming or improving processes alongside the implementation. Change management consideration should be given to supporting staff with process changes and communication impacts across the organization.

2. Rostering and time and attendance

Reduce overtime expenditures and improve tracking and management of payroll rules to reduce overall compensation spend

Division: *All Divisions and ABCs that have hourly employees or overtime expenditures*	
Current State	**Opportunity**
There is no consistent approach to time and attendance or rostering across the City, with some Divisions still tracking schedules and time and attendance manually. Errors and over- and under- payments occur on a periodic basis and require manual intervention to be fixed. A technology solution for time and attendance has been in the process of being rolled out across the City since 2015, but is not complete as of yet. For example, in Toronto Paramedic Services, continuing healthcare system pressures and recruitment and retention challenges continue to require significant amounts of overtime. In addition, a number of City and ABCs employees are compensated on an hourly basis and are eligible for overtime; overtime pay across the City, TTC, and TPS amounted to $175M in 2022 (source: CoT Finance interview May 2023).	The implementation of a time and attendance system, including CBA - compatible attendance sick time management for hourly and other applicable workers, and improved management of payroll rules have proven to reduce overall compensation spend by up to 5% in other implementations in public sector environments. This can be achieved without negative impacts to service levels or equity. In addition, rostering could be implemented in demand-driven services, where historical data can be used to better match staff to demand and, where required, to help ensure that the right mix of expertise is available at any given time.

Rationale

Improved scheduling practices and controls offer an opportunity to reduce costs driven by premium rates for overtime hours without negatively impacting availability of skills/experience or staff morale.

Ongoing Initiatives

The City has been rolling out an improved time and attendance solution since 2015.

1. Toronto Paramedic Services has changed its deployment and rostering model over the last decade and has been successful in managing costs, even as demand has increased and it is still ongoing.
2. In 2017, Toronto Paramedic Services implemented “Kronos” to improve ambulance availability or staffing but it only allowed the addition of schedules and demonstrated some modest reduction in the end-of-shift overtime.
3. In 2022, Toronto Paramedic Services implemented “Schedule 9” to reduce end-of-shift overtime and improve staff engagements and meal break provisions.

Jurisdictional Evidence & Independent Research

Through the use of rostering, the state of New South Wales in Australia was able to reduce overtime costs and accrual of additional days off in the health care system, while at the same time increasing fairness and transparency for staff.

Financial Impact

Addressable Spend	2023
Overtime spending across the City, in all rostered areas	$175M

Financial Assumptions

- Addressable spend obtained from City finance staff
- Additional savings may be achieved through improved management of payroll rules and use of a common pay system

Area and Description of Opportunity	Annual Savings When Fully Implemented
Reduction in overtime	$15.0M - $17.5M

Implementation Cost	
Total cost of implementation	8 - 15% of total savings

Implementation Assumptions

- It is estimated that the City may need to add internal resources to pursue the identified benefits. In addition, the City may consider supplementing internal staff capabilities with specialist external support to accelerate realization of identified benefits as well as help further operationalize rostering and maximize the value extracted from the new time and attendance system.
- Recognition that some overtime is inevitable given staffing/hiring constraints and nature of work across many of the impacted divisions/ABCs
- Reduction in overtime assumed to be 10% based on past experience; overall ability to reduce expenditures on overtime may be constrained by collective bargaining agreements and nature of certain services
- Fully taking advantage of improved time and attendance monitoring and rostering will require a detailed assessment of the current constraints imposed by collective bargaining, payroll rules, and demand-driven services; this assessment should be rigorous to ensure that unintended consequences are minimized
- Rostering and shift changes will need to be developed and rolled-out in co-operation with bargaining units, and could potentially be included in the next round of collective bargaining
- City should consider assessing gaps in currently planned roll-out of technology for scheduling; consider expansion to an appropriate rostering and/or skills mix approach to scheduling
- Suitable time and attendance tracking systems are in place

Implementation Roadmap

Activity	Year1	Year 2	Year 3
Assess current scope of overtime spend and payroll errors by division/ABCs and bargaining unit	■		
Assess divisions/ABCs with overtime spend and payroll errors for current CNBA provisions that may constrain scheduling changes	■		
Prioritize divisions and ABCs for accelerated time and attendance software implementation and rostering changes	■		
Roll out software implementation	■	■	
Shift rostering models		■	■

Implementation Risks

- Rollout of time and attendance solution is delayed
- Engagement with bargaining units does not deliver expected potential benefits

Implementation Dependencies *(Includes Council, Provincial and Board Approvals)*

- Requires Council approval due to potential impacts on CBA process
- Realization of savings dependent on council and labour buy-in
- May require considerable change management for impacted employees

Multi-Year Service Level Impacts

None to slightly positive. Better scheduling practices can reduce overtime hours, which in turn reduces sick leave and improves employee satisfaction.

Equity Impacts and Considerations

No equity impacts are anticipated.

Alignment to 2018 Long Term Financial Plan, Current Priorities, and Previous Council Direction

Principle 2 of the City's Long-Term Financial Plan, Improve Value for Money, specifically mentions Human Resources and Staffing as a driver of the City's overall financial position, and recommends working respectfully with bargaining agents to address increases to the City's wage bill.

Change Management Considerations

Will require sustained engagement with bargaining units

3. Expand shared services delivery to realize efficiencies in support functions

Consolidate common services across the City and ABCs to a shared services model to focus competencies and reduce duplications and overlaps

<table>
<tr><th colspan="2">Division: Specific back office functions across all City divisions and multiple ABCs</th></tr>
<tr><th>Current State</th><th>Opportunity</th></tr>
<tr><td>The City implemented a shared services project for a number of internal services beginning in 2013; it was estimated to have created cumulative efficiencies of $37M as of 2016. However, there are still instances of common services and operations that are replicated across divisions and clusters (e.g., IT staff and operating expenditures across divisions, lease administration at CreateTO), with the duplication of functions being especially noticeable between the City and its ABCs. Consolidation of common services into a single (or two) shared services units could also help in the standardization of activities and outputs and bring about scalability/flexibility in the City’s operating model by leveraging economies of scale.

Based on interviews with City Finance staff, the current state and opportunity largely remains unchanged since 2019, except for a small number of new opportunities identified through those discussions.</td><td>By building on its experience of shared service implementation, the City should consider moving more common services to a shared services model to further optimize the workforce and reduce duplication of efforts across the City. In combination, the City could expand the client base of existing and new shared services to most, if not all, divisions, and ABCs. Consolidation of resources could improve interaction, communication, and responsiveness while providing a single “corporate-wide” view, essentially, ‘this is how the City does something’, to support decision-making instead of operating in silos.

There is also an opportunity to continue expanding the integration of Fleet Services across the City, including bringing in more ABCs. Fire Services, EMS, and Parks, Forestry and Recreation still maintain and manage portions of their own fleet separately from Fleet Services. In addition, the TTC manages a fleet of approximately 1,000 non-revenue vehicles separate from Fleet Services.

Several specific opportunities for increased savings have been identified, including:

‣ Centralising recruitment into a shared services unit, with individual recruiters retaining divisional focus;
‣ Consolidating service providers for similar categories of services and establishing a standard agreement/contract template, especially on basic terms & conditions, for such services;
‣ Centralising technology support systems and resources instead of having divisional technology teams;
‣ Standardizing what is understood to be at least 31 revenue streams, each with their own systems, support, and resources. Note that</td></tr>
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	this is in scope for FSTP to address from a technology perspective; ▸ Standardizing the 27,000 ways of paying an invoice (Management letter from KPMG for audit 2020 report dated December 15, 2021) into a significantly smaller number, perhaps 270. . This may require RPA technologies which are addressed in the "Embed Digital Principles in Service Delivery (Digitization of Services) 5 June" business case.

Rationale

- Operational efficiencies – Shared service implementation is expected to bring efficiencies in operations by reducing duplication, standardizing processes which in turn enhances staff flexibility and simplifies contractor/service provider relationships, and allows for faster decision making
- Cost Savings – Shared service implementation is expected to generate savings in staffing costs owing to the elimination of redundant positions across the organization
- Culture enhancement – A common "City-way" of doing things breaks down silos or "independent warring fiefdoms" (as one interviewee described the City) and begins the process of having staff see themselves as working for the City rather than a given division or ABC.

Ongoing Initiatives

- Fleet Services is discussing with TTC the management of roughly 1,000 non-revenue vehicles. Preliminary analysis however indicates that Fleet Services does not have sufficient resources to support adding the TTC fleet, and therefore a budget transfer from TTC is needed to meet maintenance costs.
- City-Wide Real Estate Transformation has been underway since January 2018, with the intent to move to strategic decision-making and increased co-ordination.
- In 2013, IT proposed a consolidated operating model and conducted refresh workshops with ABCs and corporations in 2021. Since then, TSD established a quarterly roundtable with key stakeholders. The focus shifted from shared services to center-led standardization, primarily standardizing policies across City divisions. The DCTO Standardization was hired to advance this mandate. However, to date, no savings have been realized from these efforts.
- PEHR made an initial attempt to implement centralized recruiting but had limited success potentially due to staffing and/ or technology-related issues.
- The FSTP project will provide additional opportunities for shared services and process and technology standardization for enterprise-wide finance processes, once it goes live and stabilizes between late 2024 and mid-2025. FSTP will also enable a substantial transformation of City of Toronto enterprise finance functions and enable increased finance-shared services.

Financial Impact

Addressable Spend	2023
City divisions - Salaries and Benefits costs in HR, IT, Real estate, Legal, and Finance	$296.1M
ABCs - Salaries and Benefits costs in HR, IT, Real Estate, Legal, and Finance ▸ TCHC ▸ Police ▸ TPA ▸ TTC	$127.6M

Financial Assumptions

- Shared Service providers have the ability and commit to ensure adequate capacity and service delivery before onboarding functions from additional divisions/ABCs
- Alignment or transfer of resources from divisions and ABCs to internal service providers is feasible [under terms of applicable CBAs]
- Efficiencies through consolidation of “shadow functions” are estimated at 8%-10% of FTE and certain other operating expenditures, due to attrition, economies of scale, and elimination of redundant systems. However, it is not likely that all divisions and ABCs will be able to participate in a single shared service environment and therefore the savings has been reduced to 6-8%
- Addressable spend derived from 2022 budget numbers and grown by inflation at 2% to 2023

Area and Description of Opportunity	Annual Savings When Fully Implemented
Efficiencies through consolidation of shared services within the City (S&B cost) and through expansion to ABCs	$25.4M-$33.9M

Implementation Cost	
Total cost of implementation	8%-15% of total savings

Implementation Roadmap

Activity	Year1	Year 2	Year 3
Conduct assessment of current state services within City Divisions, identify additional divisions that are appropriate for consolidation, and validate FTE and expenditure assessments.			
Assess levels/standards, capacity, and capabilities of current shared services operations			
Develop requirements for shared services consolidation			
Design shared services structure, operating model, and policy framework			
Assess implementation support and change management requirements for City Divisions and ABCs			
Implement system/technology enhancements to support shared services delivery and enhance capacity across service providers			
Launch consolidation within City Divisions			
Launch consolidation within ABCs			

Implementation Risks

1. Continuous process improvement and re-engineering would be required until the new shared services model reaches the desired level of maturity
2. Stakeholder consultations and continuous engagement is critical to developing a robust operating model framework for the shared services entity
3. Obtaining buy-in from impacted ABCs and divisions, including assessment of mandating shared services vs. recommending it.

Implementation Dependencies *(Includes Council, Provincial and Board Approvals)*

For services within the City, there are no Council or Provincial implementation dependencies. Dependencies are largely related to funding availability to invest in implementing a shared services model. However, including ABCs into the shared services model, shareholder direction and/or Board approval from each ABC may be required.

Multi-Year Service Impacts

Positive – delivering internal support services more efficiently can allow resources and staff time to be redirected to external service delivery.

Give staff greater opportunities to work across the organisation

Equity Impacts and Considerations

There are no anticipated equity impacts

Alignment to 2018 Long Term Financial Plan

This opportunity aligns to Principle 2: Improve Value for Money. In particular it aligns to the following sub- pillars:

- Human resources and staffing: Expanding shared service delivery represents an opportunity to optimize staffing-related costs associated with back-office operations in a sustainable way without reducing service impacts.
- Cost effectiveness: Expanding shared service delivery from divisions to include all ABCs may help to maximize the benefits by leveraging economies of scale

Previous Council Direction and Alignment to Current Priorities

The City has implemented a shared services model across functions such as fleet and IT, and has been able to generate savings. By building on this experience and lessons learned, and by expanding the purview of shared services delivery to all divisions and ABCs, the City may be able to generate increased savings through efficiencies and taking advantage of attrition.

Jurisdictional Evidence & Independent Research

- The Province of British Columbia’s implementation of a broader public Shared Service Organization realized efficiencies of approximately $100M on spending of $1B (10%)
- The Province of Nova Scotia realized savings of 31% through consolidation of its Finance, HR, IT Supply Chain and Asset Management functions, without the addition of intelligent automation

Change Management Considerations

- Ongoing integration and change management may be required to ensure that “shadow functions” don’t become prevalent around the City and offset the benefits of the shared service model; a degree of input or oversight into budget requests should be considered to ensure there is due diligence provided around all requests for funding for what should be a shared service
- There is significant enterprise-wide skepticism about the effectiveness and efficiency of shared services, largely due to previous technology and shared services implementations which may not have fully met their proposed benefits. This skepticism must be overcome through repeated demonstrations of success in quicker win initiatives
- Appropriate communications strategy must be developed to support the roll out of the shared services model
- Ongoing FSTP implementation may limit the problem from worsening, i.e., may prevent further expansion of shadow and duplicative support functions

C. Reduce Foregone Revenues

1. Eliminate Development Charge (DC) exemptions

The City collects Development Charges on a partial cost recovery basis to cover the cost of growth and associated pressures on infrastructure and facilities. There is an opportunity to recover foregone revenue by eliminating these exemptions.

<table>
<tr><th colspan="2">Division: Corporate Finance, Building, Planning, Economic Development</th></tr>
<tr><th>Current State</th><th>Opportunity</th></tr>
<tr><td>The City collects development charges (DCs) every year which go toward growth-related infrastructure and facility needs. The fundamental principle underlying DCs, as described by the Provincial Government is to ensure that growth pays for growth. However, under certain circumstances, DCs are not collected, and the City foregoes revenue it would have otherwise collected. In addition to this, DCs are do not recover the full cost required for growth infrastructure, even before exemptions are considered. The DC bylaw adopted by Council on April 2018 and updated in June 2022 continues exemptions for ‘industrial uses’ and ‘non-ground floor non-residential’.[15] Further, DC restrictions are imposed by the province through the Development Charges Act on the expansion of industrial facilities.[16] Council has also adopted policies to incentivize certain types of development such as for affordable rental housing by waiving DCs.[17]

Statutory exemptions for institutional, intensification of housing/second units, and industrial expansion before the impacts of Bill 23[18] amount to $96M- $106M. Initial estimates of the impacts of further exemptions imposed by the Province under Bill 23 amount to approximately $200M per year.</td>
<td>The City has multiple discretionary development charge incentives in place that equate to approximately $260M - $300M in annual foregone revenue. The actual value of the financial incentives depends on the amount, type and timing of development activity in the City and can vary greatly from year to year. The discretionary exemptions include:
- Non-ground floor non-residential GFA exemption: $190M
- Industrial use exemption: $6M - $20M
- Affordable rental housing: $12M - 30M
- Rental housing - DC rate freeze: $16M - $20M
- Public hospitals: $16M
- Toronto Green Standard DC Rebate: $7M-$10M
  - Other (including Places of worship, Rooming houses, intensification of housing and multiplex exemptions, inclusionary zoning DC rate freeze): $16-$20M

In addition to these, there is further phase in of discretionary bylaw exemptions resulting from 2022 bylaw changes amounting to $400M over two years.

There is an opportunity for the City to recover foregone DC revenue by amending its DC bylaw to remove some of these exemptions. The current Bylaws that reduce revenue through exemptions</td></tr>
</table>

[15] City of Toronto By-law 515-2018: https://www.toronto.ca/legdocs/bylaws/2018/law0515.pdf
[16] Development Charges Act, 1997: https://www.ontario.ca/laws/statute/97d27
[17] Implementing the “Housing Now” Initiative report to Executive Committee, January 11, 2019: https://www.toronto.ca/legdocs/mmis/2019/ex/bgrd/backgroundfile-123663.pdf
[18] Bill 23, More Homes Built Faster Act, 2022: https://www.ola.org/en/legislative-business/bills/parliament-43/session-1/bill-23

A 2018 report to Executive Committee indicated: “DCs do not fully fund the cost of growth-related capital infrastructure. Statutory constraints limit the City's ability to recover the full cost of growth from DCs. As such, a portion of the cost of growth is funded from the City's property tax base and user fees”.[19] As noted above, through Council policies, there are also non-statutory constraints that prevent recovering the costs associated with growth. According to a 2017 consultant’s report, commercial office development in Toronto was strong, particularly downtown. The report goes on to note that while financial incentives would have been needed in previous years to support this growth, the downtown core could likely absorb some additional costs without major market disruption.[20] The impact of changing DC exemptions post COVID-19 have not been analysed.	push the cost of growth onto the existing tax base.

Rationale

The City has been exempting DCs for commercial and industrial developments since amalgamation, resulting in foregone revenue annually. Although the City does not recover the full cost of growth through DCs due to statutory reductions, granting exemptions results in the City needing to further make up the additional cost of growth through the property tax base, violating the principle that growth should pay for growth.

Ongoing Initiatives

The Province approved Bill 23, More Homes Built Faster Act, 2022. This Bill impacts the ability of the city to levy development charges, particularly on housing services. Work has recently been completed to estimate the impact of this Bill on Development Charge Revenue by DC eligible services, and work is currently underway with the Province on the audit of Bill 23’s impacts and growth infrastructure.

[19] Development Charges By-law Review report to Executive Committee, January 10, 2018: https://www.toronto.ca/legdocs/mmis/2018/ex/bgrd/backgroundfile-110942.pdf
[20] Hemson Financial Tools Analysis Report (Dec 2017)

Jurisdictional Evidence & Independent Research

City-wide, the 2022 Hemson Report recommends a transit DC rate for non-residential Industrial uses at $125.05 per square meter and non-residential non-industrial uses at $320.51 per square meter.

The City should review the DC bylaws of competing commercial and industrial cities in the GTHA to determine if similar exemptions are included. In an initial scan of a few Ontario jurisdictions, the following was found:

- Mississauga does not have exemptions for commercial or industrial use, except for industrial expansions, which aligns with the Ontario DC ACT.[21]
- York Region does not appear to have industrial and commercial exemptions that are similar to Toronto.[22]

The City should also take into consideration the commercial property tax rates of competing jurisdictions, and any incentives that are offered for commercial and industrial development.

Financial Impact

Addressable Spend	2023
Development charge waivers for 'industrial uses' and 'non-ground floor non-residential'	$190M-$210M

**Note any DCs collected have a restricted use and can not go into the general pool of funding*

Assumptions

- Addressable Spend is based on estimates provided by the City and a Council briefing note[23] from the Chief Financial Officer and Treasurer, and Chief Planner and Executive Director, City Planning in June 2022; note that this does not factor in the impacts of Bill 23 and consultation may delay implementation, and the value of savings will be impacted by any exemptions that are allowed for areas outside the core.
- Two-year phase-in of 2022 discretionary by-law phase-in amounting to $400M over two years has not been included.
- Statutory exemptions not considered addressable spend but are estimated to total $290 to $390M annually, including $200M+ annually related to Bill 23 impacts.
- No changes in construction volumes in Toronto as a result of cancellation of waiver.
- Changes are phased-in and allow for consultation period.
- City will conduct further analysis on the total competitive position of the City as compared to neighbouring municipalities, when comparing the total cost of constructing in the downtown core and the rest of the City, across both development charges and property taxes.
- Incremental revenues are not used to offset impacts of Bill 23.

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[21] Mississauga DC bylaw: https://www7.mississauga.ca/documents/Business/By-law_0096-2019.pdf

[22] York Region DC bylaw: https://www.york.ca/wps/wcm/connect/yorkpublic/342a3b73-4437-43b1-b5d7-ca5324639ef3/may+10+DC+ex.pdf?MOD=AJPERES

[23] Growth Funding Tools – Development Charges June 2022: https://www.toronto.ca/legdocs/mmis/2022/ex/bgrd/backgroundfile- 228297.pdf

Area and Description of Opportunity	Annual Savings When Fully Implemented
Revenue from the removal of development charge waivers for ‘industrial uses’ and ‘non-ground floor non-residential’	$190M - $210M

Implementation Roadmap

Activity	Year1	Year 2	Year 3
Analyze exemption effectiveness, jurisdictional comparators, and development projections.			
Model scenarios and estimate impacts of bylaw amendment (positive and negative), conduct initial stakeholder outreach to validate data and costs-benefits, and develop report to Executive Committee.			
If approval is obtained from Executive Committee and Council, develop stakeholder engagement materials and conduct public consultations.			
Once consultations have concluded, seek approval from Executive Committee and Council to develop a bylaw amendment.			
Amend bylaw to exclude DC exemptions for industrial and commercial office and begin collection of new full rates in Year 1.			

Implementation Risks

- There is a risk that the City’s competitiveness (considering both DC’s and property taxes) will make it uncompetitive when compared to neighbouring municipalities; this should be studied in further detail.
- There is a risk that changes to DCs will have more of an impact on those areas of the City that are not experiencing the strong growth of the downtown core; this should be studied in further detail, with the potential of having different policies for the core and the rest of the City (as was intended when the IMIT program was changed to eliminate incentives in the downtown core).
- Impacts of Provincial regulations stemming from Bill 23 could have significant impacts on any changes the City considers to Development Charges.
- There is a possibility that the Province may step in to prevent any removal or lifting of existing DC exemptions, even given Bill 23. The Province may argue that removal of existing exemptions is not consistent with the policy intent of Bill 23.
- An exemption from DCs for 'industrial uses' will cause direct financial impact to new industrial developments and the industrial sector. The industrial sector may not have the resiliency to absorb increased DCs related to expansion/new development, which could lead to business decisions by industries to relocate existing facilities outside the City of Toronto, or to influence locational decisions for new facilities.

Implementation Dependencies

- Provincial regulations around Bill 23 need to analyzed before changes are made to the City's DC policy.
- Public consultations will need to be conducted, as they are during conventional DC bylaw review. Given the significance of a proposal to eliminate existing DC exemptions for 'industrial uses' and 'non-ground floor non-residential', it can be expected that the public consultation process would be required to mirror the rigour of the consultation process that is required for the adoption of a regular DC by-law. It can be expected that this would be lengthy and time-consuming.
- A by-law amendment would require Council approval.

Multi-Year Service Impacts

Positive – improving the capacity of growth funding growth frees up existing tax revenue for other priorities, including service enhancements.

Equity Impacts and Considerations

There are no anticipated equity impacts

Alignment to 2018 Long Term Financial Plan

City Council adopted the City's current DC bylaw in April 2018 which includes the exemptions.

Under Principle 3 of the Long-Term Financial Plan, 'Secure Adequate and Fair Revenue,' it is noted that the City's exemptions on DCs leads to reliance on property taxes and rates to cover the gap, which can lead to a "...downward spiral of deferred expenditures and falling service levels". Further, a 'Key Action' for Council is to ensure that development levies appropriately pay for growth.

Previous Council Direction and Alignment to Current Priorities

City Council adopted the City's current DC bylaw in April 2018 which included the stated exemptions.[24] The DC bylaw adopted by Council was updated in June 2022, the exemptions are still in effect.[25]

Change Management Considerations

Stakeholder engagement, consultation, and communication will be critical as changes to DC's will affect a number of developers and development projects in the City.

[24] City Council approval of new DC bylaw: http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX33.3

[25] City of Toronto By-law 515-2018: https://www.toronto.ca/legdocs/bylaws/2018/law0515.pdf

2. Reconsider concessionary pricing and free programs

By shifting some programs from universal access to means-tested, the City can continue to meet the intent of the programs – providing access to services to those who face financial challenges – without unnecessarily subsidizing those who can afford to pay.

Division: *Parks, Forestry and Recreation and TTC*	
Current State	**Opportunity**
In 2019, the City adopted the Toronto Poverty Reduction Strategy, a 20-year plan that focuses on addressing immediate needs, creating pathways to prosperity, and driving systemic change for those living in poverty in the City.[26] This specifically includes transit equity and service access. One of the ways the City attempts to do this is by making an effort to ensure that residents can access services regardless of financial means. In some cases, the City has chosen to do that through means testing (for example, the Fair Pass Discount Program, where adults on support programs or income-tested receive discounted TTC fares, or the Welcome Policy, that provides fee subsidies for low-income individuals and families to help them access City Recreation programs). However, there are other cases, where the City has chosen to offer universal discounts and fee waivers, which increase the ability to access programs, but essentially result in a wealth transfer from the low-income to the wealthy, in that free programs are subsidized by property taxes, which do not take into account ability to pay. A 2016 study by the Canadian Centre for Economic Analysis indicated that the Fair Pass program was a more efficient allocation of funds compared to most TTC concessions (except the free fare for children) when considering needs-based criteria.[27] The City has been working to automate income testing particularly for those that have no existing income subsidy relationship with the	The City should develop and adopt a consistent set of principles that will guide the application of means- testing of all programs. This would include the adoption of consistent measures across the City to determine who does and does not qualify for support to reduce administrative burden and provide transparency to residents on eligibility for all programs. The City should then move to means testing for certain universal programs, so that the principle of increased access is adhered to, but those who have the ability to pay for services continue to do so. Examples of some programs that could be moved to means testing are concessions structures for different age-groups (different from volume-based incentives) as evidenced in PFR and TTC. If more programs were to move to means tested approach, it would need to be administratively easy for both administration and residents. The impact on Equity would need to be examined in detail as individuals that were previously receiving fee waivers or discounts automatically would now have to apply for them; as a result, some individuals could lose out on the waiver or discount. Three specific areas that should be considered are the free programs and seniors discounts offered by Parks, Forestry & Recreation, and the fare discounts offered by the TTC through the concession structure. The City could decide to allocate some of the savings to provide subsidies to a broader population base with a more generous definition of low-income.

[26] City of Toronto Poverty Reduction Strategy overview: https://www.toronto.ca/wp-content/uploads/2017/11/9787- TO_Prosperity_Final2015-reduced.pdf

[27] APPENDIX B: Transit Fare Equity Cost Benefit Analysis Toronto Transit Fare Equity Cost Benefit Analysis: Final Results: https://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-98469.pdf

City as part of an Income Verification program with the Canada Revenue Agency.	

Rationale

The City currently has a mix of universal and means-tested programs that have the aim of improving access by low-income individuals and families. Universal programs extend the benefit to those who have the ability to pay, rather than focus it on those who do not. Applying a consistent means-testing policy would help the City recoup some of that expenditure without affecting the intent of programs that are designed to improve access.

Ongoing Initiatives

The City currently applies means testing to a number of programs, including child care subsidies, the Fair Pass program offered by the TTC, the Welcome Policy for recreation programs, dental programs offered by Toronto Public Health, and financial support for eyeglasses and medical supplies and devices. The Auditor General's report in 2018 highlighted a few opportunities for applying cost recovery in the City's programs and services. These include applying appropriate charges (property tax, waste etc.) for City-owned properties that are leased, applying administrative fees for processing refunds due to customer payment errors etc. The estimated savings were around $3M over 5 years with potential revenues of $1.3M annually. These recommendations have not yet been fully implemented, implementation of some actions are being re- evaluated due to the financial impacts of COVID-19. Expanding these initiatives over the complete range of the City's programs and services would help in maximizing the benefits.

The 2023 evaluation planned for Fair Pass Phase 3A, in partnership with Mobilizing Justice Network and research partner (UofT), will deepen the City of Toronto and TTC's understanding of the linkages between ability to pay for transit, discount-induced trip generation, perceived and actual increases in trip activity, and clients' use and access to multiple modes of transportation. Using a reference panel of non-client eligible residents, the evaluation will help to identify any existing barriers to program access and uptake. The partnership will recommend some key performance indicators and future enhancements needed to meet the program's intended social outcomes. For example, a deeper discount may need to be introduced and/or a change in eligibility criteria to better serve the needs and life goals of Toronto's diverse low-income population.

Jurisdictional Evidence & Independent Research

To be eligible for a low-income student aid grant, the Province of Alberta imposed thresholds where grants can only be offered to those that meet the appropriate income threshold and family size. For example, the grant is only eligible for 2 person-families that have a household income of $46,923 or less.[28]

In 2020, a Social Return on Investment (SROI) analysis was completed for the City of Edmonton & Edmonton Transit System's Providing Accessible Transit Here (PATH) program. The analysis identified a 1:7 SROI ratio with every $1 invested creating a minimum of $7.81 in social value. Key outcomes for individuals included reduced fare evasion fines, graduating from school, finding work and/or housing, improved physical health, and reduced emotional stress. Furthermore, agencies who used to provide transit fares were able to reallocate resources.[29]

[28] Alberta Student Grants 2023 Income Threshold: https://studentaid.alberta.ca/policy/student-aid-policy-manual/eligibility-for- student-loans-and-grants/alberta-student-grants/
[29] Donate A Ride & PATH: Program Review, Civitas Consulting, December 2020

Financial Impact

Addressable Spend	2023
Free programs offered by Parks, Forestry and Recreation in 39 community centres	$12.4M
Age based programs offered by Parks, Forestry and Recreation – seniors discount (60+ receive 50% off all programs)	$0.5M
Estimated discounted fares offered by the TTC through the concession structure for youth and seniors	$7.8M - $39.1M
Spend on Select Means Tested Programs	**2023**
Welcome Policy offered by Parks, Forestry and Recreation	$4.7M
Fair Pass Program offered by Social Development and Finance and Paid to the TTC	$11.1M

Assumptions

All:

- All programs have been analysed in isolation unless otherwise stated
- Assumes constant ongoing usage rates, after shift in policy with sufficient education and awareness efforts
- Assume implementation can be managed internally

Free and Age-based Recreation Programs:

- Parks, Forestry and Recreation data has been received directly from the City for 2023 (Free Programs:
- $12.4M; Welcome Policy: $4.6M; Seniors Programs: $0.5M)
- Free and age-based recreation programs can easily be converted to full fee, and Parks, Forestry and Recreation staff can manage the increase in Welcome Subsidy applications
- Parks, Forestry and Recreation will shift 40-60% of the savings generated from ending free and age-based programs to the Welcome Subsidy program, and to cover increased administrative costs to shift from a universal to means-tested program
- Parks, Forestry and Recreation will roll out changes to allow for implementation aligned with existing program registration timelines
- Demand for programs will not change and those participants that are not eligible for Welcome policy will continue to access programs for a fee

TTC Concession Structure:

- Shifting seniors to full fare: approximately: 100,000 to 500,000 seniors rides per week at a fare of $3.30 up from $2.25 (discount of $1) *52 weeks= $5.7M to $28.1M incremental revenue if ridership does not change
- Using Toronto population figures as a proxy for ridership and seniors as a baseline, Youth fares could yield $2.2M to $11.0M in incremental revenue if ridership does not change
- Social Development and Finance data has been received directly from the City for 2023 (Fair Pass Program Projected to total $11.06M in 2023 - $10.31M subsidy costs and $0.75M for program operations)
- TTC could shift the concession structure to increase the fare box recovery ratio (the fraction of operating expenses which are met by the fares paid by passengers). A one percentage shift in fare box recovery equates to $23.8M in additional revenue over expenditures. One way of doing this would be remove age- based concession structure and move to a consistent income tested approach of providing transit fare subsidies
  - TTC could shift Seniors, Post-Secondary Student, Youth, and 12-and-under fee discount from Universal to eligibility as per Fair Pass, savings calculated for seniors and youth estimates only
  - Assume 50% of incremental revenue from seniors and youth passes is allocated to Fair Pass Program as eligibility for this program is expanded to include these groups
- TTC can leverage City's Income Verification project with the CRA to validate incomes, and can manage a significant increase in subsidy application volumes over Fair Pass program
- TTC estimates a $4.5M-$5.0M total revenue impact if the adult fare price was applied to currently discounted fares was assessed at both 2023 ridership levels and pre-COVID ridership levels. The revenue impact is on both pass products and single fare products (Post-Secondary impact on pass product only as no discounted fare on single ride). This analysis assumed an elasticity of -0.75 (for every 1% increase in fare, there's a 0.75% decrease in ridership), the mid-point long term elasticity from Victoria Transport Policy Institute's April 2023 paper "Transit Price Elasticities and Cross-Elasticities". The analysis only captures the revenue impact and does not capture any potential expense impact of the associated ridership decrease due to price elasticity

Area and Description of Opportunity	Annual Savings When Fully Implemented
Parks, Forestry and Recreation (40-60% of savings) for Free Recreation Centres and age-based programs	$5.0M - $7.4M
TTC - shift Seniors, Post-Secondary Student, Youth, and 12-and-under fee discount from Universal to eligibility as per Fair Pass	$3.9M - $19.5M

Implementation Roadmap			
Activity	**Year1**	**Year 2**	**Year 3**
Confirm expenditures on PF&R's free programs and TTC fee discounts			
Develop policy to expand Welcome Subsidy			
Communicate changes to Welcome Subsidy			
Confirm TTC/Transportation Services ability and capacity to shift to income testing			
Confirm income levels for discounted fares and develop application form			

Implementation Risks

- Means testing must be implemented with due diligence so as to not impact equity seeking groups negatively and increase administrative burden
- Elasticity of demand has not been studied for either recreation programs or TTC fares; there is a risk or participation and ridership decreasing as a result of the change in fee structures

Implementation Dependencies *(Includes Council, Provincial and Board Approvals)*

- Council approval will be required to change policy, however it is important to note that the setting of fares and fare policy are the TTC Board's authority, not City Council
- Successful completion of further rollout of the CRA income verification program

Multi-Year Service Impacts

Neutral to Positive – Service levels will not be reduced and may be better targeted.

Equity Impacts and Considerations

Detailed further examination against specific criteria would need to be conducted. Individuals that were previously receiving fee waivers or discounts automatically would now have to apply for them; as a result, some individuals could lose out on the waiver or discount. This can be mitigated through a communications and outreach effort, and by building on current processes in place for the Welcome Program and Fair Pass.

Alignment to 2018 Long Term Financial Plan

This opportunity strongly aligns to Principle 3: Secure adequate and fair revenue. This principle also recommends that the City implement full cost recovery for all its services. This opportunity would also support Principle 1: Better information to support strategic decision-making, as factoring in automatic fee increases would improve the accuracy of revenue forecasts and net cost of service projections.

Previous Council Direction and Alignment to Current Priorities

The ongoing Human Services Integration Project is a multi-year engagement that is looking to consolidate service delivery for three of the City's income support programs across three divisions (Child Care Fee Subsidy, Rent Geared to Income, Ontario Works). It is examining the ways the City prices and subsidize different services, which includes evaluating the feasibility of a city-wide means testing function and centralized service locations.

Previous efforts to implement user fees at free centres have been reversed by Council, due to a reduction in the number of registrations after fees were introduced. In addition, free programs are aligned with Council's approved Poverty Reduction Strategy.

Change Management Considerations

Significant communications will be required to communicate the new policies and encourage individuals to fill out applications, in order to ensure a minimal drop-off in the number of registrations.

3. Re-evaluate grant funding programs

The City provides Grant funding through both pure grants and fee for service agreements. There is an opportunity to evaluate the purpose and outcomes of these grants to reduce overall expenditure on these programs.

<table>
<tr><th colspan="2">Division: Economic Development & Culture; Social Development, Finance and Administration</th></tr>
<tr><th>Current State</th><th>Opportunity</th></tr>
<tr><td>
The City offers numerous grants through a variety of programs, generally offered as a combination of pure grants and purchases of services, as one lever to achieve public policy outcomes. The Economic Development & Culture (EDC) and Social Development, Finance and Administration (SDFA) divisions have the highest components of pure grants. (Note: Imagination, Manufacturing, Innovation, Technology (IMIT) grants are covered in the Reconsider Property Tax and Other Financial Incentives business case)
EDC offers grants totaling $55.8M out of its divisional budget of approximately $102M in 2023. Of the $55.8M, approximately $10M is a pass-through from other levels of government. EDC grants are made up of a mix of historic and newly built programs, and the City tends to exist as one funder in an ecosystem. Much of granting is designed off securing matching contributions such as the BIA capital costs share program.
EDC applies a series of mechanisms to ensure that grants are being appropriately targeted, and as investments are made and results come online, outcomes are reviewed to evaluate continuation of funding. An example of this is the Toronto Arts Council, where every $1 in grant funding is estimated to generate over $14 from other sources. Measures vary depending on the nature of programs and are usually focused on the public benefit generated, such as number of jobs or businesses supported. There is significant demand for access to grants programs, with cultural programs being particularly over-subscribed.
</td><td>
There is an opportunity to consider the role of municipal government and re-evaluate grants provided by the City and potentially to reduce grant funding provided by the City to various recipients.
The Commitment items “Grants” and “Transfers-others” total $471.0M (before offsetting Federal and Provincial Subsidies) for 2023 of which Housing Secretariat, Shelter, Support & Housing Administration, and Toronto Public Health total $375.0M.
The majority of the opportunity lies in two divisions:

Economic Development & Culture (EDC) - $55.9M
Social Development, Finance and Administration (SDFA) - $26.8M

The balance of $14.0M has not been evaluated as it is scattered across the City in smaller amounts. This should be considered as a future phase of analysis.
The City could reduce economic development and culture grants. These could be phased out through multiple initiatives such as:

Implement a review of business services programs to evaluate if recipients are eligible for similar financial support under the provincial or federal business supports programs, or other third-party donations.
Evaluate the role of the City’s grants in sustenance of the industries it invests in based on competitiveness, jobs created, possibility of market failure upon removal of grants, etc.
Evaluate cultural grants for relevancy, impact, and the rationale for providing them, and consider what areas of investment may

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SDFA has $26.8M in its 2023 operating budget for grants, most of which are Council directed. Many grant recipients receive funding from multiple levels of government and are structured in a way that provincial or federal funding leverages city funding. SDFA has historically measured the impact of grant funding through qualitative measures, against the logic model that they apply to funding decisions. There is a focus on aligning funding of grants to Council mandates, such as combatting youth violence and anti-black racism.	overlap with the mandate of other levels of government (for example the Canadian Opera Company that was originally funded in an effort to prioritize culture in downtown Toronto) Social Development, Finance and Administration (SDFA): ▸ Review the existing funding allocation and evaluate and prioritize recipients against Council mandates ▸ Understand the impact on delivery partners and communities of reducing or ceasing funding

Rationale

The City is under tremendous pressure to improve efficiencies and align services/funding with strategic priorities and the City's ability to fund, as one of the means of reducing its fiscal pressure. The City provides funding to a variety of individuals and organizations through grant funding, and grantees often rely heavily on this funding. In a challenging economic environment, with a limited tax revenue base, these programs should be evaluated and reconsidered against council priorities. Programs that are not a priority or aligned with mandates could have their funding reduced to alleviate some pressure on the tax base.

Ongoing Initiatives

Work is underway to revise how grants are accounted for to improve reporting. New grants and programs are analysed on an ongoing basis based on identified needs and council priorities.

Jurisdictional Evidence & Independent Research

Across jurisdictions, identifying opportunities for partnership improvements generally leverage multiple channels such as current state assessments, jurisdictional scans, and stakeholder interviews.

In 2018, the Government of Ontario reviewed all of its business support programs to determine their effectiveness, value for money, and sustainability, and found that many were not aligned with government priorities, were fragmented across multiple ministries, and lacked sufficient evidence to measure their value, efficiency, or effectiveness. As a result, the Government revamped its overall business supports program, so it was better aligned with its priorities and had a greater focus on being able to measure and demonstrate their impact.[30]

As another example, the City of Saint John conducted a review of its agencies, boards and commissions (ABCs) to assess the existence and extent of funding distributed to municipal partners. This study categorized proposed changes into those that required an economic development alignment exercise, those that remained unchanged, those that would be removed, and those where changes would be proposed.

[30] Government of Ontario Budget, 2019: https://budget.ontario.ca/2019/chapter-1d.html

Financial Impact

Addressable Spend	2023
Economic Development and Culture (net)	$43.7M
Social Development, Finance & Administration (net)	$8.8M

Assumptions

- Economic Development and Culture 2023 budget consists of $46.5M in Grant funding, and $9.3M in transfers to others, offset by $9.8M in Federal Grants and Subsidies and $2.3M in Provincial Grants and Subsidies, for a net budget of $43.7M. This net budget is broken down as follows:
  - $38.5M towards Arts Services, 92% of which is Culture Grants;
  - $5.1M towards Business Services, in addition to $10.6M in Federal and Provincial Grants and Subsidies, largely for BIA Support and Governance and Business & Industry Advice;
  - $0.8M in Entertainment Industries Services mostly for consultancy, less $0.7M received from Federal and Provincial subsidies for Museums and Heritage Services.
- Social Development, Finance & Administration 2023 budget consists of $26.8M in gross Grant funding, offset by $11.0M in Federal Grants and Subsidies and $6.9M in Provincial Grants and Subsidies, for a net of $8.9M.

General:

- Each 25% reduction in grant funding equates to a $13.1M reduction in annual spend.
- Savings assume a 25% to 75% reduction in grant funding following program review.
- If the reductions in grants are accomplished by reducing the number of grantees, the City should be able to adjust the staffing complement accordingly over time. These potential savings have not been estimated.

Area and Description of Opportunity	Annual Savings When Fully Implemented
Reduction in grants from Economic Development and Culture	$10.9M - $32.8M
Reduction in grants from Social Development, Finance & Administration	$2.2M - $6.6M

Implementation Roadmap			
Activity	Year1	Year 2	Year 3
Confirm breakdown of funding by program and recipient, identifying those funded by Federal or Provincial Grants			
Implement a review of business services programs and the role of the City in industry sustenance			
Evaluate cultural grants for relevancy, impact, and the rationale for providing them			
Prioritize grants and recipients against Council mandates			

Understand the impact on delivery partners and communities of reducing or ceasing funding			
Identify grants to be scaled back or eliminated			
Engage with grant recipients that will be impacted by funding changes			
Implement funding changes			

Implementation Risks

There are multiple risks to implementation of a reduction in grant funding. These include:

- Council directs and approves grant funding, therefore lack of buy-in would prevent any savings from being achievable. This engagement is best started early to socialize principles prior to changing any funding packages.
- Negative public and media reaction with advocacy claims to elected officials to re-instate funding/services.
- Loss of partner sustainability, especially since partner work is linked to economic and social outcomes.
- Federal or provincial subsides that put a requirement on the City to provide funding may prevent a reduction in grant expenditure.

Implementation Dependencies

Possible buy-in from the Province may be required to extend services to the current beneficiaries of the City's business services support. Impact of entertainment industries support on the competitiveness of Toronto as a destination for film and tv production must be evaluated (along with alternate support options from the Province) to ensure downstream revenue for the City is not impacted by the City phasing out its support. Similar buy-in may be required for other areas of grant reduction.

Multi-Year Service Impacts

A reduction in grant funding or uploading of this to other levels of government could result in withdrawal of funding by those other levels of government and lead to recipients losing access to all funding.

Impact on residents: Funding reductions may result in service impacts for residents. The extent of these service impacts is not currently known, in part because it would depend on the specific grants reduced or eliminated, and would need to be further evaluated.

Impact on organizations: Many funded organizations have been significantly impacted by challenging economic conditions and COVID-19. The impact of reducing operating grants should be explored during implementation to better understand the implications for organizational sustainability, and how the partners and City plan to mitigate these impacts if they are negative.

Equity Impacts and Considerations

Detailed further examination against specific criteria would need to be conducted. Individuals that have been benefitting from City partners providing services may be negatively impacted in the case of certain programs ceasing or scaling back due to funding changes. An example of this is those programs supporting the Confront Anti-Black Racism Action Plan[31], which could have equity impacts.

Alignment to 2018 Long Term Financial Plan

This opportunity aligns to Principle 2: Improve value for money, as work is required to understand the impact of various programs and their alignment to current Council prioritizes so that funding can be provided to those areas with the greatest impact.

This opportunity would also support Principle 1: Better information to support strategic decision-making. This principle specifically mentions Equity, gender and economic impacts and analysing how spending decisions impact on equity, gender and economic objectives.

Previous Council Direction and Alignment to Current Priorities

The totality of grants is council directed and new requests are typically aligned to current City key priorities. All new grant funding requests are individually approved by council.

Change Management Considerations

- Stakeholder management: Stakeholders will experience varying levels of impact depending on the grant program, size of funding reduction, percentage of funding received from The City, and operating model. Impacted stakeholders should be inventoried and an estimated level of impact should be assigned. This stakeholder list should inform the bulk of change management activities required, such as communication and consultation.
- Communication: Communication will be a critical aspect of the overall change management effort. Communicating with grant recipients will be especially important to create awareness of and prepare for potential service changes resulting from funding modifications. Generally speaking impacted stakeholders should be engaged as early and often as time permits.
- Conflicts of interest: Council members have directed many grants to organizations. Insight from Council can inform decision making, and a standardized approach to performance management can reduce risk of bias.
- Council engagement: obtaining early and consistent buy-in from Council will be key to program success. Additionally, administration should provide a memo to prepare Council for potential questions they may need to answer prior to or after any budget reports.
- Sponsorship: Changes of this magnitude must be strongly backed by senior leadership, or the change will run the risk of being sidelined by politics and detractors. Ensure that support for the funding adjustments comes from the top and that the sponsor communicates consistently and clearly.
- Timing: The sequence of events as it relates to external communication and Council approvals should be closely monitored. Grant recipients will require enough lead time to respond to and identify the impact of funding changes while still allowing Council enough time to follow due process for approvals.

[31] Toronto Action Plan to Combat Anti-Black Racism, 2017: https://www.toronto.ca/legdocs/mmis/2017/ex/bgrd/backgroundfile- 109127.pdf

4. Reconsider property tax and other financial incentives

The City provides Property Tax related financial incentives to various groups. There is an opportunity to recover forgone revenue by removing at least some of these incentives

Division: *Economic Development and Culture; Housing*	
Current State	**Opportunity**
The City collects property taxes and utility fees from residents in order to fund City infrastructure and services that benefit the community. There are certain programs that provide property tax relief to eligible individuals or property classes. In addition to property tax and rate programs, the City offers financial incentives to advance certain development activities in line with its key priorities. Below is an overview of some of these programs: Property Tax, Water and Solid Waste Relief programs: Annually, the City's Property Tax, Water and Solid Waste Relief programs provide over $6.2M in relief to eligible low-income seniors and persons with disabilities. Since the inception of these programs, the City has funded over $26.3M from its operating budget for the Tax Increase Cancellation Program for the City portion of taxes (an additional $9.7M in provincial education taxes were also cancelled), and deferred over $7.9M in tax increases, of which the current receivable to the City is $3.2M. The deferral program is a legislated requirement however is not considered as a cost, as the tax revenue is simply deferred to a future year. Low-income seniors and low-income people with disabilities who are eligible for either of the property tax assistance programs are also eligible for a 30% rebate on their water bill, so long as their water consumption is less than 400 m3 annually. Since April 1, 2019, eligible homeowners also receive the benefit of a higher rebate adjustment on the solid waste management component of their utility bill.[32] These other programs represent actual costs which must be budgeted for each year.	As the City strives to re-evaluate its current spending, there is an opportunity to reassess property tax related financial incentives offered to individuals or corporations. The IMIT program is already in progress and financial commitments already contracted cannot be changed. Any future commitments, however, could be limited or eliminated to prevent the size of the commitment increasing and adding to future strain on the City's operating and capital budget. The Heritage Property Taxes Rebate (HPTRP) is aimed at supporting the owners of designated Heritage Properties within the City. A review of the alignment of this program to the City's key priorities should be conducted and program funding reconsidered in light of this review, recognizing that any loss of funding to the recipient is doubled by the presumed loss of the Provincial share. An analysis of the other incentive programs listed opposite shows that limited opportunity exists to eliminate or change programs without significantly impacting equity-seeking groups or having no net financial impact of the City due to program structures. The City may consider conducting a broad analysis of incentives offered to individuals to fully understand the quantum of support given to each equity-seeking group. This effort would cross-reference with other opportunities considered such as *Reconsider Concessionary Pricing and Free Programs*. A breakdown of the other programs is as follows: Property Tax, Water and Solid Waste Relief programs:

[32] Appendix A: 2023 Property Tax Rates and Related Matters: https://www.toronto.ca/legdocs/mmis/2023/cc/bgrd/backgroundfile- 234150.pdf

Sub-class tax reductions such as those for vacant commercial and industrial land: Annually, the City provides approximately $12 million in tax reductions for the vacant and excess land tax classifications within the Commercial (30% of Commercial Rate) and Industrial classes (35% of Industrial rate). Heritage Property Taxes Rebate (HPTRP): The City offers two heritage incentive programs to assist owners of eligible heritage properties with the cost of conservation, namely the Heritage Grant Program ($0.3M) for residential or tax-exempt heritage properties and the Heritage Property Tax Rebate Program (HPTRP, $1.9M) for commercial and industrial heritage properties. The City has provided the HPTRP to eligible heritage properties since 2007. In 2015 the program was significantly restructured to focus eligibility on commercial and industrial properties and to calculate rebates to provide matching funds for eligible conservation work. The provincial government shares the cost of the rebates with the City according to the education portion of the property taxes.[33] Imagination, Manufacturing, Innovation and Technology (IMIT) Property Tax Incentive Program: The IMIT Program provides incentives in the form of grants to support the new construction or major renovation of buildings in targeted employment sectors and for certain uses throughout the city.[34] Approved developments benefit from a grant of 60% of the increase in the municipal taxes attributable to the eligible development over a 10-year period. As of June 2022, the IMIT Program has approved 68 applications and provided $185.15 million in grants, with another $45-50 million in grants projected for 2023. In addition, the estimated amount for grants that the program is committed to provide until 2036 is $510.88 million. The total cumulative	▸ Any changes to this program would significantly impact the equity-seeking groups that are benefitting from them. ▸ Changes to incentives on rate supported programs would result in a redistribution of rates and no net impact to the City's financial position. Sub-class tax reductions on vacant commercial and industrial land: ▸ Eliminating the sub-class tax reductions does not provide a revenue opportunity to the City, as any reduction in sub-class reduction percentages is distributed across the broad tax class thus being revenue-neutral. Note that the Province eliminated the sub-class reductions for vacant/excess commercial and industrial lands on the education portion of taxes in 2020, so a move by the City to also eliminate the reduction would be in line with this. ▸ Eliminating the vacant/excess land reductions would disproportionately affect (through higher taxes) businesses that hold land in vacant states – this would include railways that have large vacant/excess land holdings, and development corporations that hold land vacant during consolidations/land assembly. ▸ Eliminating the vacant/excess land classification would have no impact on residential property owners. ▸ In light of the existing vacant home tax, it appears incongruous to have a tax reduction for vacant and excess commercial and industrial property. This should be considered outside of the LTFP. HousingTO Financial Incentives: Given the focus of both the City and the Province on increasing housing supply, particularly affordable housing units, a thorough review of the HousingTO program alongside Bill 23 and Provincial priorities should be conducted. This review should consider the role of municipal government versus that of the Federal and Provincial governments, and be framed alongside Intergovernmental Relations

[33] Heritage Tax Rebate Program: https://www.toronto.ca/city-government/planning-development/heritage-preservation/tax- rebates-grants/heritage-tax-rebate/

[34] Review of the Imagination, Manufacturing, Innovation, Technology (IMIT) Financial Incentive Program, March 2022: https://www.toronto.ca/legdocs/mmis/2022/ec/bgrd/backgroundfile-222792.pdf#:~:text=The%20Imagination%2C%20Manufacturing%2C%20Innovation%20and%20Technology%20%28IMIT%29%20Fina ncial,sectors%20and%20for%20certain%20uses%20throughout%20the%20city.

estimated value of IMIT grants approved to date is therefore $725.60 million. These figures represent grants approved to date. HousingTO Financial Incentives: The HousingTO 2020 -2030 Action Plan[35] provides a blueprint for action across the full housing spectrum – from homelessness to rental and ownership housing to long-term care for seniors. This plan aligns with other City policies such as the Poverty Reduction Strategy, Resilience Strategy, TransformTO, and the Seniors Strategy. It also sets targets to be achieved over Plan's 10-year period with estimates of the financial investments necessary to achieve success. The breakdown of City incentives over the next 10 years for the development of 40,000 affordable rental units are as follows: ▸ $3 billion in direct incentives in the form of land and foregone revenues ($2 billion committed). This includes City land contributions, planning/permit waivers and property tax exemptions ▸ $3 billion in province-directed indirect investments as a result of Bill 23 (not yet committed)	considerations. Therefore, it is not recommended for further analysis as part of the LTFP program.

Rationale

The City should align its funding of programs to key priorities, regularly reviewing whether tax relief or other similar programs, as well as expenditures in general, continue to meet their initial objectives and remain in alignment with current priorities. Many programs were implemented at a point in time to serve a particular purpose and funding has remained in place rather than being evaluated against other priorities.

The HPTRP and IMIT Programs are examples of those commitments yet do not have a direct service delivery impact to residents.

Ongoing Initiatives

The City is currently reviewing the IMIT program and evaluating whether the incentive is a differentiator and is a key & critical factor in ensuring that the targeted development meets the intended net new employment targets, generally being new sector development in new parts of the city. This analysis will inform whether program outcomes are being achieved and could inform future program funding decisions.

[35] HousingTO Action Plan: https://www.toronto.ca/wp-content/uploads/2020/04/94f0-housing-to-2020-2030-action-plan-housing- secretariat.pdf

Jurisdictional Evidence & Independent Research

In April 2023, the office of the Parliamentary Budget Officer released a report on the cost of removing the tax exemptions for Real Estate Investment Trusts[36]. The estimated recovery of foregone revenue amounted to $285.8M ($50-60M per year) in additional revenues over the 2023 to 2027 tax years. The office further estimated that additional revenues from non-residents and non-taxable residents would be collected indirectly for each percentage increase in the proportion of income distributed to these groups.

In 2022, the City of Prince Rupert initiated discussions with the British Columbia government to request changes to the Port Tax cap that was permanently established in 2014. This cap limits the amount of revenue that the City can recover from the port on Property Taxes to $22.50 per $1,000 of assessed property value, below the old cap of $27.50 per $1,000 and not able to be increased annually. The cap on these property taxes is shifting the burden to homeowners and limiting the development potential of the City.

In 2018, the Government of Ontario reviewed all of its business support programs to determine their effectiveness, value for money, and sustainability, and found that many were not aligned with government priorities, were fragmented across multiple ministries, and lacked sufficient evidence to measure their value, efficiency, or effectiveness. As a result, the Government revamped its overall business supports program, so it was better aligned with its priorities and had a greater focus on being able to measure and demonstrate their impact.[37]

Financial Impact

Addressable Spend	2023
Imagination, Manufacturing, Innovation and Technology (IMIT) Property Tax Incentive Program (2023 budgeted expenditures are already contracted and can not be reduced until they age-out)	N/A in the short-term
Heritage Property Tax Rebate Program (HPTRP)	$1.9M

Assumptions

IMIT Property Tax Incentive Program:

- The budget for 2023 amounts to $45.6M in contracted IMIT projects. The total cumulative estimated value of IMIT grants approved to date is therefore $725.60 million[38].
- Future potential grant approvals could total over $300M from 2023 to 2038 if all current applications were approved. This would be in addition to those amounts already contracted.
- The IMIT program is already in progress and financial commitments already contracted cannot be changed. Existing agreements could age out in 2028 as they are over a finite time frame. Any future commitments, however, could be limited or eliminated to prevent the size of the commitment increasing and adding to future strain on the City’s operating and capital budget.

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[36] Office of the Parliamentary Budget Officer, Cost of removing the tax exemptions for Real Estate Investment Trusts, April 2023: https://www.pbo-dpb.ca/en/publications/RP-2324-001-M--cost-removing-tax-exemptions-real-estate-investment-trusts-- estimation-couts-elimination-exemptions-fiscales-accordees-fiducies-placement-immobilier

[37] Government of Ontario Budget, 2019: https://budget.ontario.ca/2019/chapter-1d.html

[38] https://www.toronto.ca/legdocs/mmis/2022/ec/bgrd/backgroundfile-228539.pdf

- While council has some discretion under the current IMIT program to deny applications, there is an involved legislated process for modifying the IMIT program (notice, public meeting, appeals). This is because IMIT is in a Community Improvement Plan (CIP) under the Planning Act. Also, an application is governed by the program that is in place when the application is made. The process for dissolving the CIP could be simpler than modifying the IMIT Program itself.
- The city has taken other steps to reduce the gap between residential and commercial tax rates (tax shift policy) since the IMIT program was introduced. Other investments made by the City to entice development such as transit or waterfront investments should be looked at in conjunction with the IMIT program
- Heritage Property Tax Rebates are per the 2023 budget are $1.87M
- Each 25% reduction in grant funding equates to a $0.47M reduction in annual spend
- Savings assume a 25% to 75% reduction in funding following program full program review
- If the reductions in rebates are accomplished by reducing the number of recipients, the City should be able to adjust the staffing complement accordingly over time. These potential savings have not been estimated

Area and Description of Opportunity	Annual Savings When Fully Implemented
IMIT	N/A as not yet committed and contracted, but could exceed $300M in cumulative savings by 2038
HPTRP 25% - 75% reduction	$0.5M – $1.4M

Implementation Roadmap			
Activity	**Year1**	**Year 2**	**Year 3**
Obtain council approval to indefinitely pause the IMIT program or dissolve the CIP and prevent any further financial commitments	■		
Understand the impact on HPTRP recipients of reducing or ceasing funding	■		
Obtain direction from council to engage with the Province on the Heritage Rebates	■		
Engage with Province on changes to the HPTRP	■		
Engage with HPTRP recipients that will be impacted by funding changes		■	
Implement funding changes		■	■

Implementation Risks

- Reduction in the IMIT grants could potentially impact desired development in the city. Analysis should be conducted on the impact of grants provided to date to assess if the desired development targets were met.
- Removing or reducing Heritage Rebates may discourage property owners from investing in renovation and maintenance od buildings designated as Heritage Buildings, particularly if Provincial funding is reduced proportionate to the reduction in City funding. The financial impact on recipients should be analysed prior to implementing changes.
- Negative public and media reaction with advocacy claims to elected officials to re-instate funding/services.

Implementation Dependencies

- Council can deny applications under the IMIT Program, however there is an involved legislated process for modifying the IMIT program (notice, public meeting, appeals) as IMIT is in a Community Improvement Plan (CIP) under the Planning Act. The process for dissolving the CIP could be simpler than modifying the IMIT Program itself.
- Obtaining buy-in from the Province for changes to the HPTRP as this is co-funded by the City and the Province.

Multi-Year Service Impacts

None.

Equity Impacts and Considerations

No equity impacts identified.

Alignment to 2018 Long Term Financial Plan

This opportunity aligns to Principle 2: Improve value for money, as the goal is to prioritize program funding and ensure alignment to current Council prioritizes so that funding can be provided to those areas with the greatest impact.

Previous Council Direction and Alignment to Current Priorities

In 2015, City Council adopted a motion enhancing the tax relief programs for seniors and people with disabilities by adopting an automatic adjustment of the income criteria in future years based on the Consumer Price Index (CPI) annual change for all items for Toronto. In addition, in June 2020, City Council adopted an increase of the household income threshold from $41,228 to $45,000 for the Property Tax Increase Cancellation Program for 2020 and 2021. The threshold was adjusted to $46,305 for 2022, based on CPI.[39]

The Imagination, Manufacturing, Innovation and Technology (IMIT) Property Tax Incentive Program authorized by By-law 1323-2012 states that City Council approval is required for any Development Grant application with an estimated construction value of development exceeding $150 million (one hundred and fifty million dollars).

The authority to provide property tax rebates for heritage properties is provided for under Section 334 of the City of Toronto Act (the "Act"). This provision allows tax rebates for properties designated under Part IV or V of the OHA which are subject to heritage easement agreements held by the City or the Ontario Heritage Trust, or maintenance and conservation agreements held by the City. The rebate must be between 10% and 40% of taxes paid on the eligible heritage property. The Act also provides

[39] Appendix A: 2023 Property Tax Rates and Related Matters:
https://www.toronto.ca/legdocs/mmis/2023/cc/bgrd/backgroundfile- 234150.pdf

flexibility in how the program is applied by allowing for other eligibility criteria to be added at the City's discretion.

The Province contributes the education portion of property taxes, the percentage of which varies depending on the tax class for a property. There is no set maximum to the Provincial contribution for the overall costs of running the program.

Change Management Considerations

- Stakeholder engagement, consultation, and communication will be key as stakeholders will experience varying levels of impact given the size of funding reduction, percentage of funding received from the City, and operating model
- Council engagement: obtaining early and consistent buy-in from Council will be key to program success. Additionally, City staff should provide a memo to prepare Council for potential questions they may need to answer prior to or after any budget reports