

# Stepping Up: The City's Long-Term Financial Plan

City of Toronto

Presentation to Executive Committee

August 24, 2023



City Manager and Interim  
Chief Financial Officer & Treasurer





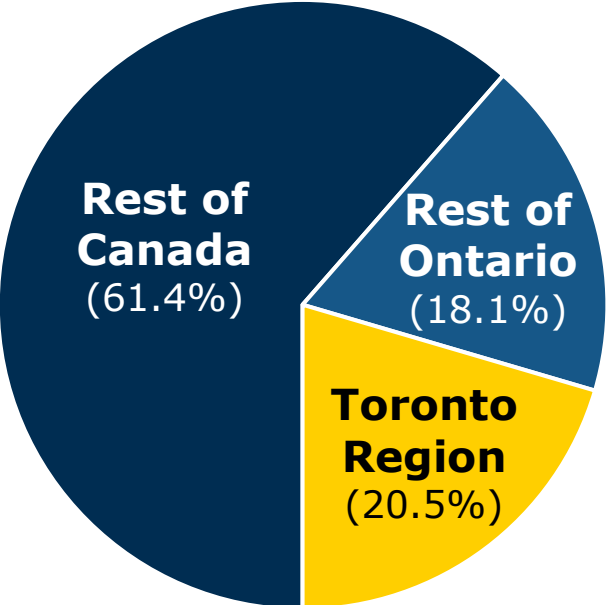
# Background



- **February 2022** – City Council requested an updated Long-Term Financial Plan (LTFP)
- **March 2023** – City Council received Phase 1 which identified the financial challenges the City faces over the next 10 years
- **Today** – Phase 2 of the LTFP identifies immediate and long-term opportunities towards financial sustainability

# Toronto is Canada's economic engine and requires a greater share

## Canada's GDP Contributors



**Toronto region is the largest single contributor to Canada's GDP and is critical to the provincial and national economy**

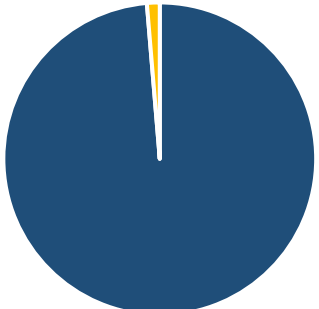
- ✓ 21% of Canada's GDP
- ✓ 53% of Ontario's GDP

**Toronto generates nation-wide benefits without ability to retain economic gains**

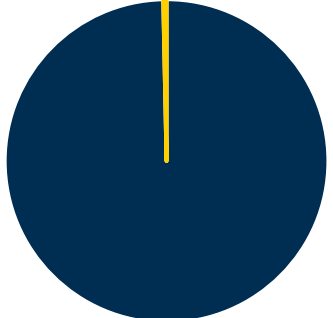
- ✓ \$50 billion in planned capital investments
- ✓ Operates Canada's largest public transit system
- ✓ Hosts national and international headquarters and events
- ✓ Contributes billions annually in sales and income taxes
- ✓ Is the gateway for a large share of immigration

## Toronto's Share of Annual Budgets

Share of Provincial (1.3%)



Share of Federal (0.3%)



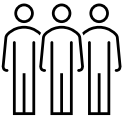
# Toronto contributes broadly to others

## To other orders of government:

**\$1.1 billion or 22%** of City's tax base invested in extensions of federal and provincial responsibilities:



Housing services (\$616M)



Social services (\$247M)

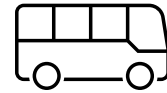


Health services (\$256M)

Further investments provided in the City's capital budget.

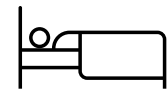
## To the region:

Services provide regional benefits without regional funding:



Largest public transit system in Canada

- **13%** of transit trips start or end outside of City boundaries
- Equal to **\$155 million** subsidy provided by the City



Largest municipal shelter system in Canada

- Relied upon to support regional demands

# The City continues to face fiscal challenges

## **These challenges are not new and were reflected in the 2018 LTFP:**

- Reliance on property-based tools
- No tools to capture economic growth
- Complex scope and scale of services delivered by City:
  - Extensions of federal and provincial responsibilities
  - Regional benefits without regional funding
  - Demand outpacing revenues
- Critical infrastructure requirements and growing SOGR backlog

# The financial environment has worsened

## There are also new unprecedented financial challenges for the City:

- Sustained pandemic impacts
- Rising inflation (CPI 12-month trailing average: 5.2%)
- Increased interest rates and cost of borrowing
  - 2021: lowest interest rates ever (0.25%)
  - Today: highest interest rates since 2008 (5.25%)
- Cost escalation and challenges:
  - Global supply chain disruption
  - Competitive job markets and labour shortages
  - Legislative and intergovernmental impacts

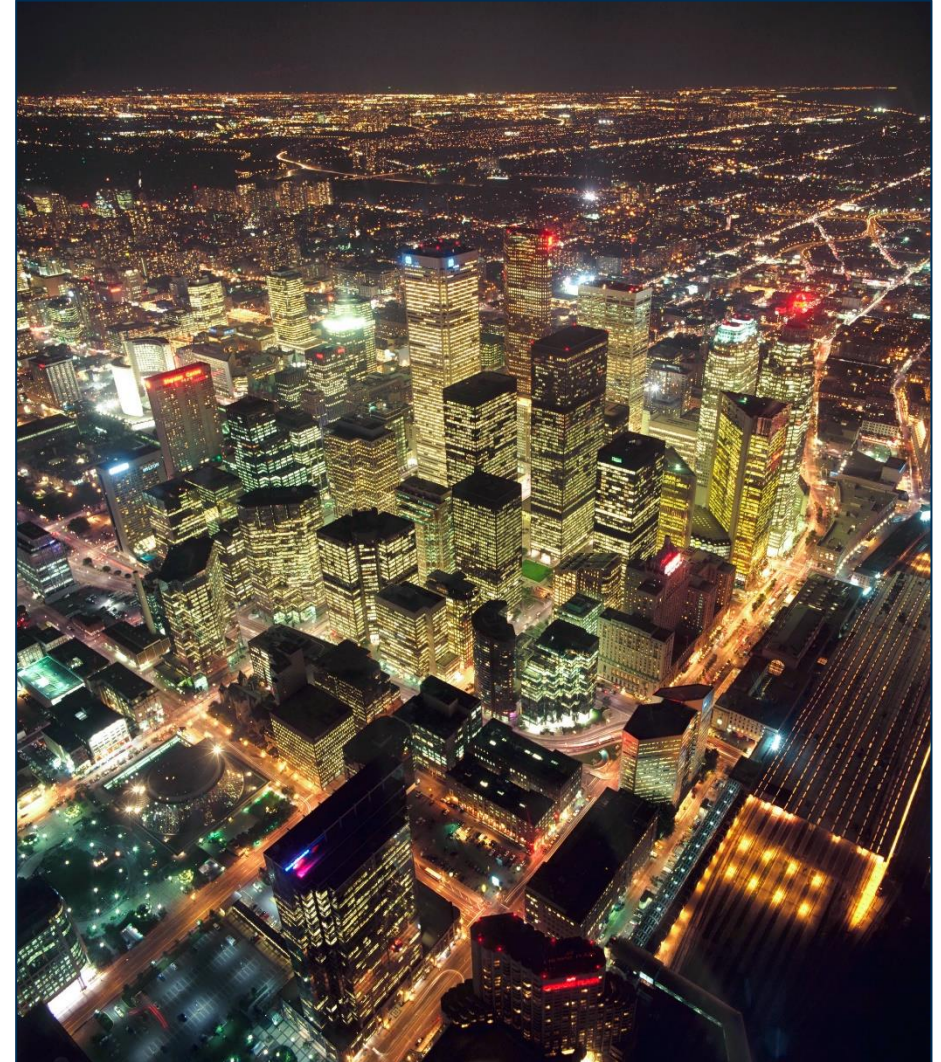
**City's financial challenges are no longer in the future and will be felt immediately.**



# The City has limited and outdated revenue tools

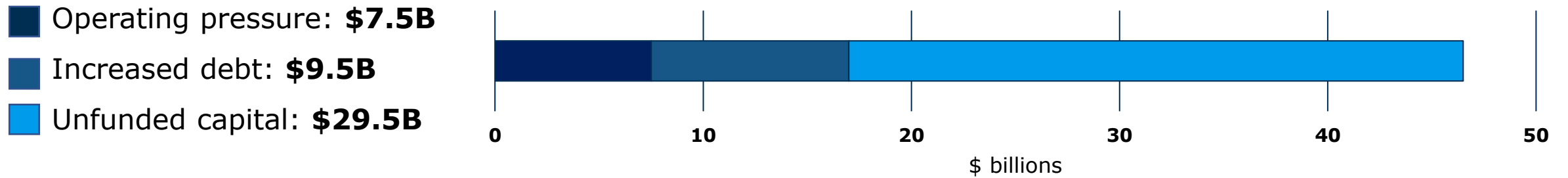
- The City does not have revenue tools that grow with the economy
  - Differs from federal and provincial governments and other large global cities
- Existing revenue tools are not sufficient to address the City's financial challenges

**Toronto needs new revenue tools reflective of the fourth largest city in North America.**



# Toronto faces an unprecedented financial crisis

The City faces a known **\$46.5 billion** pressure over 10 years



There are two key immediate areas of focus:

- **\$1.5 billion**: 2024 estimated operating budget pressure
- **\$29.5 billion**: capital unfunded needs over 10 years



# Toronto faces an immediate \$1.5 billion operating budget pressure

## Three major contributing factors:

### 1. Inflationary and growth related pressures

- High inflation rates and increased demand for services

### 2. Unique challenges experienced post-pandemic (transit and shelters)

- Sustained reduction to transit ridership: **76%** of pre-pandemic levels
- Ridership for frequent weekday riders (commuters) is at **56%**
- Shelter beds increased from **6,000** to **9,000**

### 3. Full year impacts of prior decisions

- Provincial transit expansion: Lines 5 & 6: **\$106.1 million net**
- Operating enhancements (e.g. Fire Services & Paramedic Services' Staffing Plans)

# \$29.5 billion in net unfunded capital needs

## Key contributing factors:



**Transit:** \$16.9 billion  
*(57% of total pressure)*



**Housing:** \$1.4 billion



**Roads, bridges & transportation:** \$3.7 billion



**Long-term care:** \$759 million



**Waterfront revitalization:**  
\$2.2 billion



**Parks & community recreation:** \$689 million

# Toronto has stepped up and taken action already

10%



- ***City Building Fund dedicated to transit and housing***
- Introduced and/or increased revenue and policy tools
  - Property tax rates and user fees
  - Municipal Accommodation Tax and Vacant Home Tax
- Leveraged sustainable debenture programs (Green and Social Bonds)
- Reduced reliance on volatile funding sources (Municipal Land Transfer Tax)
- Proactively managed the impacts of the pandemic
  - Effective COVID-19 backstop strategy
  - \$2.5 billion in City savings, offsets and mitigation strategies
  - Maintained a strong and stable credit rating

**\$46.5 Billion Pressure over 10 Years**



# There is no one solution

Staff are proposing a number of actions:



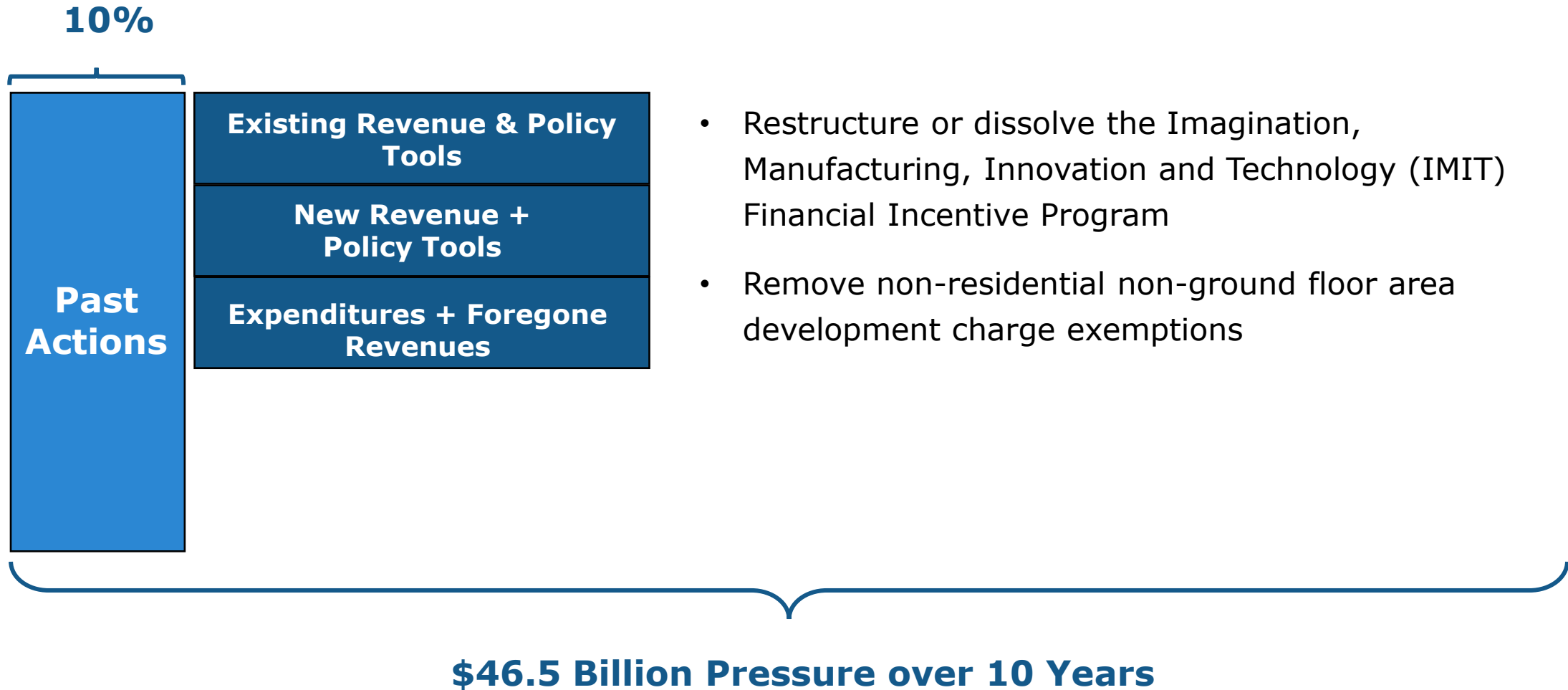
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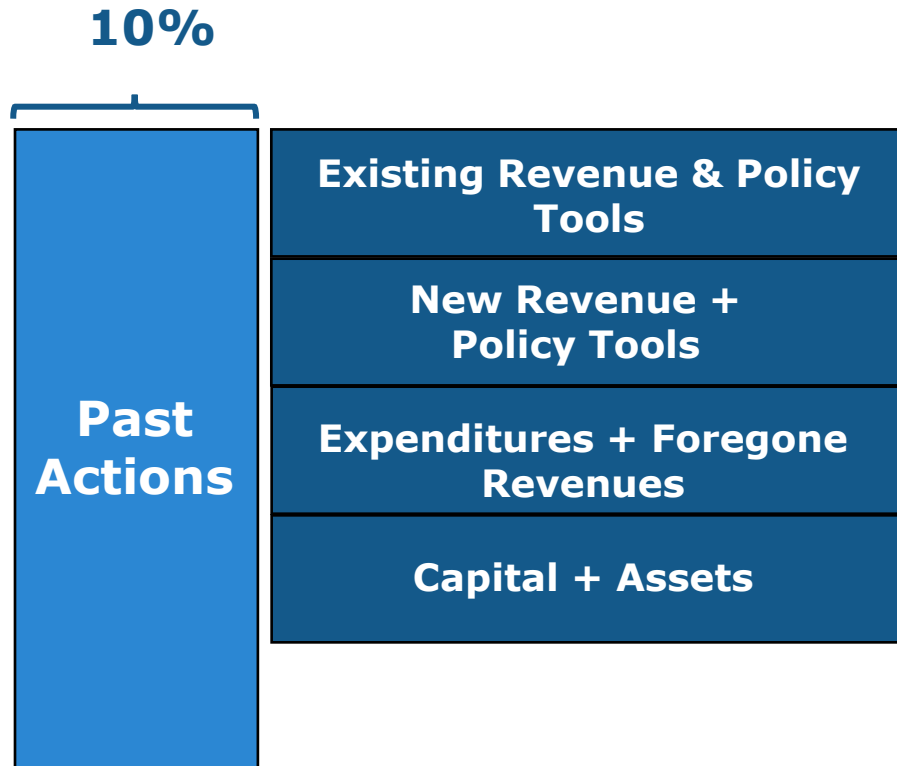
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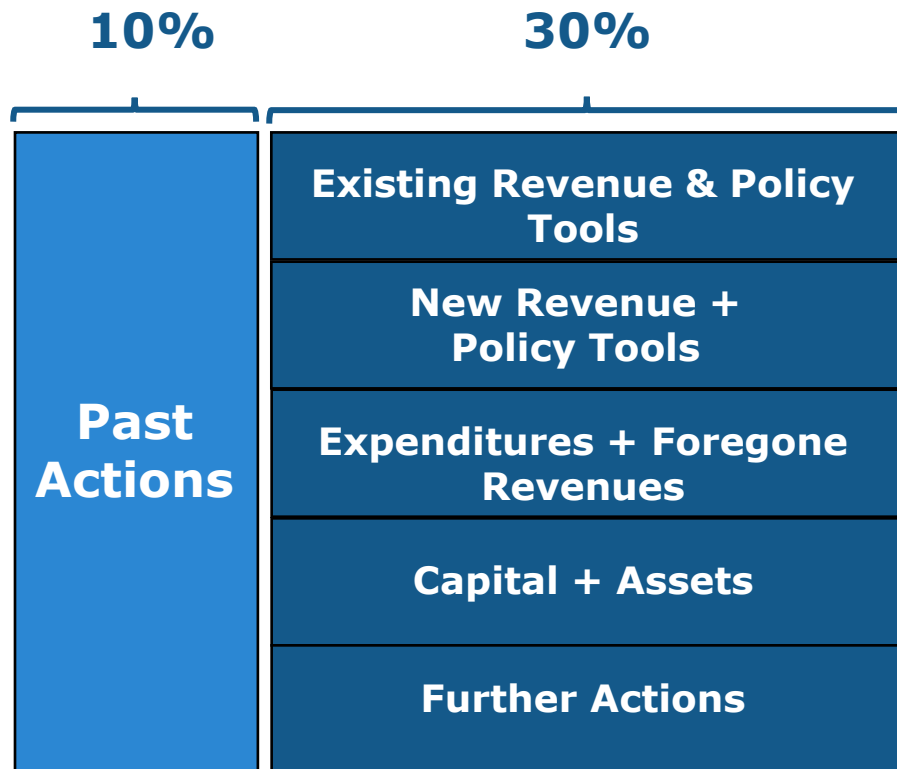


- Review City's surplus and underutilized real estate assets
  - Report with a strategy for disposition or change in use achieving greatest value; and/or
  - Enhancing revenue generation

**\$46.5 Billion Pressure over 10 Years**

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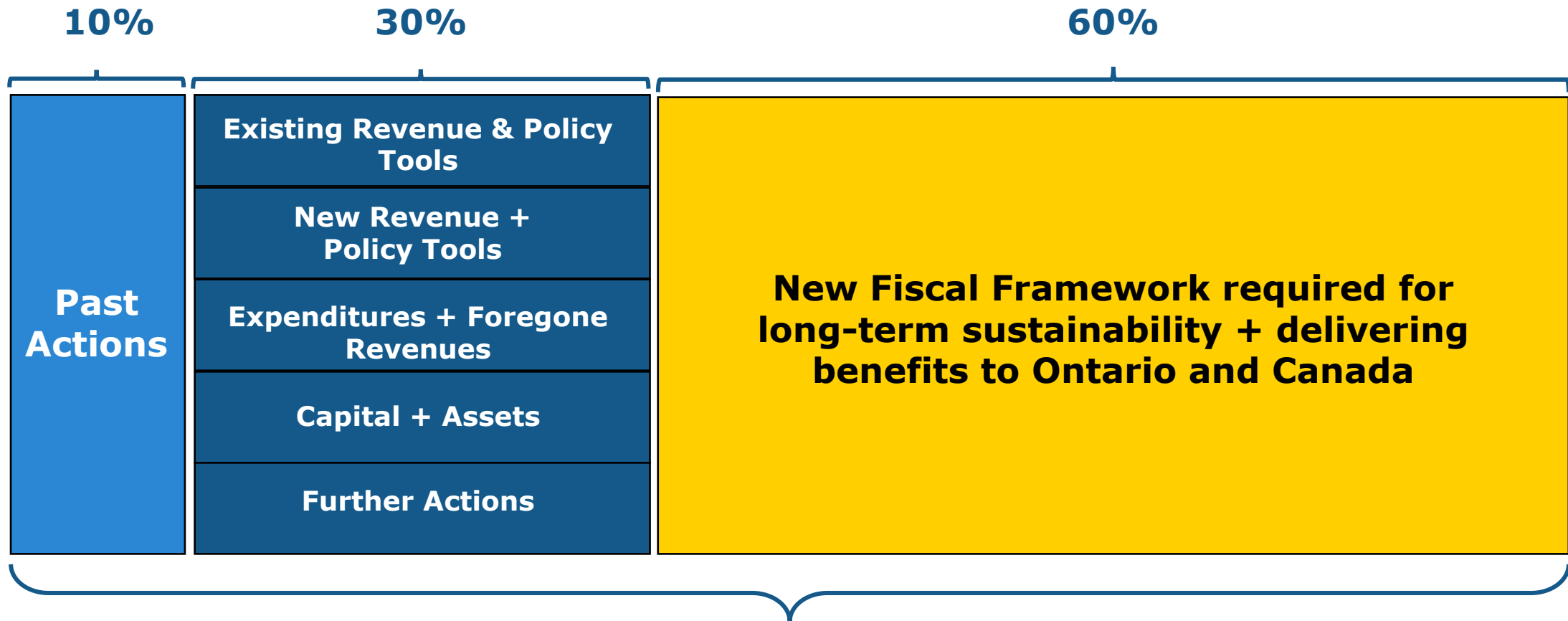
Staff are proposing a number of actions:



- Acknowledge magnitude of the City's financial challenges and commit to exploring a range of solutions
  - Enhanced political treasury and governance function
- Staff will continue:
  - Contract compliance, strategic sourcing and regional procurement strategies
  - Enhancement of City-wide capital prioritization framework

**\$46.5 Billion Pressure over 10 Years**

# There is no one solution



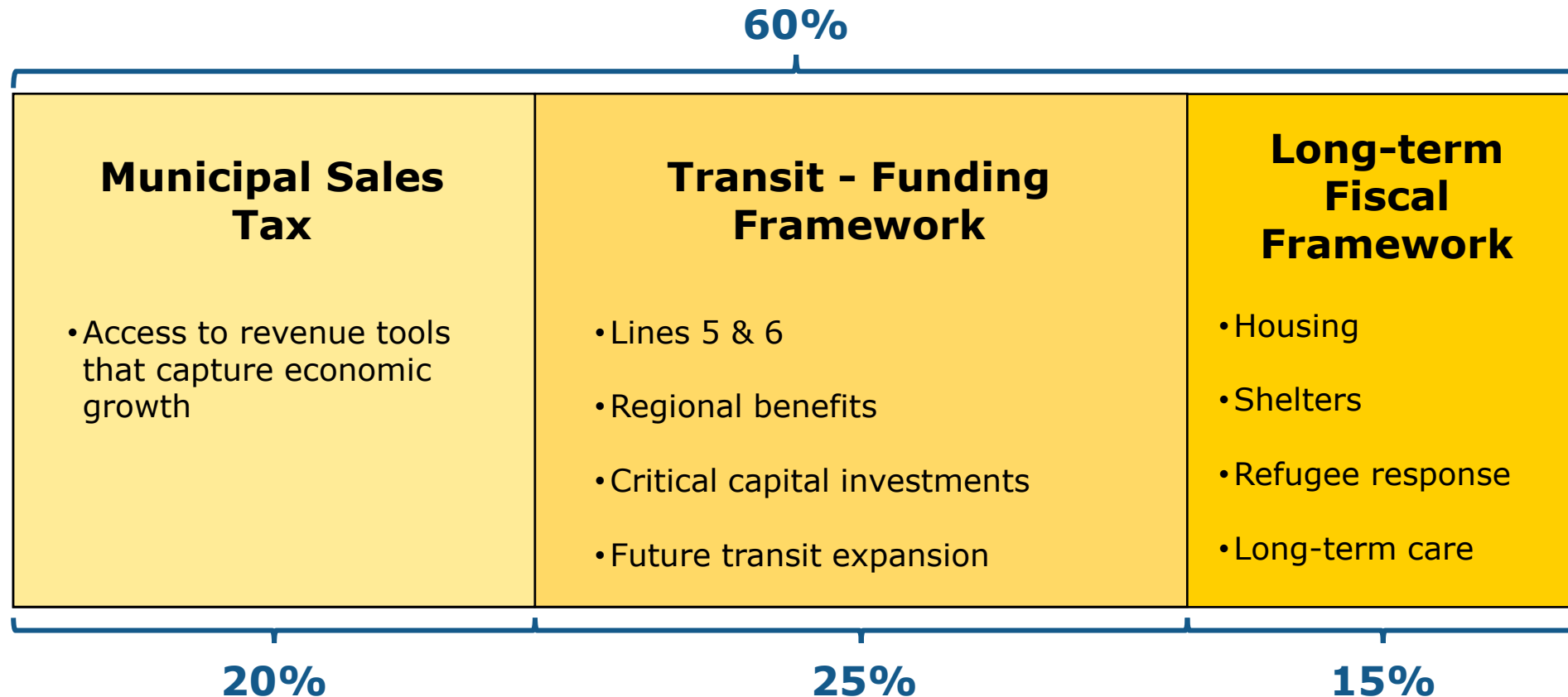
**\$46.5 Billion Pressure over 10 Years**



# The City cannot do it alone

## We need the provincial and federal governments to:

- Enable access to revenue tools that capture economic growth
- Provide fair contributions to critical services (transit, housing and shelters):
  - Full funding for federal and provincial responsibilities and initiatives; and recognition of Toronto's unique contributions to the region, province and nation



# Summary: Timing of Revenue Recommendations\*

## Immediate Revenue Actions:

- **Request** new revenue tools (*e.g. Municipal Sales Tax*)
- **Advocate** for a new fiscal framework
- **Approve** a graduated MLTT rate (effective Jan 1, 2024)
- **Remove** on-street parking rate cap

## Q4 2023:

- **Report back** on increasing the VHT from 1% to 3%

## 2024 Budget Process:

- **Develop** multi-year approach for property tax rates
- **Report back** with implementation plan for:
  - Foreign Buyer Land Transfer Tax
  - Commercial Parking Levy
  - 911 Next Generation Levy

## Later in 2024:

- **Report back** with by-law to require buildings to meet greenhouse gas emissions performance standards
- **Report back** with an implementation plan for a Municipal Sales Tax (pending provincial authorization)

# It's time for the provincial and federal governments to step up

The LTFP recommends actions to help reduce the City's fiscal gap over the next 10 years.

**These actions alone are not enough to address the 2024 pressures or beyond.**



Without a new fiscal framework, **the City of Toronto will be forced to consider actions that will reduce the City's services, competitiveness and benefits we provide Ontario and Canada.**

A photograph of the Toronto skyline across a body of water. The CN Tower is the central focus, surrounded by various skyscrapers. In the foreground, a large, colorful ferry boat is on the water. The sky is blue with scattered white clouds. A yellow rectangular box is overlaid on the image, containing the text "Thank you!".

**Thank you!**



# Appendix – Summary: Timing of Staff Recommendations\*

## Immediate Actions:

- **Acknowledge** magnitude of the pressures and commit to exploring solutions
- **Request** new revenue tools (e.g. Municipal Sales Tax)
- **Advocate** for a new fiscal framework
- **Approve** a graduated MLTT rate (effective Jan 1, 2024)
- **Remove** on-street parking rate cap
- **Inform** the Province the City is unable to implement 978 new long-term care beds
- **Continue** discussions for Lines 5 & 6 transit funding
- **Pause** negotiations for funding provincial transit expansion projects

## Q4 2023:

- **Report back** on increasing the VHT from 1% to 3%
- **Report back** with by-law to require buildings to report on performance data

## 2024 Budget Process:

- **Develop** multi-year approach for property tax rates
- **Report back** with implementation plan for:
  - Foreign Buyer Land Transfer Tax
  - Commercial Parking Levy
  - 911 Next Generation Levy
- **Report back** with options regarding:
  - Surplus and underutilized assets
  - IMIT Program
- **Bring forward** an updated DC Background Study and by-law to remove non-residential non-ground floor DC exemption

## Later in 2024:

- **Report back** with by-law to require buildings to meet specific greenhouse gas emissions performance standards
- **Report back** with an implementation plan for a Municipal Sales Tax (pending provincial authorization)