

Tax Supported 2024 Operating Budget and 2024-2033 Capital Budget and Plan

Date: January 10, 2024
To: Budget Committee
From: City Manager and Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report presents the City Staff Prepared 2024 Operating Budget and 2024 – 2033 Capital Budget and Plan for Tax-Supported Programs, including the Non-Program Expenditure and Revenue accounts detailed therein.

The Tax Supported 2024 Operating Budget and the 2024 – 2033 Capital Budget and Plan enable the City of Toronto to provide over 150+ distinct services, often reflecting the services provided 24 hours a day and 7 days a week that are relied on by residents, businesses and visitors of Toronto.

Toronto is the economic engine of Canada that generates national benefits including \$50 billion in planned capital investments, hosting national and international headquarters and events, contributing billions annually in sales and income taxes, and acts as the gateway for large share of immigration in Canada. The City delivers services, initiatives and projects that far exceed the traditional role of municipal government, which substantially benefit other orders of government. In addition, the City of Toronto faces growing demand for services, particularly those that are more "regional" in nature beyond the jurisdiction of Toronto such as transit services and shelter supports (for refugees and non-refugees) which have seen sustained impacts following the pandemic. As the largest city in Canada, Toronto is facing unique and unprecedented structural fiscal challenges.

The City employs a multi-year financial planning and budgeting practice that is transparent, accessible, and focused on service outcomes and accountability. It accounts for the public's needs and priorities and ensures that value is achieved through the efficient use of resources for the most effective delivery of City services and stewardship of City assets. Grounded in good governance, the City's budgeting practices are aimed to ensure financially stable and sustainable future for the City of Toronto.

The 2024 Operating Budget seeks to balance the increased service demands with its pre-existing objectives of fiscal responsibility and has been prepared based on a collaborative process with the Mayor and the Budget Chair, which prioritizes the following key focus areas:

- Maintaining and preserving services that Torontonians rely on
- Supporting the addition of new investments based on Public Consultation feedback
- Transitioning sustained COVID-19 impacts to property tax base
- Developing multi-year strategy to address the financial challenges
- Implementing Long-Term Financial Plan initiatives

The 2024 – 2033 Capital Budget and Plan has been prepared to promote affordability and achievability through:

- Continuing to prioritize critical state of good repair requiring immediate repair and replacement to mitigate service disruptions
- Maximizing the use of growth-related funding tools to help fund the required infrastructure to meet service demand
- Utilizing the new intergovernmental funding as reflected in the New Deal to increase Toronto's housing supply
- Leveraging City Building Fund to support investments in transit and housing
- Maintaining enhanced climate-focus in capital planning as part of the TransformTO Net Zero Strategy

The City's 2024 Operating and Capital Budgets are facing significant and difficult fiscal challenges, which have been exacerbated by rising inflation causing cost escalations and economic impacts, increased interest rates resulting in higher cost of borrowing, sustained pandemic impacts in shelter and transit services, growing State of Good Repair (SOGR) backlog among others. Earlier in 2023, City Council adopted the 2023 Financial Update and Outlook ([EX3.2](#)) identifying significant challenges faced over the next 10 years that are unique to Toronto. In recognition of the City's immediate and ongoing financial challenges, City Council adopted a series of actions that can help to reduce the City's fiscal gap and to achieve fiscal sustainability during the consideration of the Updated Long-Term Financial Plan ([EX7.1](#)) at its September 2023 meeting. Accordingly, the 2024 Operating Budget includes a number of Long-Term Fiscal Plan (LTFP) actions such as Graduated Municipal Land Transfer tax rates on high-value residential properties and removal of On-Street Parking Rate Caps to enable comprehensive rate review, with additional financial benefits from other implemented actions to be realized in future years.

Even with these recommended actions, it should be noted that the City's needs cannot be sustained by large property tax increases alone. Toronto cannot achieve financial sustainability alone. Immediate and sustained support from the other levels of government is urgently needed to prevent service level reductions and/or cancellation of capital projects that align with shared objectives including housing, transit, and shelter services.

On November 26, 2023, a Working Group comprised of senior public servants from the Government of Ontario and the City of Toronto with an objective of making recommendations to achieve long-term stability and sustainability of the City's finances, recommended terms for an agreement between the City and Province of Ontario, the "[Ontario-Toronto New Deal Working Group -Term Sheet](#)". The New Deal affirms a whole-of-government approach is needed, to ensure the success of Toronto, the region and the Province. It will comprise a critical part of the City's multi-phased approach to improving long-term financial sustainability and will be implemented in conjunction with a wide range of solutions to address the fiscal gap, as previously outlined in the City's Long-Term Financial Plan.

RECOMMENDATIONS

The City Manager and the Chief Financial Officer and Treasurer have prepared the following:

1. The 2024 Operating Budget for Corporate Accounts of \$2.307 billion gross, \$2.914 billion revenue and \$0.608 billion net revenue comprised of the following accounts:

<u>Accounts</u>	Gross Expenditure <u>(\$000s)</u>	Revenue <u>(\$000s)</u>	Net Exp. / (Revenue) <u>(\$000s)</u>
Capital & Corporate Financing	1,215,034.2	330,859.5	884,174.6
Non-Program Expenditures	816,937.1	235,594.4	581,342.8
Non-Program Revenues	252,257.5	2,337,363.1	(2,085,105.6)
Association of Community Centres	11,562.2	331.6	11,230.6
Arena Boards of Management	10,792.6	10,030.9	761.7
Total Non-Program Budget	2,306,583.6	2,914,179.5	(607,595.9)

- The above includes a 2024 budgeted staff complement comprised of operating positions for Parking Tag Operations of 394, Association of Community Centres of 91, and Arena Boards of Management of 68. The details of 2024 Budget by Service for Association of Community Centres and Arena Boards of Management can be found in appendices 4 & 5 respectively. The details of Parking Tag Operations 2024 Budget can be found in a standalone Briefing Note provided to Budget Committee.
2. One-time funding of \$33.580 million in 2024 to fund one-time costs in Toronto Community Housing Corporation not expected to recur in future years.
 3. The contribution of \$315.089 million to the City Building Reserve Fund from the dedicated City Building levy for priority transit and housing capital projects.
 4. The contribution of \$40.699 million to the Scarborough Transit Reserve Fund from the dedicated special property tax levy, in support of commitments to transit investments.
 5. The 2024 Capital Budget for Corporate Initiatives with cash flows and future year commitments totaling \$0.561 million representing carry forward amounts from prior years, as detailed in Appendix 2.1.
 6. The contributions and withdrawals to/from reserves in Corporate Accounts as indicated in Appendix 3.
 7. The continuation of the existing Solid Waste Rebates for Low Income Seniors, Disabled and Multi-Residential customers as outlined in Appendix 6.

FINANCIAL IMPACT

Tax Supported 2024 Operating Budget and 2024 – 2033 Capital Budget and Plan Summary

This report provides an overview of 2024 Staff Prepared Corporate Accounts Budget for expenditures and revenues totalling \$2.307 billion and \$2.914 billion, respectively. The Corporate Accounts also include the 2024 Staff Prepared Operating Budgets for Association of Community Centres and Arena Boards of Management.

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

This report also provides an overview of the corporate capital initiatives totalling \$0.561 million in cash flow funding as detailed in Appendix 2.1.

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

Table 1: Tax Supported 2024 Operating Budget and 2024-2033 Capital Budget and Plan

Total Tax-Supported Budget & Plan (\$M)	Operating Budget		Capital Budget & Plan			
	2024		2024		2025-2033	
Programs	Gross	Net*	Gross	Debt	Gross	Debt
City Operations	7,918	3,206	1,920	743	15,704**	6,869
City Agencies	4,659	2,743	1,401	140	12,993	2,432
Corporate Accts & Capital Financing	2,307	(608)	N/A			
Total Budget	14,884	5,341	3,321	883	28,697	9,301

*Excludes special dedicated levy

**Includes \$0.561 million for Corporate Capital Initiatives

Tax Supported 2024 Operating Budget Overview

The Tax Supported 2024 Operating Budget is \$14.884 billion gross and \$5.341 billion net. This represents a \$1.133 billion or 8.2% increase in gross expenditures and a \$0.433 billion or 8.8% increase in net expenditures over the 2023 Budget excluding COVID related financial impacts. While maintaining and preserving the services Torontonians rely on, this budget addresses key priorities, which includes implementation of new initiatives to support added investments strategically in transit, affordable housing, and public safety despite the difficult fiscal challenges. With the exception of transit and shelter impacts, all sustained COVID-19 impacts have now been included in the 2024 base budget funded by property tax for the ongoing need. A full list of new initiatives in 2024 Staff Prepared Operating Budget can be found in Appendix 1.4.

On a gross expenditure side, the Tax-Supported 2024 Operating Budget primarily allocates funds to Cost-Shared Social Programs (32%), Transit (17%), and Emergency Services (15%), with remaining 36% going towards other City Programs and Agencies. On the revenue side, the main funding source comes from Property Taxes (36%), Federal and Provincial revenues (26%), and the remaining 38% is generated through fees, investments and reserve draws.

Tax Supported 2024 – 2033 Capital Budget and Plan Overview

The Tax-Supported 2024 – 2033 Capital Budget and Plan totalling \$28.697 billion is based on previously approved 10-Year Capital Plan and extended to 2033. The Tax-Supported 2024 – 2033 Capital Budget and Plan will require \$9.301 billion in debt to be issued over the 10-year period. Capital projects are financed by various sources. The City's priority is to ensure that it leverages and maximizes all non-City and non-debt funding first before it issues debt.

The Tax-Supported 2024 – 2033 Capital Budget and Plan focuses on investments in Transit (\$13.0 billion), Transportation (\$5.7 billion), Housing (\$3.2 billion plus a further \$5.3 billion provided through foregone revenues and land incentives); and includes priority investments for capital projects such as modernization of the subway and expanding capacity, HousingTO plan to support 4,455 new housing units, and addressing the State of Good Repair to bring the Toronto Community Housing Corporation and Toronto Seniors Housing Corporation (TCHC/TSHC) building portfolio into a state of good repair by 2027. The 10-year Capital Plan has applied a lens that ensures consideration for climate focus as part of the decision-making process, which includes investments in climate mitigation and adaptation actions aimed at reducing ~75,000 tonnes/CO2 while improving resilience to climate change.

Taken together, the 2024 - 2033 Capital Budget and Plan promotes achievability and affordability, continues to prioritize critical investments in SOGR, and advances investments in transit and housing in order to prepare the City to meet service needs arising from continued service demand, population growth, recent Council commitments.

Ontario-Toronto New Deal Agreement

On December 13, 2023, City Council adopted the terms in principle of the New Deal agreement that was recommended by the intergovernmental Working Group. (Item CC13.2: <https://secure.toronto.ca/council/agenda-item.do?item=2023.CC13.2>). The provincial term sheet includes core operating support of \$1.23 billion over three budget years to assist the City with its long-term financial plan as well as commitments required of the City, with a further savings of \$6.9 million annually associated with Gardiner Expressway and Don Valley Parkway operating costs. The 2024 Staff Prepared Operating budget includes \$382 million in anticipated funding support from the Provincial government towards the operating budget pressures.

Capital supports (including direct infrastructure funding as well as assumption of costs related to the Gardiner Expressway and Don Valley Parkway) over ten years are estimated at \$3.04 billion at minimum. The term sheet also outlines expected supports from the federal government.

DECISION HISTORY

At its meeting on December 13, 2023, City Council was presented with a report from the City Manager and the Chief Financial Officer and Treasurer with an update on Ontario-Toronto New Deal Agreement and approval in principle of the terms of this new agreement.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.CC13.2>

At its meeting on December 13, 2023, City Council adopted the report from the Chief Financial Officer and Treasurer on Operating Variance for the Nine Months Ended September 30, 2023 that outlines the current COVID-19 funding shortfall and ongoing shelter pressures driven by Refugee Claimant Response efforts.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX10.9>

On September 6, 2023, City Council adopted the Updated Long-Term Financial Plan which directed staff to make specific requests of the provincial and federal governments in recognition of the City's immediate and ongoing financial challenges, including: funding for transit operations and maintenance of Eglinton Crosstown (Line 5) and Finch West (Line 6); a new funding model for transit operations; uploading of responsibility for the Frederick G. Gardiner Expressway and the Don Valley Parkway; and to continue to advocate for a new fiscal framework commensurate with the complexity and scope of municipal services delivered by the City of Toronto.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX7.1>

On September 6, 2023, City Council adopted the report on Immediate Federal Government Support Required for Refugee Claimants in Toronto, including requests to the federal government for full reimbursement of expected 2023 costs to support the refugee claimants in Toronto's shelter system, inclusive of the \$97 million in funding already announced through the Interim Housing Assistance Program, and an ongoing commitment of Interim Housing Assistance Program funding to address the estimated \$250 million annual costs for refugees in 2024 and commit to future funding until the demand for shelter returns to sustainable levels.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.CC10.2>

At its meeting on March 29-31, 2023, City Council considered the report '2023 Financial Update and Outlook' and requested the City Manager and the Chief Financial Officer and Treasurer, as part of the upcoming phase 2 report on the City's long term fiscal plan, to include the details on the \$1.1 billion in property tax revenue spent on extensions of Federal and Provincial responsibilities.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX3.2>

COMMENTS

Multi-Year Strategy

As in previous years, the City has been facing affordability challenges as a result of growth, demand for services, and rising costs; however, prevailing economic conditions in recent years have exerted additional and unique pressures for the 2024 budget. The 2024 Opening Budget pressure is \$1,776 million, comprised of sustained COVID-19 impacts of \$578 million, and base operating budget pressure of \$1,198 million. It should be noted that this pressure has more than doubled from the pre-pandemic average of \$592 million (2015-2019). These financial pressures cannot be solved in one year.

A multi-year approach has been developed as part of the 2024 Budget process to achieve financial stability by the end of 2026. This approach includes the following steps:

- Identifying sustainable vs bridging offsets to model multi-year budgetary impacts

- Transition sustained COVID-19 impacts to property tax base
- Ongoing implementation of recommended LTFP actions
- Modelling multi-year property tax increases
- Maximizing the availability of the New Deal funding support and ongoing discussions with Government of Canada partners on the required funding support

Intergovernmental Strategies and Support

Investments from the Government of Canada and the Province of Ontario remain critical to support unique and unprecedented financial challenges of the City of Toronto. The New Deal gives Toronto a once-in-a-generation opportunity for a stable and sustainable financial future. On October 30, 2023, Premier Ford and Mayor Chow sent a letter to the Prime Minister inviting the federal government to join as a partner and collaborator in the New Deal Working Group. Federal officials joined the working group midway through the process and participated in productive discussions; however, they were not in a position to commit to financial supports for the City within the timelines of the Working Group. A significant portion of the financial support from the Province (the operating funding for shelters and capital funding for 55 new subway trains) is conditional on federal support being provided. City and provincial staff will continue to jointly advocate to the federal government on these requests, and will report back on ongoing discussions with the federal government as part of an overall update to City Council on the New Deal.

In addition, the City's shelter system has been experiencing unsustainable financial pressures due to the exceeding demand for shelter space from Refugee Claimant Response initiative. Over the past year, a number of discussions with intergovernmental partners has taken place; however, the financial support provided to date is not adequate to meet the shelter demands. An ongoing commitment of Interim Housing Assistance Program (IHAP) federal funding to address the estimated \$250 million in annual costs of shelters support for refugees and asylum seekers in 2024 is expected, as well as a commitment to future funding until the demand for shelter returns to sustainable levels.

No confirmation from the Federal government for financial support has been received to date. The City expects to have access to a federal funding program providing full reimbursement of costs associated with refugee claimant response. It should be noted that actual 2024 costs associated with refugee claimants and asylum seekers could vary significantly subject to changes in demand and the success of the federal reception centre. There is a high degree of financial risk that actual costs could increase above \$250 million in 2024 due to ongoing refugee arrivals.

Toronto Community Housing One-Time Funding

The 2024 Operating Budget includes one-time funding from Non-Program Expenditures towards Toronto Community Housing Corporation (TCHC) for costs that are not expected to occur in future years (\$33.580 million), in addition to the annual TCHC

subsidy that is reflected in the Staff Prepared 2024 Operating Budget for Housing Secretariat.

Single Family Residential Low Income Relief Program

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

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

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

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SIGNATURE

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ATTACHMENTS

Appendix 1: Tax Supported 2024 Operating Budget

1.1: 2024 Gross Expenditure Budget

1.2: 2024 Revenue Budget

1.3: 2024 Net Expenditure Budget

1.4: 2024 Total New and Enhanced Service Priorities

Appendix 2: 2024 – 2033 Capital Budget and Plan

2.1: 2024 Cash Flow & Future Year Commitments for Corporate Initiatives

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

Appendix 4: 2024 Operating Budget for Association of Community Centres

Appendix 5: 2024 Operating Budget for Arena Boards of Management

Appendix 6: Solid Waste Rebates