TORONTO

REPORT FOR ACTION

Operating Variance Report for the Four Months Ended April 30, 2026

Date: July 7, 2026
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

The purpose of this report is to provide City Council with the Operating Variance results for the four months ended April 30, 2026, as well as projections to the year-end. This report also requests City Council's approval for amendments to the 2026 Approved Operating Budget that have no impact on the City's Net Budget.

The following table summarizes the year-to-date financial position and year-end projections for the City's Tax-Supported Operations as of April 30, 2026.

Table 1: Tax-Supported Operating Variance Summary

Variance ($ in Millions)	April 30, 2026 (Year-to-Date)			December 31, 2026, (Year-End) Projection		
Favourable / (Unfavourable)	**Budget**	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
Tax-Supported Operating Variance Summary						
City Operations	1,318.1	1,270.5	47.7	3,557.5	3,624.1	(66.6)
Agencies	1,085.0	1,102.0	(17.0)	3,317.1	3,381.9	(64.9)
Corporate Accounts	(191.8)	(156.5)	(35.2)	(1,084.1)	(1,118.2)	34.1
Total	**2,211.3**	**2,216.0**	**(4.6)**	**5,790.5**	**5,887.9**	**(97.4)**
% of Gross Budget			**0%**			**-2%**

As detailed in Table 1 above, for the four-month period, Tax-Supported Operations experienced an unfavourable net variance of $4.6 million. An unfavourable net variance is projected at year-end of $97.4 million.

It is important to note that the financial information presented is as of April 30, which is a snapshot in time and the year-end projection is based on current and expected future activities as known and anticipated.

Rate-Supported Programs:
Rate-Supported Programs reported a favourable year-to-date net variance of $27.7 million. At year-end, Rate-Supported Programs are projecting a favourable variance of $32.7 million.

Table 2: Rate-Supported Operating Variance Summary

Variance ($ in Millions)	**April 30, 2026 (Year-to-Date)**			**December 31, 2026 (Year-End) Projection**		
Favourable / (Unfavourable)	**Budget**	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
Rate-Supported Operating Variance Summary						
Solid Waste Management Services	(55.0)	(58.1)	3.1	0.0	(0.4)	0.4
Toronto Parking Authority	(18.0)	(16.3)	(1.7)	(61.1)	(61.1)	(0.0)
Toronto Water	(353.4)	(379.7)	26.2	0.0	(32.4)	32.4
Total Variance	**(426.4)**	**(454.1)**	**27.7**	**(61.1)**	**(93.9)**	**32.7**

The favourable year-to-date variance and favourable year-end projection is primarily driven by Toronto Water.

Rate-Supported Programs are funded entirely by user fees that are used to pay for the services provided and the infrastructure to deliver them. Solid Waste Management Services and Toronto Water's respective year-end surpluses, if any, must be transferred to the Waste Management Reserve Fund and the Wastewater and Water Stabilization Reserves respectively, to finance capital investments and ongoing capital repairs and maintenance. One hundred percent (100%) of Toronto Parking Authority's surplus is allocated to the City, which is consistent with the Income Sharing Agreement.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve the budget adjustments detailed in *Appendix D – Pending Budget Adjustments* to amend the 2026 Approved Operating Budget, with no impact on the Net Operating Budget of the City.

FINANCIAL IMPACT

For the four months ended April 30, 2026, the City experienced an unfavourable net variance in Tax-Supported programs of $4.6 million and is projecting an unfavourable net variance of $97.4 million for December 31, 2026.

The projected year-end unfavourable variance is $97.4 million. The key drivers of the variance are rooted in legislative, policy and economic changes, quasi-judicial settlements and unexpected financial implications of geopolitical disruptions. These key drivers have manifested in added expenses across various City operations for fuel and labour; as well as impacting both transit costs and ridership revenues. Additional information on these key drivers is outlined in the body of the report.

Divisions and Agencies are expected to ensure expenditures do not exceed approved program budgets and to review expenditure levels to address revenue shortfalls. Work is underway in Divisions and Agencies with unfavourable variances to identify actions to manage their shortfalls consistent with their obligations under the Financial Control By-Law, related to deficit management.

Appendices

Appendices A, B and C provide a detailed summary of Net Expenditures, Gross Expenditures, Revenue for the year-to-date results and year-end projections by City Program and Agency, respectively. Appendix D details the recommended pending budget adjustments that are financially neutral to the 2026 Approved Operating Budget. Appendix E provides a dashboard with information for each City Program and Agency. Donations and Sponsorship funds are itemized by program in Appendix F and G respectively.

DECISION HISTORY

Toronto's 2026 balanced Tax and Rate Supported Operating Budget totals $18.9 billion. This includes $16.6 billion (gross) and $5.8 billion (net) for the Tax Supported Operating Budget and $2.3 billion for the Rate Supported Operating Budget, covering Toronto Water, Solid Waste Management Services, and the Toronto Parking Authority.
These were considered by City Council on February 10 and are now deemed adopted.
Agenda Item History - 2026.MPB38.1

This report is provided pursuant to financial management best practices and budgetary control. As part of the City of Toronto's financial accountability framework, quarterly and year-end operating variance reports are submitted to Committees and City Council, to provide financial monitoring information on operating results to date and projections to year-end, and on an exception basis, to identify issues that require direction and/or decisions from City Council. In addition, City Council's approval is requested for budget adjustments that amend the 2026 Approved Operating Budget between City Programs and Agencies in accordance with the Financial Control By-Law and the City's financial management policies.

COMMENTS

The primary drivers of the 2026 operating budget projected year-end unfavourable variance of $97.4 million are:

	Primary Drivers			
	Economic Factors	Legislative and Policy Changes	Quasi-Judicial Settlement	Geopolitical Disruptions
Transit Revenue	✓	✓		
Labour Costs		✓	✓	
Fuel Costs				✓

- ***Transit Revenue***

  Lower than anticipated revenues accounts for approximately $26 million (50%) of the Toronto Transit Commission (TTC) unfavourable year-end projection. Lower than budgeted Transit revenues are driven by:

  - extreme weather events, which reduced ridership this past winter season and accounts for $6.4 million (24%) of the projected shortfall in revenue;
  - economic factors with economic growth now projected to be 0.5% compared to the 1.5% growth assumption in the 2026 TTC's budget, of note the first quarter Gross Domestic Product (GDP) was -0.1%. Reduced economic growth has direct impacts on employment rates across various employment categories, with corelated impacts on transit ridership demand; and
  - a 50% decline in post-secondary pass sales which includes international student ridership following changes in federal policies governing study permits.

- ***Labour Costs***

  <u>Changes in provincial legislation</u>

  Supporting Ontario's First Responders Act (Post-Traumatic Stress Disorder) establishes a legal presumption that post-traumatic stress disorder (PTSD) diagnosed in eligible first responders is a work-related illness. Ontario Regulation 253/07 designates firefighters and fire investigators as a special class of workers eligible for presumptive workplace injury compensation under the *Workplace*

Safety and Insurance Act, 1997. Collectively, these legislative measures presume that certain cancers, heart injuries, and PTSD are occupational diseases arising from employment. In addition, Ontario Regulation 343/22 Firefighter Certification establishes mandatory, province-wide minimum certification standards for all Ontario firefighters based on National Fire Protection Association (NFPA) standards, to legally obligates municipalities and fire departments to ensure their firefighters meet certain qualifications.

The City acknowledges and appreciates the actions taken by the Provincial Government to enhance protections for firefighters; however, these enhanced protections come with financial implications that are borne solely by the City.

Since the introduction of this legislation, Toronto Fire Services has experienced a substantial increase in the number of staff accessing and remaining on Workplace Safety and Insurance Board (WSIB) benefits. In addition, Toronto Fire Services reliance on overtime has increase as staff are not available as they complete mandatory training under 343/22. In response, Fire Services developed and implemented a hiring plan between 2023-2025, in part to mitigate the impact of these legislative changes on service levels. Despite these efforts, Fire Services has continued to experience significant overtime pressures to maintain service levels, contributing to the unfavourable year-end projection in the amount of approximately $43 million.

It is important to note that the *Supporting Ontario's First Responders Act (Post-Traumatic Stress Disorder)* also affects Toronto Police Service and Toronto Paramedic Services' operating budget and results.

Arbitrated Settlement for Toronto Professional Fire Fighters' Association

At the March 2026 Council meeting, the City Manager and Interim Chief People Officer brought forward a report on the Interest Arbitration Results with the Toronto Professional Firefighters' Association, Local 3888 (CC39.4). The report provided an overview of the Interest Arbitration Process, including the City's argument that there was no "demonstrated need" for a front-line premium pay. Despite the City's argument, the Arbitrator ordered the introduction of premium and ordered that it apply to the entire bargaining unit meaning even those who are not serving in a front-line capacity are also receiving a front-line premium.

The cost of this premium resulted in the collective agreement exceeding the financial mandate set by the Executive Committee. As there was no provision set aside for the premium, this driver accounts for approximately $19 million of the unfavourable year-end projection in Fire Services.

- ***Fuel Costs***

  The rise in fuel prices is negatively affecting Fleet Services ($5 million) and the Toronto Transit Commission ($24 million), contributing to their unfavourable year-end projections. Since March, City staff have been monitoring the escalation in fuel prices and implementing measures to mitigate the impact of these increases.

Actions taken include, but are not limited to, increasing the use of zero-emission and low-emission vehicles; reinforcing the City's Idling Control By-law with vehicle operators; sharing eco-driving tips and best practices; increasing the use of analytics to optimize routes, reduce unnecessary travel, consolidate trips, and right-size vehicles for operational requirements; and increasing fuel hedging contracts.

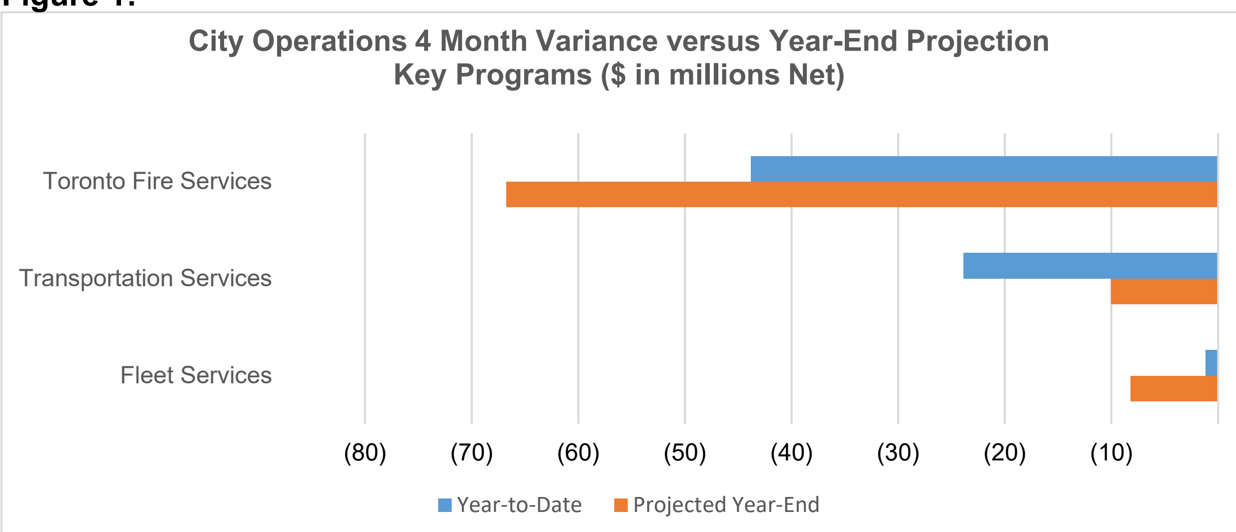
The effectiveness of the mitigation actions will be assessed before any draw on a contingency reserve is considered or forecast, to address the unforeseen, sharp, and potentially prolonged increase in fuel costs.

CITY DIVISIONS

As of April 30, 2026, City Operations reported a favourable net variance of $47.7 million (4%). Year-end projections forecast an unfavourable net variance of $66.6 million (-2%).

The divisions which have the most influence on the net variances are outlined in Figure 1.

Figure 1:



Toronto Fire Services

Year-to-date unfavourable net variance of $43.7 million is primarily due to increased labour costs due to the Local 3888 collective bargaining agreement award, callback overtime, and training overtime costs related to Ontario regulation 343/22. This is partially offset by a favourable revenue variance of $1.6 million driven by receipt of the Fire Protection Grant.

Projected year-end unfavourable net variance of $66.7 million reflects the same drivers as the year-to-date variance, with continued pressures from callback and training overtime, collective agreement costs, and rising WSIB claims.

Transportation Services

Year-to-date unfavourable net variance of $23.9 million is primarily due to enhanced service delivery, including responding to two major snowstorms, repairing potholes, carrying out beautification work, and managing expressway closures to maintain safety and keep roads in good condition. This is partially offset by higher-than-expected revenue from third-party work.

Projected year-end unfavourable net variance is $10.0 million. The year-end projection is inclusive of a provisional $45.5 million draw from stabilization reserves in response to major winter events. Staff will continue to monitor, evaluate and implement, as appropriate, actions to reduce the need to draw from the reserves.

Fleet Services

Year-to-date unfavourable net variance of $1.1 million, primarily attributable to winter operations due to severe weather conditions. These conditions resulted in increased maintenance costs for parts and services, higher fuel consumption volumes, and elevated fuel prices since March 2026.

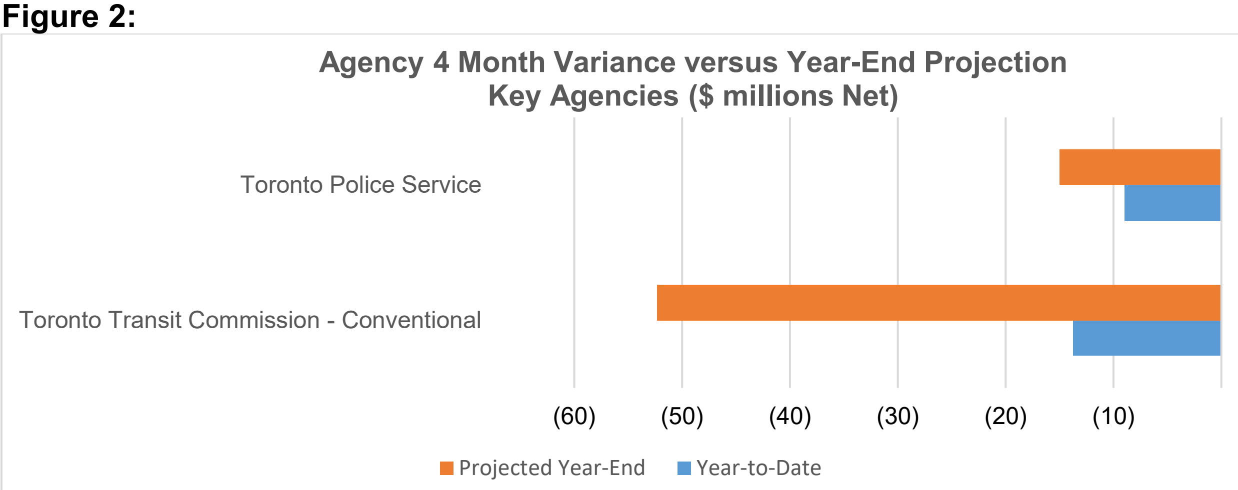
Projected year-end unfavourable net variance of $8.2 million primarily driven higher-than-budgeted fuel expenditures resulting from both increased market prices and higher consumption volumes, partially mitigated by savings achieved through fuel hedging strategies.

CITY AGENCIES

As of April 30, 2026, City Agencies collectively reported an unfavourable net variance of $17.0 million (-2%) and are projecting a year-end unfavourable net variance of $64.9 million (-2%).

The City Agencies which have the most influence on the net variances are outlined in Figure 2.

Figure 2:



Toronto Police Service

Year-to-date unfavourable variance of $9.0 million primarily due to higher premium pay costs, including court time, overtime, and callbacks.

Projected year-end unfavourable net variance of $15.0 million reflect the same pressures, with continued higher premium pay costs remaining a significant and ongoing financial challenge. The Service is pursuing opportunities for expenditure reductions and/or increasing revenue throughout the year to mitigate year-end deficits to the extent possible.

Toronto Transit Commission – Conventional

Year-to-date net unfavourable variance of $13.7 million primarily due to lower revenue variance from reduced ridership demand and lower provincial funding associated with the delayed opening of Line 5 Eglinton. This is partially offset by lower-than expected costs, mainly from corporate spending.

Projected year-end unfavourable net variance of $52.3 million reflects continued pressures from lower ridership revenues and higher costs including diesel fuel, traction power costs, partially offset by lower labour costs.

FIFA World Cup 2026 (FWC26)

Variance ($ millions) Favourable / (Unfavourable)	April 30, 2026 (Year-to-Date)			December 31, 2026 (Year-End) Projection		
	Budget	Actual	Variance	Budget	Actual	Variance
Gross Expenditures						
City Manager's Office	40.13	11.19	37.99	120.96	120.96	0
Economic Development and Culture	0	0	0	2.37	2.37	0
Parks & Recreation	0.09	0.04	0.05	1.36	1.36	0
Social Development	0.06	0.12	(0.07)	0.22	0.22	0
Toronto Emergency Management	0.79	0.43	0.36	2.45	2.45	0
Toronto Fire Services		0.02	(0.02)	3.68	3.68	0
Toronto Paramedic Services	0.55	0.77	(0.21)	7.91	7.91	0
Toronto Police Services	2.00	2.92	(0.92)	56.27	56.27	0
Toronto Transit Commission	2.50	2.50	0	2.50	2.50	0
Total Gross Expenditures	**46.12**	**17.98**	**28.13**	**197.72**	**197.72**	**0**

- Year-to-date gross expenditure are showing a favourable variance of $28.13 million. This variance is primarily driven by the timing of rental costs and delays in procurement activities, which are expected to be incurred in the second quarter in alignment with the event schedule.

- The 2026 Operating Budget and year-end projection do not include incremental funding announced by Public Safety Canada to support FWC26. Specific criteria for the funds and a contribution agreement are to be confirmed. The funding is expected to offset incremental deployment costs associated with the expansion of the safety and security footprint. As such, these cost pressures are not anticipated to impact the FWC26 funding envelope. Once the contribution agreement has been finalized, both the funding and related costs will be incorporated into the 2026 Operating Budget and year-end projection.

- Year-end results are projected to be on budget, as the current favourable variance is timing-related and will be offset by higher spending in the second quarter of 2026 when the majority of event-related costs are realized. Further review and updates will be available in future variance reporting following completion of the games and availability of associated expenditure results.

Corporate Accounts:

As of April 30, 2026, Corporate Accounts reported an unfavourable net variance of $35.2 million with a projected year-end favourable net variance forecasted of $34.1 million.

Non-Program Revenues

Year-to-date unfavourable variance of $3.2 million is primarily due to lower-than-expected Interest and Investment Earnings from long-term investments and the timing of supplementary property tax revenues. This is partially offset by higher revenues from Municipal Land Transfer Tax, Municipal Accommodation Tax, and tax penalty revenues.

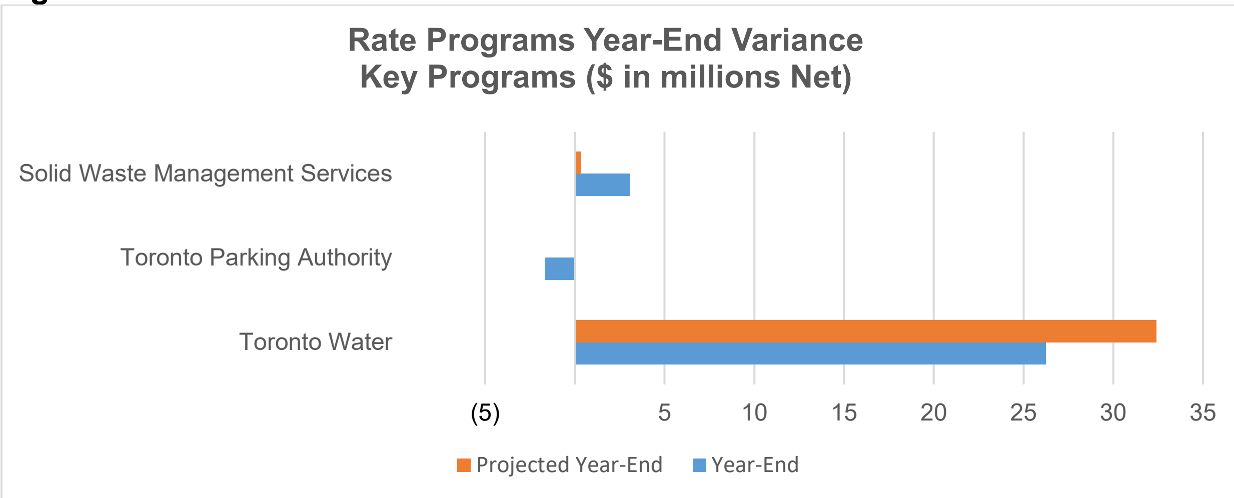
Projected year-end favourable net variance of $31.5 million is primarily due to increased Municipal Land Transfer Tax, Municipal Accommodation Tax, and tax penalty revenues.

Rate-Supported Programs:

As of April 30, 2026, Rate Programs reported a favourable net variance of $27.7 million with a projected year-end favourable net variance forecast to be $32.7 million.

The favourable net variances are summarized in Figure 3.

Figure 3:



Solid Waste Management Services

Year-to-date favourable net variance of $3.1 million is primarily due to lower waste collection, transportation, and disposal costs resulting from reduced waste volumes and operational efficiencies. These savings are partially offset by higher salary and benefit costs and an acceleration in hiring operational positions.

Projected year-end favourable net variance of $0.4 million reflect the same drivers as the year-to-date results, including lower waste collection, transportation, disposal, and utility costs, as well as operational efficiencies. These savings are expected to be partially offset by higher salary and benefit costs, increased maintenance-related charges and lower revenue due to temporary outage at the renewable natural gas facility.

Toronto Parking Authority

Year-to-date unfavourable net variance of $1.7 million is primarily due to lower revenue from on-street parking and Bike Share operations. Parking activity was affected by major snow events in January and February, while Bike Share demand was lower than expected. These pressures were partially offset by lower operating costs.

Projected year-end results are expected to be on budget. Strong performance parking and Bike Share operations over the remainder of the year, together with continued prudent expense management is expected to offset the year-to-date variance.

Toronto Water

Year-to-date favourable net variance of $26.2 million is mainly due to higher than planned revenue from water sales driven by increased consumption and timing of customer billings, as well as higher revenue from industrial waste agreements. The favourable revenue variance is partially offset by higher operating costs, including utilities, contract services due to increased haulage at water treatment facilities and materials and supplies.

Projected year-end favourable net variance of $32.4 million is primarily due to higher water revenue and lower spending for chemicals, contract services and equipment and salaries and benefits. This is projected to be partially offset by higher utilities costs and lower revenue from watermain connection fees.

Year-end results can vary significantly due to the uncertainty of sale of water and consumption levels arising from fluctuations in weather and increased risk of predictability of year-end sale of water due to the ongoing Meter Transmission Units (MTU) failures until full replacement of MTU is substantially completed.

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A - City of Toronto Net Expenditures for the Four Months Ended April 2026
Appendix B - City of Toronto Gross Expenditures for the Four Months Ended April 2026
Appendix C - City of Toronto Revenues for the Four Months Ended April 2026
Appendix D - Pending Budget Adjustments
Appendix E - Operating Variance Dashboard for City Programs and Agencies
Appendix F - Donation Funds
Appendix G - Sponsorships