REPORT FOR ACTION

Operating Variance Report for the Nine Months Ended September 30, 2026

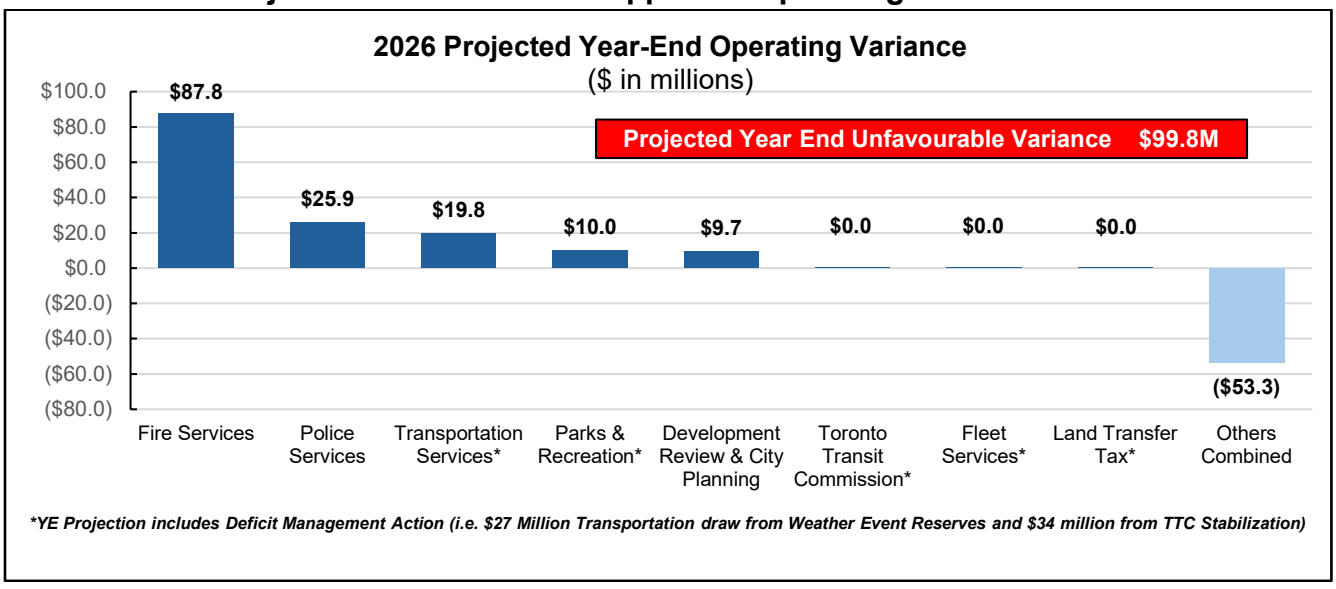
Date: November 17, 2026
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

The purpose of this report is to provide City Council with the Operating Variance results for the nine months ended September 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.

Tax-Supported Operations are projecting an unfavourable year-end variance of $99.8 million. As detailed in Chart 1, the year-end projection is largely driven by staffing demands in emergency services; impacts from weather events in Transportation Services and Parks & Recreation; and reduced revenues associated with decreased development activity.

Chart 1: 2026 Projected Year-End Tax-Supported Operating Variance



The projected unfavourable variance incorporates offsets achieved through a series of item specific mitigation actions as follows:

- **Municipal Land Transfer Tax** – anticipated $34.9 million draw from MLTT Stabilization to mitigate fluctuations in revenue generated during economic downturns or real estate slowdowns.

- ***Toronto Transit Commission*** – forecast $34.5 million TTC Stabilization draw to offset operation pressures associated with added fuel costs and lower than anticipated ridership.

- ***Weather Events*** – expected $32.1 million draw from weather related reserves to partially offset the impacts of winter event on Transportation Services' winter maintenance program ($27.1 million); and the impacts of weather events such as extreme heat on Park & Recreation operations ($5.0 million).

- ***Fleet Services*** – planned $5.4 million draw from the Commodity Price Stabilization; coupled with other mitigation actions such as fuel rationalization and hedging to offset escalated fuel costs.

Additional measures will be required to address the remaining variance to achieve a balanced year-end position. These measures include further expenditure management actions and, where required, the strategic use of the Tax Rate Stabilization Reserve and other available reserves.

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

Table 1: Tax-Supported Operating Variance Summary

Variance ($ in Millions)	September 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	2,689.8	2,716.4	(26.5)	3,559.8	3,635.7	(75.9)
Agencies	2,518.2	2,529.5	(11.4)	3,317.1	3,337.2	(20.1)
Corporate Accounts	(497.8)	(439.9)	(57.9)	(1,086.3)	(1,082.5)	(3.8)
Sub-Total	**4,710.2**	**4,806.0**	**(95.8)**	**5,790.5**	**5,890.4**	**(99.8)**

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

Additionally, during the City Council recess period, the Chief Financial Officer and Treasurer exercised delegated authority granted by City Council to approve certain in-year operating budget adjustments within approved limits. Consistent with Council's

direction, a summary of adjustments approved under this authority is included in Appendix H of this report for information.

Rate-Supported Programs:

Rate-Supported Programs are projecting a favourable year-end variance of $26.4 million.

Table 2: Rate-Supported Operating Variance Summary

Variance ($ in Millions)	September 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	3.8	(6.3)	10.2	0.0	(3.2)	3.2
Toronto Parking Authority	(48.9)	(51.0)	2.2	(61.1)	(63.8)	2.7
Toronto Water	(4.4)	(31.0)	26.6	0.0	(20.5)	20.5
Total Variance	**(49.5)**	**(88.4)**	**38.9**	**(61.1)**	**(87.5)**	**26.4**

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

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 – In-Year Budget Adjustments to amend the 2026 Approved Operating Budget, with no impact on the Net Operating Budget of the City.

FINANCIAL IMPACT

For the nine months ended September 30, 2026, the City experienced an unfavourable net variance in Tax-Supported programs of $95.8 million and is projecting an unfavourable net variance of $99.8 million for December 31, 2026.

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.

Additional measures may be required to address any remaining unfavourable variance to achieve a balanced year-end position. These measures will include further expenditure management actions and, where required, the strategic use of the Tax Rate Stabilization Reserve and other available reserves.

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 in-year 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. Appendix H provides a summary of in-year budget adjustments made under the delegated authority granted to the Chief Financial Officer and Treasurer during the City Council recess period.

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

The 2026 Operating Variance Report for the Four Months Ended April 30, 2026, was adopted by the City Council on July 29, 2026.
Agenda Item History - 2026.EX33.9

At its meeting on July 29 and 30, 2026, City Council adopted Item CC43.5 “Delegation of Authority for the 2026 Council Recess Period”, which delegated authority to the Chief Financial Officer and Treasurer to approve operating budget reallocations in the amount of not more than $2 million, and directed that the exercise of this authority be reported back to City Council. A summary of the adjustments approved under delegated authority is included in Appendix H of this report.

Agenda Item History - 2026.CC43.5

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 $99.8 million are:

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

- ***Labour Costs***

  Changes in provincial legislation

  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 significant 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 $67.3 million.

It is important to note that the *Supporting Ontario's First Responders Act (Post-Traumatic Stress Disorder)* also has 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 $18.6 million of the unfavourable year-end projection in Fire Services.

Weather Events

In responding to several significant weather events, including severe winter storms in January, heatwaves and orange heat warnings in June, and an intense rain and wind event in September, the City incurred unanticipated overtime costs to support its emergency response and recovery efforts. These additional costs were necessary to protect public safety, restore City operations and services as quickly as possible, and enable residents to safely resume their daily activities following these events. The cost of these activities in contributing $16.5 million the overall unfavourable year-end projections.

- ***Fuel Costs***

  The rise in fuel prices is negatively affecting Fleet Services ($5 million) and the Toronto Transit Commission ($32.2 million), contributing to their unfavourable year-end projections prior to mitigation actions. 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.

- ***Contracted Services***

  The weather events noted above also resulted in unanticipated contracted service costs for urban forestry management and winter maintenance activities. These costs, primarily incurred by Transportation Services and Environment, Climate and Forestry, were necessary to support the City’s response and recovery efforts. Collectively, these expenditures contribute approximately $29.6 million to the projected unfavourable year-end variance.

- ***Transit Revenue***

  Furthermore, lower than anticipated revenues accounts for the Toronto Transit Commission (TTC) unfavourable year-end projection prior to mitigation actions. Lower than budgeted transit revenues are driven by:

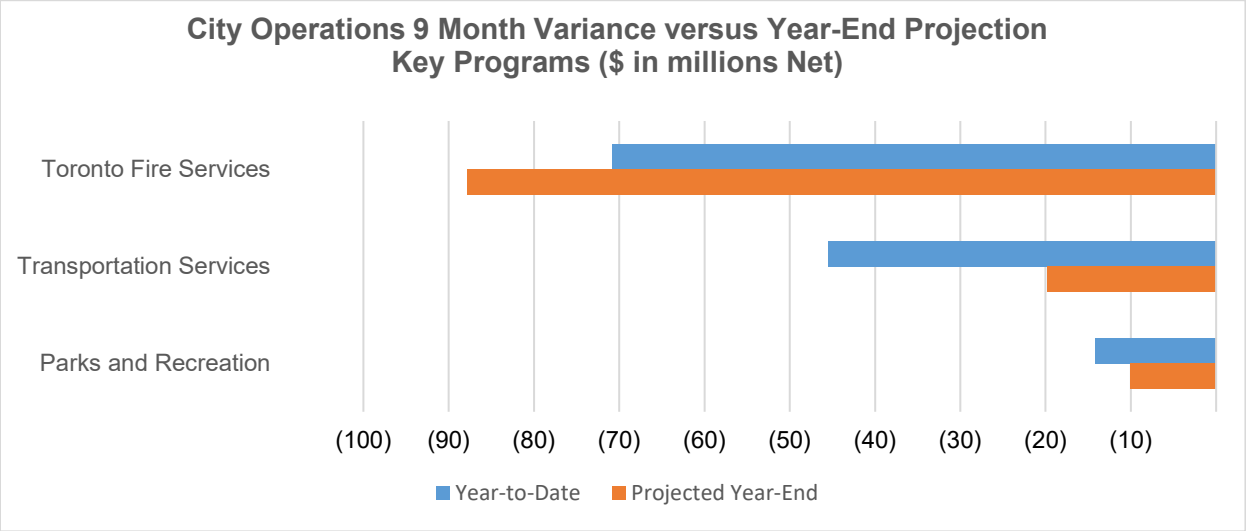
  - extreme weather events, which reduced ridership this past winter season and accounts for $7.5 million (15%) of the projected shortfall in revenue;
  - economic factors with economic growth now projected to be 0.5% compared to the 1.5% growth assumption in the 2026 TTC’s budget. Reduced economic growth has direct impacts on employment rates across various employment categories, with corelated impacts on transit ridership demand; and
  - greater than 50% decline in post-secondary pass sales which includes international student ridership following changes in federal policies governing study permits.

CITY OPERATIONS

As of September 30, 2026, City Operations reported an unfavourable net variance of $26.5 million (-1%). Year-end projections forecast an unfavourable net variance of $75.9 million (-2%).

The divisions with the most significant impact on the projected year-end net variance are outlined in Figure 1.

Figure 1:



Toronto Fire Services

Year-to-date unfavourable net variance of $70.8 million due to $18.3 million in salary and benefit pressures arising from the Local 3888 collective bargaining agreement award, $7.9 million in WSIB claim costs associated with provincially mandated Presumptive Cancer Legislation and Occupational Stress Injuries for firefighters, and $40.9 million in overtime costs to maintain the daily fire trucks availability service standards.

Projected year-end unfavourable net variance of $87.7 million reflects the same drivers as the year-to-date variance.

Transportation Services

Year-to-date unfavourable net variance of $45.5 million primarily due to winter maintenance activities, including snow removal and two activations of the Major Snow Event Response Plan as well as additional costs associated with pothole blitzes, Keeping Toronto Beautiful initiatives, expressway closures and online Ministry of Transportation Ontario fees. These pressures are partially offset by a favourable revenue variance of $10.8 million primarily due to user fees and service charges payment received earlier than anticipated.

Projected year-end unfavourable net variance of $19.8 million reflects the same drivers as the year-to-date variance, partially offset by mitigation strategies.

Parks and Recreation

Year-to-date unfavourable net variance of $14.2 million primarily driven by resources required to respond to weather events, new contract costs, collective agreement impacts, and the timing of grant and third-party recoveries.

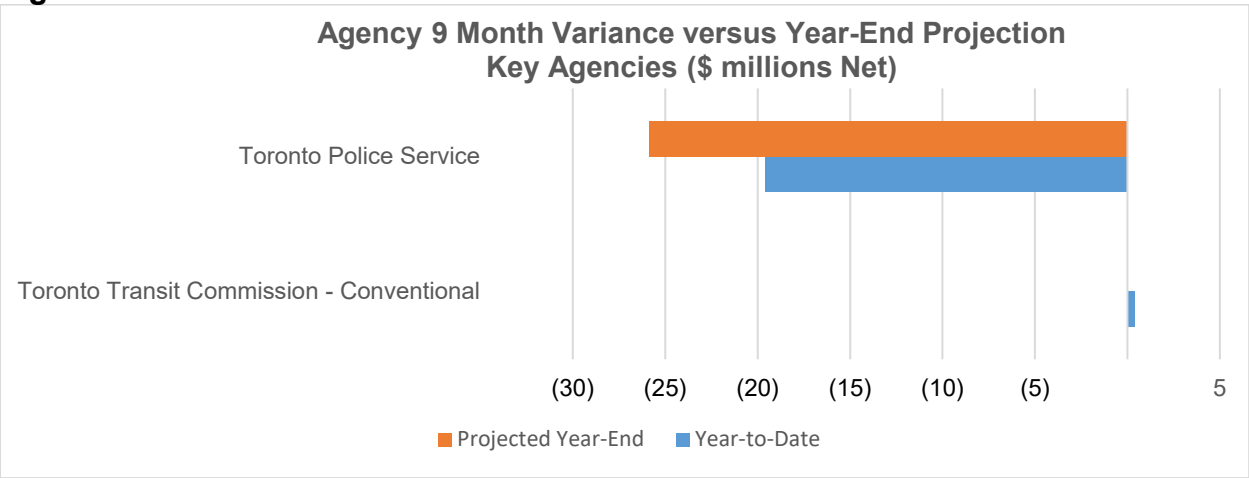
Projected year-end unfavourable net variance of $10.0 million reflects the same drivers as the year-to-date variance, partially offset my mitigation actions; as well as a $4.2 million revenue shortfall attributable to lower registration, ticket sales and grant revenues.

CITY AGENCIES

As of September 30, 2026, City Agencies collectively reported an unfavourable net variance of $11.4 million (0%) and are projecting a year-end unfavourable net variance of $20.1 million (-0.6%).

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 net variance of $19.6 million primarily due to premium pay pressures arising from continued reliance on off-duty resources and call-back pay.

Projected year-end unfavourable net variance of $25.9 million reflects the same drivers as the year-to-date variance and lower-than-anticipated separations. These pressures were partially offset by $11.0 million in non-salary savings. 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 favourable net variance of $0.4 million, primarily due to lower service costs associated with the timing of LRT and other project expenditures and salary savings from vacancies. These savings were partially offset by higher diesel costs and lower passenger revenues resulting from reduced ridership demand.

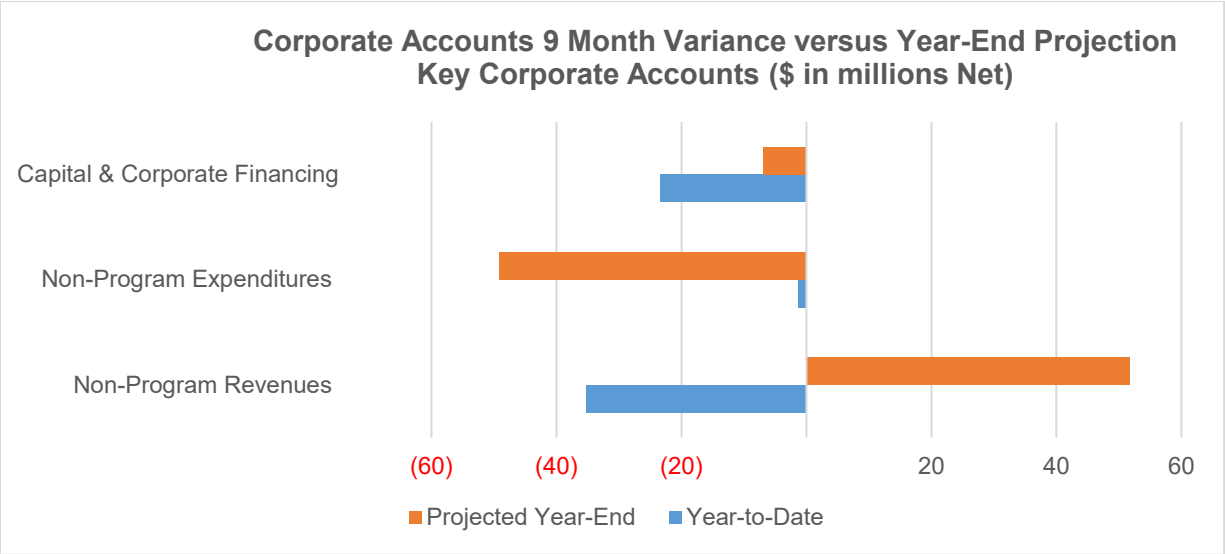
Projected year-end unfavourable net variance was expected to $34.5 million, reflecting the same drivers as the year-to-date variance, however the projection has been reduced to $0 based on anticipated draws from the TTC's stabilization reserve.

CORPORATE ACCOUNTS

As of September 30, 2026, Corporate Accounts reported an unfavourable net variance of $57.9 million with a projected year-end unfavourable net variance forecasted of $3.9 million.

The key drivers of the net variances are outlined in Figure 3.

Figure 3:



Capital & Corporate Financing

Year-to-date unfavourable $23.4 million related to timing and size of debt issuances.

Projected year-end unfavourable net variance of $6.9 million as further debt issuances in the remainder of the year will reduce reliance on levy supported debt.

Non-Program Expenditures

Year-to-date is materially on budget.

Projected year-end unfavourable net variance of $49.1 million primarily driven by increased tax deficiency costs and write-offs and provision for salary and benefits savings which are reflected in individual divisional projections.

Non-Program Revenues

Year-to-date unfavourable $35.3 million driven mainly by Municipal Land Transfer Tax (MLTT) revenues performing below budget and the timing of Interest and Investment

Earnings from long-term investment. This is partially offset by higher revenues from Municipal Accommodation Taxes.

Projected year-end favourable net variance of $51.8 million is primarily due to Municipal Accommodation Tax and tax penalty revenues.

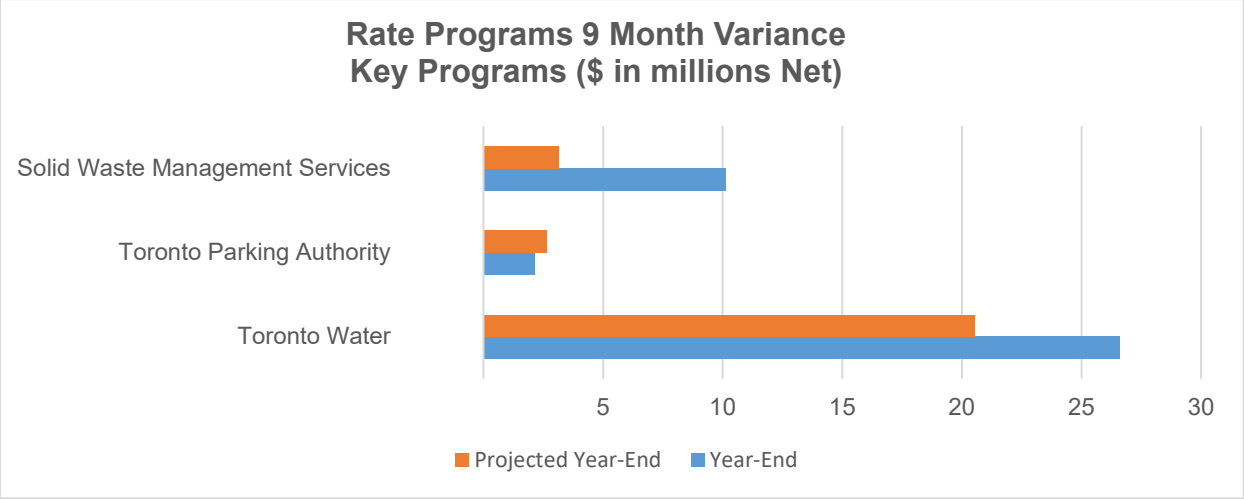
The projected MLTT revenue shortfall is expected to be mitigated through the MLTT stabilization reserve, which was established to manage volatility in land transfer tax revenues.

Rate-Supported Programs:

As of September 30, 2026, Rate-Supported Programs reported a favourable net variance of $38.9 million with a projected year-end favourable net variance forecast to be $26.4million.

The favourable net variances are summarized in Figure 4.

Figure 4:



Solid Waste Management Services

Year-to-date favourable net variance of $10.0 million is driven by reduced tonnage and underspending in haulage and disposal at Green Lane Landfill and alternate landfills as well as processing facilities being non-operational. This is partially offset by overspending in salaries and benefits due to lower turnover than planned. Unfavourable revenue variance of $1.3 million is primarily driven by lower renewable natural gas revenues, partially offset by higher collection revenue and Drop/Load/Tipping fees.

Projected year-end favourable net variance is $3.2 million reflect similar drivers as the year-to-date variance. Favourable expenditure variances are partially offset by salaries and benefits associated with filling of positions and higher fleet maintenance costs. Unfavourable revenue variance of $4.1 million is primarily driven by Renewal Natural Gas operating facilities being temporarily out of service.

Toronto Parking Authority

Year-to-date favourable net variance of $2.2 million due to $1.2 million higher revenues driven by strong off-street parking, Bike Share and other revenue performance, and $1.0 million lower expenditures driven by underspending in salaries and benefits related to vacancies and savings from the modernization of parking equipment.

Projected year-end favourable net variance of $2.7 million reflects the same drivers as the year-to-date variance.

Toronto Water

Year-to-date favourable net expenditure variance of $26.6 million is mainly due to lower contract service and equipment costs, lower chemical costs and vacancy-related savings. Favourable revenue variance of $18.4 million is primarily 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 and private agreements, partially offset by lower watermain connection fee revenues.

Projected year-end favourable net variance of $20.5 million reflects the same drivers as the year-to-date variance.

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 revenue from sale of water will continue to pose a challenge due to potential inaccuracies in estimated billing until a full city-wide replacement of Meter Transmission Units is implemented and completed.

CONTACT

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A – Net Expenditures for the Nine Months Ended September 2026

Appendix B – Gross Expenditures for the Nine Months Ended September 2026

Appendix C – Revenues for the Nine Months Ended September 2026

Appendix D – Pending Budget Adjustments

Appendix E – Operating Variance Dashboard for City Programs and Agencies

Appendix F – Donation Funds

Appendix G – Sponsorships

Appendix H – In-Year Budget Adjustments Approved Under Delegated Authority