

# Ontario Municipal Finances

An Overview of Municipal Budgets and an Estimate of the  
Financial Impact of the COVID-19 Pandemic



**FAO**

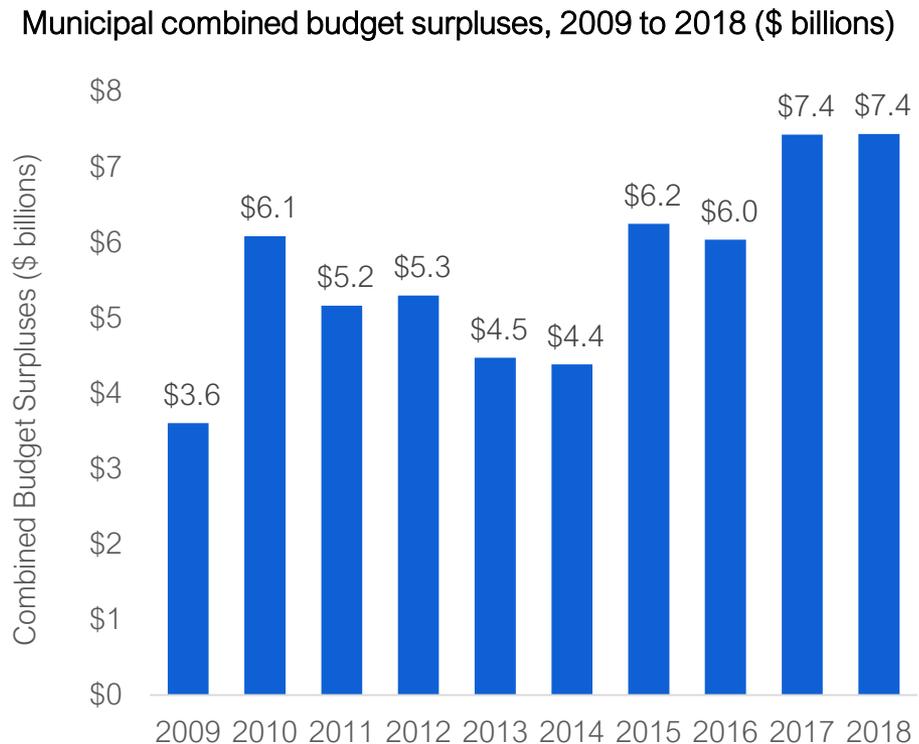
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# Overview

- This report:
  - provides an overview of municipal budgets prior to the COVID-19 outbreak;
  - estimates the financial impact of the COVID-19 pandemic on municipalities in 2020 and 2021; and
  - assesses the adequacy of federal-provincial financial support to municipalities.
- The report also examines municipal budgets by region and population size.

# Overview of Municipal Budgets

- Municipalities have relatively strong budget positions due to legislated restrictions on cash deficits and long-term borrowing.
- Ontario's 444 municipalities ran a combined budget surplus of \$7.4 billion in 2018.
- Since 2009, revenue has grown at an annual average of 3.8 per cent, from \$38.9 billion to \$54.3 billion in 2018.
- Since 2009, municipal expenditures have grown at an average of 3.2 per cent, from \$35.2 billion to \$46.8 billion in 2018.



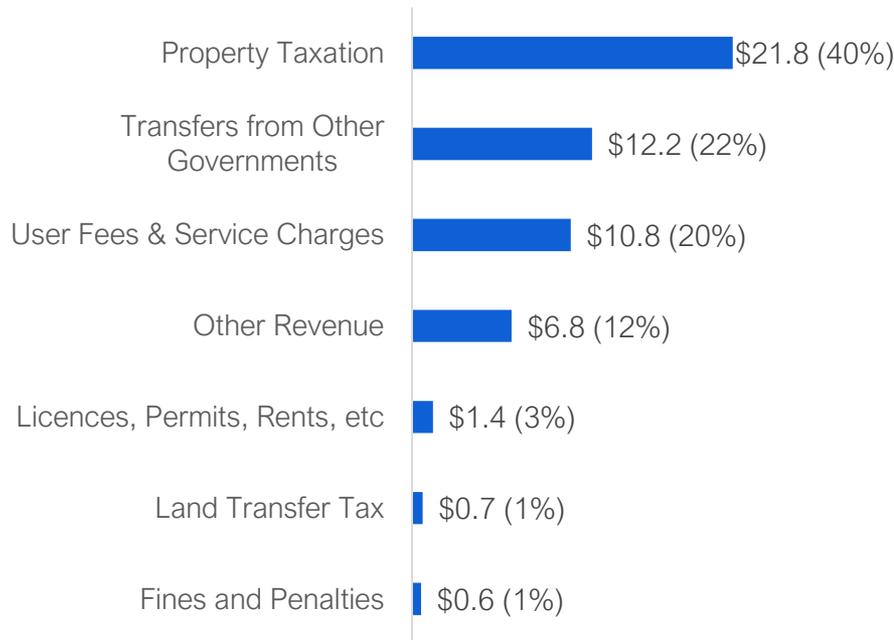
Note: The FAO presents municipal budgets consistent with municipalities' audited annual financial statements.

Source: Ministry of Municipal Affairs and Housing's Financial Information Return (FIR).

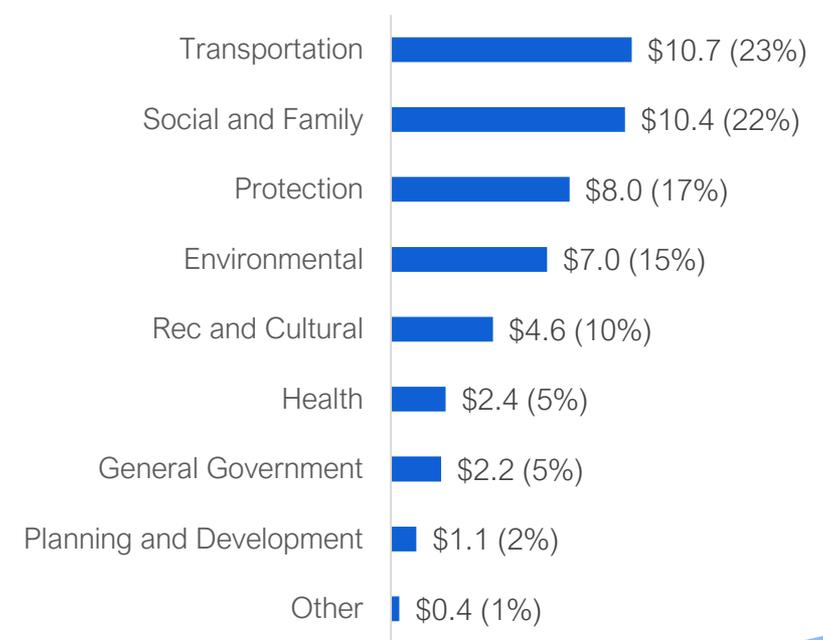
# Revenue Sources and Expense Categories

- Property tax accounted for 40 per cent of municipal revenue at \$21.8 billion in 2018.
- Transportation services accounted for 23 per cent of municipal expense at \$10.7 billion in 2018.

Municipal revenue by source, 2018 (\$ billions)



Municipal expense by function, 2018 (\$ billions)



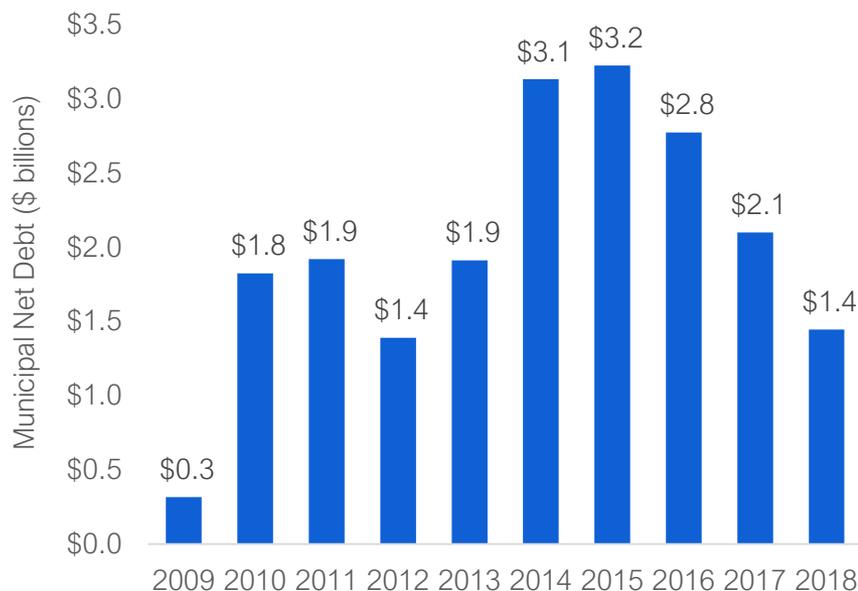
Source: Ministry of Municipal Affairs and Housing's Financial Information Return (FIR).



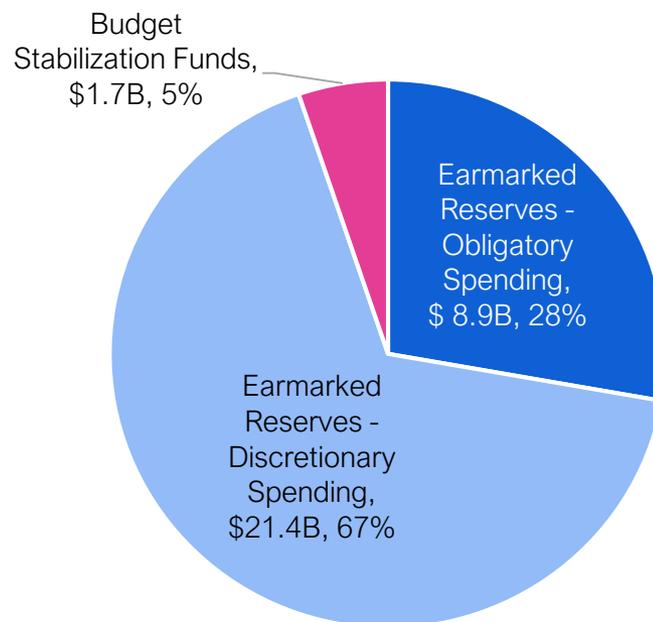
# Municipal Net Debt and Reserve Funds

- Municipalities' combined net debt has decreased steadily since 2015, reaching \$1.4 billion in 2018.
- In 2018, municipal reserve funds totaled \$31.9 billion across all municipalities.

Municipal combined net debt, 2009 to 2018 (\$ billions)



Municipal combined reserve funds by purpose, 2018 (\$ billions)

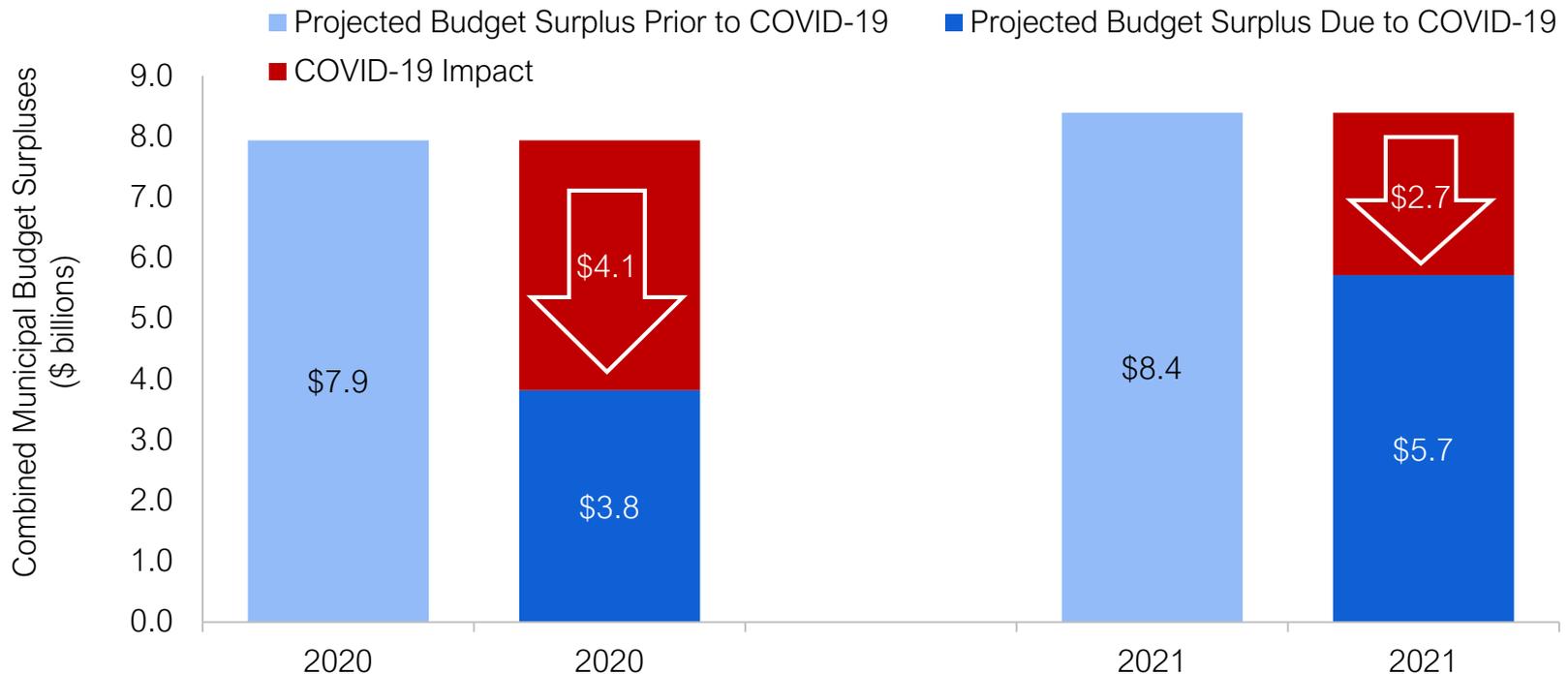


Source: FAO and Ministry of Municipal Affairs and Housing's Financial Information Return (FIR).

# Impact of COVID-19 on Municipal Budgets

- Before cost savings measures and federal-provincial financial support, the FAO projects a combined negative impact of \$6.8 billion over two years.

Estimated financial impact of the COVID-19 pandemic on combined municipal budget surpluses in 2020 and 2021 (\$ billions)



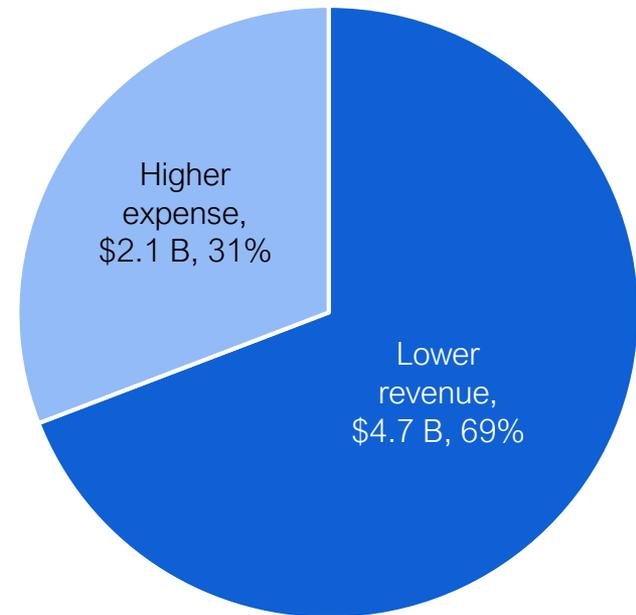
Note: Figures are presented on an accrual accounting basis. Reflects the estimated impact of the COVID-19 pandemic on combined municipal budget balances in 2020 and 2021, prior to cost savings measures implemented by municipalities and federal-provincial financial support.

Source: FAO.

# Lower Revenue and Higher Expenses

- Municipalities' combined revenue will be reduced by an estimated \$4.7 billion over two years.
  - Transit fees make up the largest decline, both in terms of percent of prior spending and net impact (\$2.1 billion).
- Municipalities are projected to increase expenditures by an estimated \$2.1 billion over two years.
  - Social housing (\$0.6 billion) and health (\$0.4 billion) are the two largest expenditure increases.

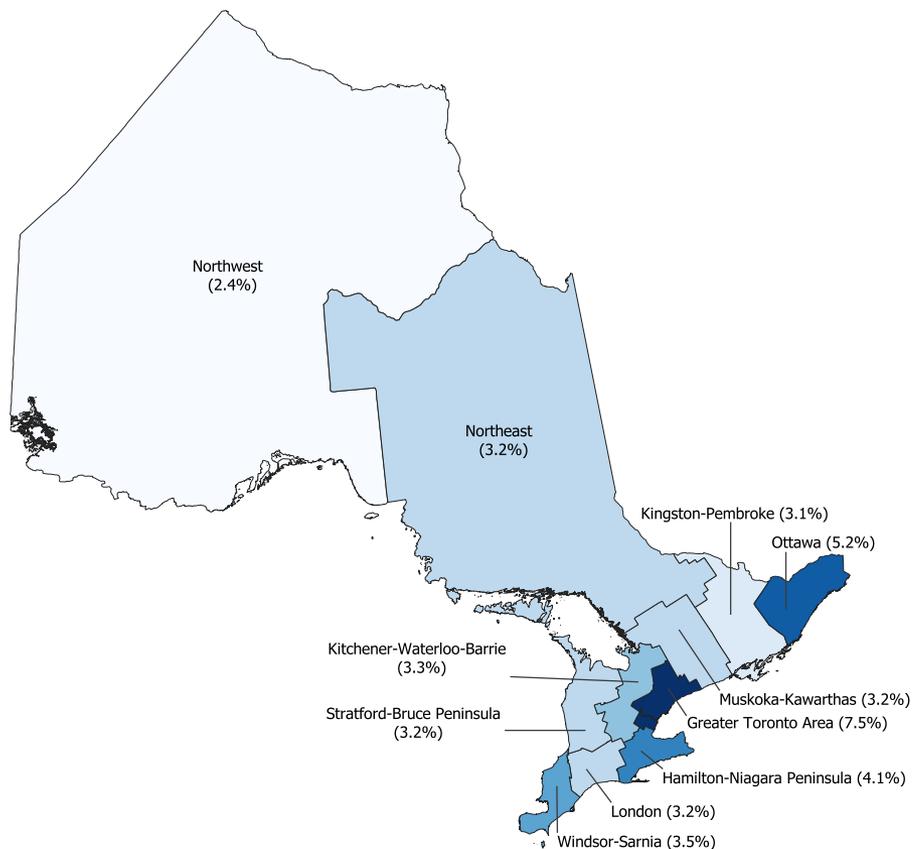
Estimated financial impact of the COVID-19 pandemic on combined municipal budget surpluses over two years (\$ billions)



Source: FAO.

# COVID-19 Impact by Economic Region

Financial impact in 2020 and 2021 from COVID-19 on municipal budgets by economic region, as a per cent of revenue



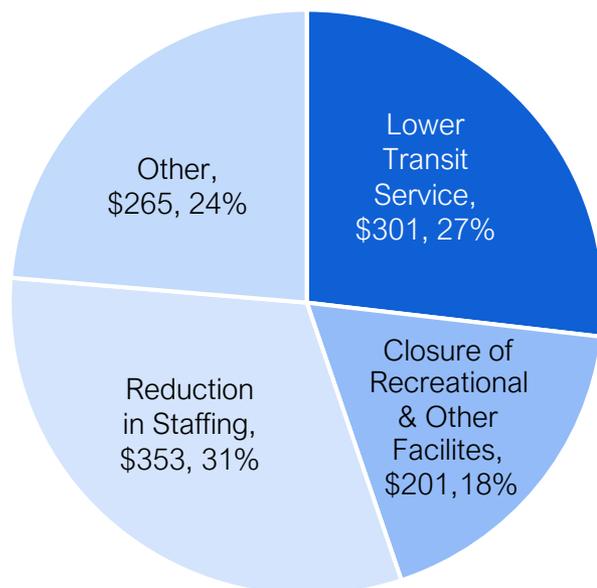
Note: The region labeled as Greater Toronto Area in this figure is defined by Statistics Canada as the Economic Region of Toronto.  
Source: FAO analysis of Ministry of Municipal Affairs and Housing's Financial Information Return (FIR) and Statistics Canada information.

- Municipalities in the following economic regions all experienced relatively more severe financial impacts from the COVID-19 pandemic:
  - Greater Toronto Area
  - Ottawa
  - Hamilton-Niagara Peninsula
- Largely due to higher relative:
  - revenues from public transit; and
  - spending for social services, social housing and health services.

# Municipal Cost Savings and Federal-Provincial Support

- Municipalities implemented cost savings measures that will reduce spending by an estimated \$1.1 billion in 2020.
- The Province announced that, as part of the Safe Restart Agreement with the federal government, municipalities would receive up to \$4.0 billion in support.

\$1.1 billion in estimated municipal cost savings measures in 2020, by category, \$ millions



\$4 billion in provincial and federal support to municipalities by category, \$ millions

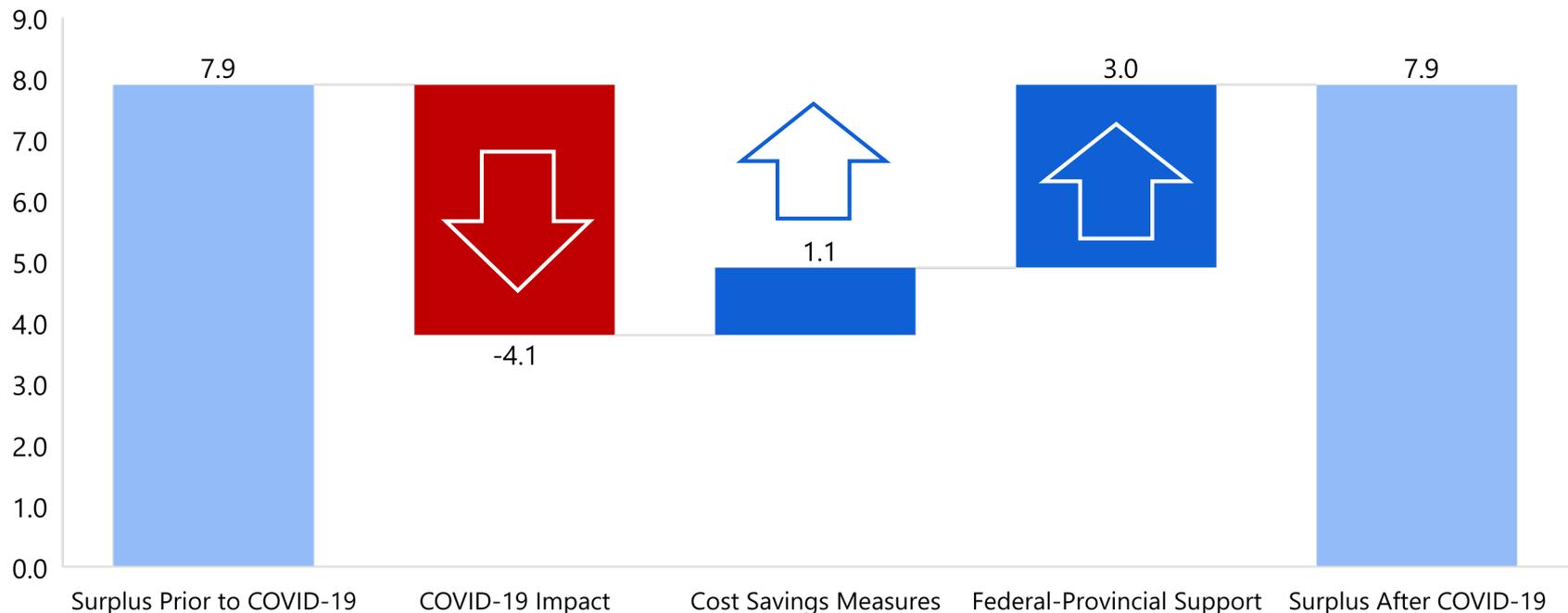
Support (\$ millions)	Total
Municipal Transit	2,000
General Operating Pressures	1,390
Social Services	510
Public Health Services	100
<b>Total Support</b>	<b>4,000</b>

Source: FAO analysis of the municipalities' financial updates and Government of Ontario public announcements.

# COVID-19 Impact After Savings and Support, 2020

- Cost saving measures and government support will allow municipalities to completely mitigate the \$4.1 billion financial impact from COVID-19 in 2020.

Impact of COVID-19 on combined municipal budget balance in 2020 (\$ billions)

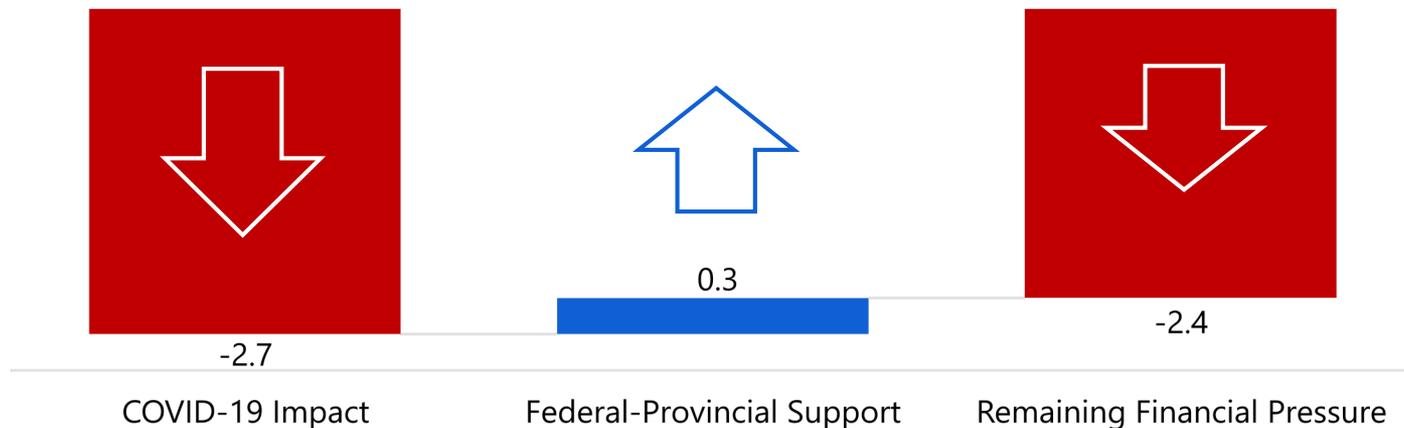


Note: Figures are presented on an accrual accounting basis.  
Source: FAO.

# COVID-19 Impact, 2021

- Municipalities face an estimated \$2.7 billion financial shortfall in 2021.
- \$1.0 billion in federal-provincial support will remain after drawdowns in 2020 but only \$0.3 billion will be provided to municipalities in 2021, leaving \$0.7 billion unallocated.
  - Under the Province's funding terms, the federal-provincial support is only available for general operating pressures in 2020 and municipal transit pressures through the first quarter of 2021.
- Consequently, municipalities will face a remaining \$2.4 billion financial shortfall in 2021.

Impact of COVID-19 on combined municipal budget balance in 2021 (\$ billions)



Note: Figures are presented on an accrual accounting basis.  
Source: FAO.

# Municipal Budget Implications for 2021

Municipalities face a remaining \$2.4 billion financial shortfall from the COVID-19 pandemic in 2021. As municipalities are currently preparing their budgets for 2021, the FAO provides the following observations:

- **Remaining Federal-Provincial Support:** \$0.7 billion of the \$4.0 billion in federal-provincial support will not be allocated to municipalities unless the Province changes the rules governing access to this funding.
- **Utilization of Reserve Funds:** The FAO projects that municipalities' budget stabilization reserve funds will reach a combined \$1.8 billion by 2021. Note that the actual amount of available reserve funds will vary by municipality.
- **Additional Mitigation Measures:** Municipalities may decide to implement additional measures in 2021 to either increase revenue (e.g., increase taxes or user fees) or reduce spending (e.g., lower services or cutbacks in staffing).
- **Reduced Budget Surpluses:** Municipalities may decide to run reduced budget surpluses or budget deficits in 2021, if possible. Note that provincial legislation requires that municipalities plan for a cash operating balanced budget and places restrictions on long-term borrowing.

# Thank You



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