



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: October 6, 2020

Report Number: SRCFS.20.025

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.20.025 – 2020 and 2021 Operating Forecast, COVID-19 Pressures and Updated Cash Flow**

Purpose:

To present an update to the City's 2020-year end operating forecast, updated cash flow and a 2021 Operating Outlook.

Recommendation(s):

- a) That the "2020 and 2021 Operating Forecast, COVID-19 Pressures and Updated Cash Flow" outlined in report SRCFS.20.025, be received for information purposes;

Contact Person:

Michael Lam, Financial Management Advisor, Ext. 6493

Bernard Yu, Financial Management Advisor, Ext. 5430

Gigi Li, Manager, Fiscal Planning & Strategy, Ext. 6435

Report Approval:

Submitted by: Sherry Adams, Commissioner of Corporate and Financial Services

Approved by: Mary-Anne Dempster, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner and City Manager. Details of the reports approval are attached.

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Background:

Given the on-going uncertainty of the pandemic, it was recommended in SRCFS.20.021 presented in June to provide a financial update to the 2020 Outlook in the Fall. The purpose of this report is to inform Council of the changes that have transpired and the resulting impact to the 2020 Outlook and Cash flow. A 2021 Outlook has also been provided to inform Council of the results of an anticipated 2nd COVID-19 wave scenario.

During this unprecedented pandemic, the City has responded quickly and diligently with the focus of keeping residents and staff safe. On March 13, 2020, Richmond Hill took emergency measures including the closing of facilities, canceling programs, canceling events and closing park amenities. The City has a plan to gradually re-open, however as of this report a number of City facilities continues to be closed and City Staff have been asked to work from home where possible. These cautionary measures are taken with the intent of reducing the potential spread and keeping resident and staff safe.

Ontario's unemployment appears to be improving at 11.0% for August (compared to 13.9% in May). The trend is a sign of recovery however, the recovery is an on-going process and has not recovered to pre-Covid-19 levels.¹ The risk of the economy continues to be a factor that could adversely affect future City revenues.

One major positive change over the last few months have been the announcement of Federal and Provincial funding to support municipalities. In July 17, The Ontario government announced up to \$4 billion in emergency assistance to provide Ontario's 444 municipalities with support to respond to COVID-19.

- Up to \$2 billion to support municipal operating pressures, and
- Up to \$2 billion to support municipal transit systems.

Municipalities will be provided with up to \$1.6 billion as part of the first round of emergency funding under the Safe Restart Agreement.

- \$695 million (municipal operations)
- \$660 million (transit)
- \$212 million (social services relief funding)

Phase 1 funding of \$695 million will be allocated on a per household basis to Ontario's 444 municipalities. The household allocation is further split equally between the Region and the City. The City's allocation for phase 1 will be \$4,131,900.

¹ Statistics Canada. Table 14-10-0287-01 Labour force characteristics, monthly, seasonally adjusted and trend-cycle, last 5 months. [Link](#))

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The City will be accountable for using phase 1 funding to address COVID-19 operating pressures. Excess funds after addressing 2020 COVID-19 operating pressures can be placed in reserves to be used to support continue COVID-19 pressures in 2021. The City will be responsible to report to the province with details on these 2020 COVID-19 operating pressures and financial positions, due in March 2021.

Phase 2 funding is expected to be based on need and an application process will be required to demonstrate operating pressures over and above the household allocation to be eligible. As of today, the province has yet to release information on eligible / ineligible criteria.

Financial/Staffing/Other Implications:

Financial impacts to the City is separated between Cash Flow and Financial Outlook. Cash flow describes the City's ability to pay its monthly expenditures (cash outflow) given the lowered revenue environment (cash inflow). Financial Outlook refers to the forecasted financial result of operations when compared to budget and the resulting surplus / deficit position at year-end.

Property Tax Payment & Cash Flow Update

The collection rate on final billing for the August 4 instalment due date was 90%, which was in-line with the prior interim billing for the deferred instalment due date of June 1. A similar collection rate is expected for the upcoming October 1 instalment due date, which is reflected as very positive amid ongoing uncertainty due to COVID-19.

As of September 11, the City's cash balances totaled \$190 million. In a worst-case scenario based on a reduced 75% collection rate on the October 1 instalment, the City is still able to fulfill all of its major financial obligations with no cash flow concerns.

In addition, the City's investment portfolio excluding cash balances is valued at approximately \$408 million. Staff are closely monitoring economic and market conditions and is prepared to divest securities for additional cash flow requirements if necessary.

Financial Outlook Update

Financial Outlook - Operating Fund

Staff are estimating a year-end deficit of \$1.38 million on a \$184 million expenditure budget. This is a favorable change of \$470,000 compared to \$1.85 million previously reported. The favorable change is credited to implementing additional Council supported mitigating measures totaling \$708,200.

A complete detailed projection is included in Appendix A, outlining the COVID-19 operating impacts and the resulting 2020 Year End projection. The projection to year-end factors the various closures and cancellations to City programs and services known

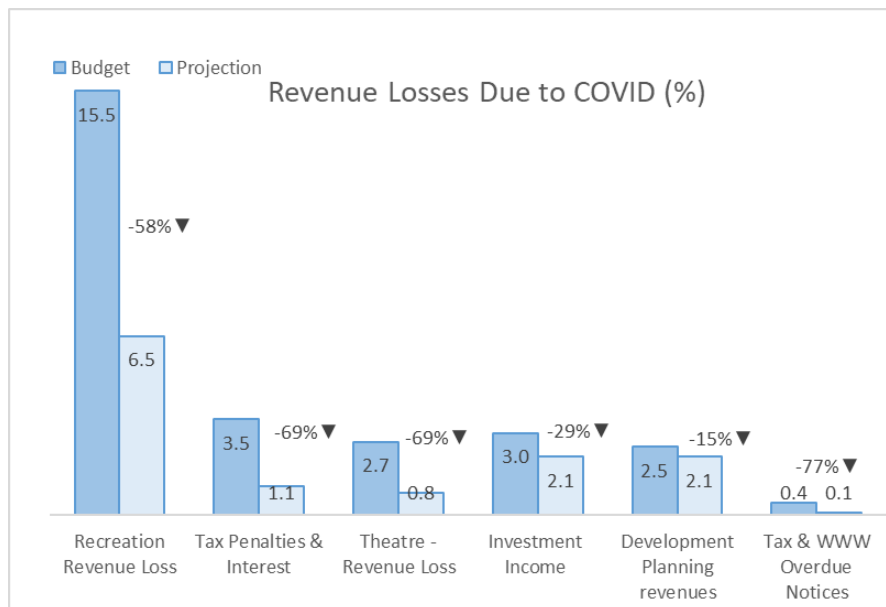
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to date. Below is a summary outlining the major categories that changed from previously reported.

Financial Outlook 2020 (Unfav) / Fav	BCW SR Jun 23	Change	Revised Outlook
Gross Revenue Impact Due to Covid	\$(15.29)	\$ (0.62)	\$ (15.90)
Gross Expense Impact Due to Covid	8.87	0.72	9.59
Total Net Deficit Due to COVID-19	(6.41)	0.10	(6.31)
Actioned Mitigating Measures (June 23 BCW)	3.76	(0.14)	3.62
Actioned Mitigating Measures (Post BCW - Mitigating Items)	-	0.71	0.71
Total Actioned Mitigating Measures	3.76	0.56	4.33
Surplus / (Deficit) Projected Before BAU	(2.65)	0.66	(1.99)
BAU Items Surplus / (Deficit)	0.80	(0.20)	0.60
Total Surplus / (Deficit) Projected to Year End	(1.85)	0.47	(1.38)
Municipal Safe Restart Funding (Round 1)	-	4.13	4.13
Surplus / (Deficit) After Subsidy/Funding	(1.85)	4.60	2.75

The City's forecasted deficit is driven by the significant loss of non-tax revenues. \$44.2 million of City's \$184 million budget is funded from User Fees and Investment Income. The Gross Revenue Impact due to COVID of \$15.90 million represents a 36% non-tax revenue loss. The chart below provides key areas of revenue declines compared to budget.

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Actioned Mitigating Measures of \$4.33 million:

The City has implemented a number of mitigating measures to alleviate the pressures to the deficit position.

Actioned Mitigating Measure	Notes
Freeze all staffing recruitments	<ul style="list-style-type: none"> • Critical Full-time positions started to be filled. • Gap savings projected to the end of the year reduced by \$144,800. Previously reported \$2.7 million.
Training and conferences	<ul style="list-style-type: none"> • Non-legislated training and conferences for staff are cancelled, due to social and physical distancing and safety. • No change from previously reported.
Defer / Cancel non-urgent operating programs/costs	<ul style="list-style-type: none"> • Budgeted operating programs / events have been deferred or canceled including: <ul style="list-style-type: none"> • Internal audit • Various City run Conference/events • Employee Service awards • General Consulting • No change from previously reported.
Staff on temporary layoffs and declare emergency leave	<ul style="list-style-type: none"> • Due to closure or cancelled event, various idle administration staff have been placed on emergency leave. • No change from previously reported.

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Actioned Mitigating Measure	Notes
Post-BCW Mitigating Items	<ul style="list-style-type: none">• As outlined in Appendix B, most of the mitigating measures recommended have been or in the process of being implemented.• The results are \$708,200 of savings.

Post-BCW Approved Mitigating Measures:

In order to mitigate the deficit previously reported, a list of mitigating measures were suggested to Council for direction as they may affect service levels. The entire list was supported by Council and is outlined in Appendix B. Staff have started to implement the identified measures and \$708,000 in savings is being reported to alleviate COVID-19 pressures.

Financial Position – Water/Wastewater Fund & Stormwater Fund

Council motion to defer retail Water/Wastewater (WWW) and Stormwater rate increases of 7.5%, combined with the corresponding deferral from the Region’s wholesale rate of 9.0% has led to a projected negative impact of \$920,000. The COVID-19 impact appears to be partially mitigated by cancelling the hiring of seasonal staff and cancelling non-essential training and conferences, the net impact is \$769,000.

Current deficit related to Water/Wastewater is projected to be \$353,400. WWW volumes of consumption appear to be trending 2% higher than budgeted volumes. If volumes continue to trend favorably above budgeted volumes, the deficit as a result of rate deferrals can be partially mitigated. Deficits at year-end related to Water & Wastewater are typically transferred to Water & Sewer Rate Stabilization Reserve to alleviate annual fluctuations. Appendix C provides a sensitivity analysis based on projected www volumes.

2021 Financial Outlook – Assuming 2nd COVID-19 2nd Wave

A high-level outlook is being provided to project the impact of a 2nd wave scenario. Staff are estimating a deficit of \$4.36 million for 2021 and is summarized below.

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COVID-19 Financial Impacts	2020 Outlook	2021 Outlook	2021 Outlook
	(UN) / FAV	SRCFS.20.015 (UN) / FAV	(UN) / FAV
Gross Revenue Impact Due to Covid	\$ (15,902,300)	\$ (5,911,800)	\$ (12,965,500)
Gross Expense Impact Due to Covid	9,591,000	4,243,900	8,602,200
Total Net Deficit Due to COVID	(6,311,300)	(1,667,900)	(4,363,300)
Total Actioned Mitigating Measures	4,326,200	-	-
Net Surplus / (Deficit) Projected to Year End	(1,985,100)	(1,667,900)	(4,363,300)
BAU Items Surplus / (Deficit)	604,000	-	-
Total Surplus / (Deficit) Projected to Year End	(1,381,100)	(1,667,900)	(4,363,300)
Municipal Safe Restart Funding (Round 1)	1,381,100		2,750,800
Surplus / (Deficit) After Subsidy/Funding	-	(1,667,900)	(1,612,500)

The 2021 outlook takes into account the following assumptions.

- SRCFS.20.015 operating budget strategy provided an estimated impact for the recreation program in 2021 due to COVID-19, however a 2nd wave scenario will further amplify the net deficit in recreation and other city programs.
- A 2nd wave scenario will continue the low revenue environment to December 2020 and leading into the beginning of 2021.
- User Fee revenues will be low in Q1 2021 estimated to be at 20% of pre-COVID (2019) level and gradually recover to 30%, 50% and 60% for Q2-Q4 2021.
- Expenses to run programs will also trend in a similar manner, where there will be savings to offset revenue losses.
- Tax and Penalty relief will not continue in to 2021.
- Regular parking enforcement will resume.
- Additional Direct COVID related operating expenditures such as masks, hand sanitizers and PPE will be necessary and are included.
- Closed facilities will lead to early savings, however additional costs may be incurred when normal operations resume adapting to the new safety measures.
- No additional mitigating measures are currently being considered.
- Safe Restart funding of \$4,131,900 allocated \$1,381,100 in 2020 and remaining to 2021.

The outlook envisions the City continue to operate at a lower than expected revenue environment which is the main impact of a 2nd wave. User fee revenues are going to be lower than pre-COVID levels, however as the City gradually re-opens, where facilities and programs re-start, financial results will gradually improve to the end of 2021. A more detailed projection is in Appendix D.

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Relationship to the Strategic Plan:

Presentation of the 2020 Year End Operating Outlook and determination of measure to mitigate the deficit reflects the overall use and wise management of resources but also touches on the other goals in the Strategic Plan.

- a) Stronger connections in Richmond Hill to improve access to local information and services; and
- b) Wise management of resources in Richmond Hill to serve as a role model for municipal management, in that, based on forecasting process leading to the year-end reporting, staff have been able to analyze municipal operations, adjust resourcing levels, and position surpluses for use in future year(s).

Conclusion:

Based on the continued 90% collection rate for the interim tax billing, the City's cash flow situation is sufficient to meet the City's major financial obligations. The Operating Fund will have to absorb a net deficit of \$6.31 million due to COVID-19 which is directly attributed to a 36% decline in non-tax revenues. This impact has been now been mitigated through measures implemented by management and funding support from the province and federal governments. The operating fund will need to be monitored as we continue through the end of 2020 and starting 2021 as the City gradually re-opens. The Water & Wastewater Fund is currently projecting a deficit of \$353,400. The negative variance of \$769,400, due to rate deferrals are partially mitigated by higher water consumption volumes. Volumes will continue to be monitored for changes to the end of the year.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format, please call the contact person listed in this document.

- Appendix A: 2020 Financial Outlook – Operating
- Appendix B: Post BCW Mitigating Measures
- Appendix C: WWW & SWM – COVID-19 Financial Impacts
- Appendix D: 2021 Financial Outlook – 2nd wave scenario

Report Approval Details

Document Title:	SRCFS.20.025-2020 Operating Forecast COVID-19 Pressures and Updated Cash Flow.docx
Attachments:	<ul style="list-style-type: none">- SRCFS.20.025 Appendix A-2020 Financial Outlook – Operating.pdf- SRCFS.20.025 Appendix B-Post BCW Mitigating Measures.pdf- SRCFS.20.025 Appendix C-WWW SWM – COVID-19 Financial Impacts.pdf- SRCFS.20.025 Appendix D-2021 Financial Outlook – 2nd wave scenario.pdf
Final Approval Date:	Sep 28, 2020

This report and all of its attachments were approved and signed as outlined below:

David Dexter - Sep 25, 2020 - 11:38 AM

Sherry Adams - Sep 25, 2020 - 4:21 PM

MaryAnne Dempster - Sep 28, 2020 - 9:34 AM