



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: January 26, 2021

Report Number: SRCFS.21.003

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.21.003 – 2020 Operating Forecast,
COVID-19 Pressures and Updated Outlook**

Purpose:

To provide an update to the City's 2020-Year End Operating Forecast.

Recommendation(s):

- a) That "SRCFS.21.003 – 2020 Operating Forecast, COVID-19 Pressures and Updated Outlook" be received for information purposes;

Contact Person:

Michael Lam, Financial Management Advisor, Ext. 6493

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:

In October SRCFS 20.025, staff provided an update to Council of the City's COVID-19 financial impacts. At the time, staff anticipated \$1.4 million deficit for Year-Ending December 31, 2020. This anticipated deficit has been mitigated by the City's Phase 1 allocation of the Federal and Provincial Safe Restart Agreement funding of \$4,131,900. The funding agreement also allows the flexibility to re-allocate any unused funding towards addressing operating pressures arising in 2021.

In light of approving a 2021 Operating Budget, it is prudent to understand whether the financial situation has changed. This report intends to provide a high-level early update of the year-end financial situation.

The City has plans to re-open gradually, however many City facilities have been 'closed' in the 2nd half of 2020 and closures are to continue for the beginning of 2021. These closures limit the City's ability to run regular recreation programs and as such has become one of the major contributing factors to the City's deficit. City Staff have also been asked to continue to work remotely where possible until the latter part of 2021. These cautionary measures are taken with the intent of reducing the potential spread and keeping residents and staff safe.

Ontario's unemployment situation appears to be gradually improving at 9.1% for November 2020 (compared to 13.9% in May 2020, 11.0% in Aug 2020). The trend is a sign of on-going recovery however, the recovery does not account for the recent Province-Wide lockdown.¹ The economic recovery continues to be a risk factor that could adversely affect City revenues in the future.

A significant positive change has been the recent announcement of additional Provincial Safe Restart funding of \$1,747,000 to assist with the 2021 Operating Budget. With this additional funding support and remaining amounts from the previous unused funding from 2020, the City will be better positioned to address 2021 Operating Budget pressures related to COVID-19.

Financial/Staffing/Other Implications:

Financial Outlook Update

Financial Outlook - Operating Fund

Based on updated information to date, Staff are anticipating a year-end deficit of \$1.5 million on a \$184 million expenditure budget or 0.8% deficit. This is an unfavorable

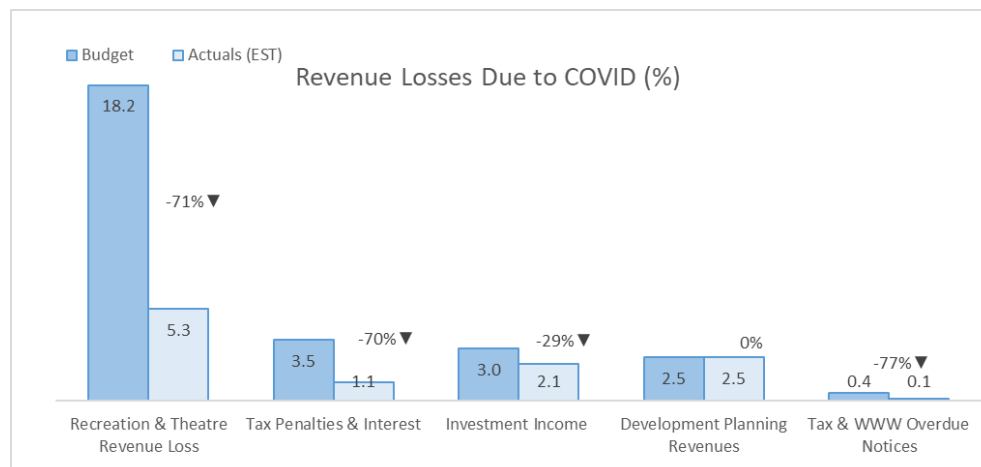
¹ Statistics Canada. Table 14-10-0287-01 Labour force characteristics, monthly, seasonally adjusted and trend-cycle, last 5 months. [Link](#))

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change of \$118,900 compared to \$1.381 million previously reported in SRCFS 20.025. A summary of changes by the major categories are presented below.

| Financial Outlook 2020 (Unfav) / Fav | BCW SR OCT 6 | Change | Revised Outlook |
|--|-------------------------|---------------|----------------------------|
| Gross Revenue Impact Due to Covid | \$ (15.90) | \$ (1.72) | \$ (17.62) |
| Gross Expense Impact Due to Covid | 9.59 | 0.49 | 10.08 |
| Total Net Deficit Due to COVID-19 | (6.31) | (1.23) | (7.54) |
| Actioned Mitigating Measures | 3.62 | 1.16 | 4.78 |
| Actioned Mitigating Measures (Post BCW - Buffet List) | 0.71 | - | 0.71 |
| Total Actioned Mitigating Measures | 4.33 | 1.16 | 5.49 |
| Surplus / (Deficit) Projected Before BAU | (1.99) | (0.07) | (2.05) |
| BAU Items Surplus / (Deficit) | 0.60 | (0.05) | 0.55 |
| Total Surplus / (Deficit) Projected to Year End | (1.38) | (0.12) | (1.50) |
| Municipal Safe Restart Funding (Round 1) | 4.13 | - | 4.13 |
| Surplus / (Deficit) After Subsidy/Funding | 2.75 | (0.12) | 2.63 |

The City's forecasted deficit in 2020 continues to be driven by the significant loss of non-tax revenues. \$44.2 million of the City's \$184 million 2020 revenue budget or 24% is funded from User Fees (21.2%) and Investment Income (2.7%). The Gross Revenue Impact due to COVID has grown to \$17.62 million loss from \$15.90 million loss, which represents a 40% non-tax revenue loss. The chart below provides key areas of revenue declines compared to budget. Recreation represents the largest share of revenue losses.



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Major Changes from previously reported:

The total unfavorable \$118,900 is a combination of various revisions since SRCFS 20.025. Below provides a brief description of the major changes from SRCFS 20.25. Further details are available in Appendix A.

| Major Changes | Notes – Favorable / (Unfavorable) |
|--|--|
| Recreation & Theatre Revenues and Expenditures | <ul style="list-style-type: none"> • Provincial restrictions have limited the City’s ability to run regular recreation programs. • Staff have been agile in delivering programs virtually, however these programs are unable to replace the revenue losses from running regular programs. • Actual revenue losses have increased to \$11.2 million for 2020, a change of \$(2.22 million) from previously reported. This is due to longer than anticipated closures in the 2nd half of 2020. • Recreation revenue losses are partially offset by additional anticipated savings from casual staffing and materials of \$122,800, a favorable change from previously reported. • For the Theatre, actual revenue losses are anticipated to be \$1.7 million, offset by staffing and material savings of \$1.13 million. A favorable revised estimate of \$24,000 compared to previously reported. |
| Development Planning Revenues | <ul style="list-style-type: none"> • Actual Development Planning revenues are tracking to budget. • The previous report anticipated revenue loss of \$370,000 is now removed. |
| Utility Savings | <ul style="list-style-type: none"> • A large number of Facilities have remained closed for the 2nd half of 2020, resulting in additional hydro and water savings. • \$480,000 of additional savings is anticipated compared to previously reported. |
| Full-time staffing – gapping savings | <ul style="list-style-type: none"> • The Corporate direction to institute a hiring freeze and delay filling of vacant positions, coupled with the City’s transformation to a 3 Commission model has contributed to higher than anticipated ‘gapping’ savings. • Anticipated savings of \$3.7 million for 2020, a favorable change of \$1.137 million compared to previously reported. |

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| Major Changes | Notes – Favorable / (Unfavorable) |
|-------------------------------|---|
| Other Business as Usual Items | <ul style="list-style-type: none">• Actual Lake Wilcox Parking revenues are tracking more favorable than anticipated. Revenues are tracking to \$250,000. This is an increase of \$170,000 from previously reported.• Assessment Appeals are tracking unfavorably higher than originally anticipated by (\$222,000). |

The changes above are preliminary and can change as we finalize year-end figures.

Financial Position – Water/Wastewater Fund & Stormwater Fund

As previously reported, the 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 have been partially mitigated by cancelling the hiring of seasonal staff and cancelling non-essential training and conferences, leading to the net impact of \$769,000 at budgeted volumes.

The Water/Wastewater and Stormwater situation however has become more favorable due to higher projected water consumption volumes over budget. Current deficit related to Water/Wastewater is projected to be \$36,400 and this is due to WWW consumption trending towards 3.5% higher than budgeted volumes. If volumes continue to trend favorably above budgeted volumes, the deficit due to rate deferrals can be fully mitigated. Appendix B provides a sensitivity analysis based on projected www volumes.

Relationship to the Strategic Plan:

Presentation of the 2020 Year End Operating Forecast 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 the 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:

The Operating Fund will have to absorb a net deficit of \$7.54 million due to COVID-19, which is directly attributed to a 40% decline in non-tax revenues. The impact has been mitigated through measures implemented by management and funding support from the

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Federal and Provincial- governments. Staff anticipate \$2.63 million will remain available for use from the initial Federal and Provincial Safe Restart Agreement funding to mitigate 2021 Operating pressures in addition to the 2021 allocation of \$1.75 million.

In terms of the Water & Wastewater Fund, a deficit of \$36,400 is being projected. The previously reported negative variance of \$769,400 due to rate deferrals has been essentially mitigated by higher water consumption volumes.

Final financial figures will be confirmed and presented at the 2020 Year-End Operating Results staff report later in 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: WWW & SWM – COVID-19 Financial Impacts

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Report Approval Details

| | |
|----------------------|---|
| Document Title: | SRCFS.21.003 2020 Operating Forecast, COVID-19 Pressures and Updated Outlook.docx |
| Attachments: | - SRCFS.21.003 Appendix A.pdf - SRCFS.21.003 Appendix B.pdf |
| Final Approval Date: | Jan 11, 2021 |

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

David Dexter - Jan 11, 2021 - 9:58 AM

Sherry Adams - Jan 11, 2021 - 12:01 PM

MaryAnne Dempster - Jan 11, 2021 - 12:38 PM