City of Mississauga
Corporate Report

Date: April 9, 2021 To: Chair and Members of Budget Committee From: Gary Kent, CPA, CGA, ICD.D, Commissioner of Corporate Services and Chief Financial Officer	Originator's files:
	Meeting date: April 28, 2021

Subject
Update on the Financial Impacts of COVID-19

Recommendation
That the report from the Commissioner of Corporate Services and Chief Financial Officer dated April 9, 2021 entitled "Update on the Financial Impacts of COVID-19" be received for information.

Executive Summary
- The City of Mississauga continues to face significant financial impacts due to the COVID-19 pandemic. The City was faced with a year-end 2020 deficit of $55.5 million: $35.1 million in transit and $20.5 million across all other service areas. The deficit was primarily due to revenue shortfalls, offset by mitigating actions such as a hiring freeze, temporary staff layoffs, and other expenditure reductions. Safe Restart funding announced by the Provincial and Federal governments allowed the City to finish 2020 in a zero-variance position. Specific details regarding the City's year-end position are provided in the "Financial Report as at December 31, 2021" report, included on the April 28, 2021 Budget Committee agenda.
- The City continues to be guided by five updated Financial Recovery Principles when making financial decisions throughout this emergency. Public Health is the first priority, followed by preserving the long-term strength of the balance sheet; coordinating efforts with other levels of government; continually assessing business plans, budget requests and in-year spending; and, complying with legislation.
- The COVID-19 pandemic continues to significantly impact City operations in 2021. The anticipated year-end deficit projection for 2021 is currently estimated to be $55.9 million, ranging from $50.6 million (best case) to $69.6 million (worst case). The deficit is primarily due to reduced revenues, particularly in the MiWay, Recreation and Regulatory Services service areas. City staff have continued measures to mitigate the financial impact of COVID-19 where possible, including continued hiring delays, temporary staff layoffs where facilities have been closed, and aggressively managing costs.

- This report has been prepared based on actuals up to February 28, 2021 and Provincial regulations as of March 31, 2021. The currently projected 2021 operating budget deficit, even in its worst case, is anticipated to be offset by already-announced Provincial and Federal funding through the Safe Restart Agreement and through 2021 COVID-19 Recovery Funding for Municipalities. However, the impact of the Provincial Stay-At-Home order issued on April 7, 2021 may further negatively impact the City's projected year-end position. Staff will report on an updated year-end position at the June 23, 2021 Budget Committee.
- It is anticipated the effect of the COVID-19 pandemic will lessen as 2021 draws to a close, thanks to the current vaccination program. However, revenue shortfalls are anticipated to continue into 2022 and beyond. In addition to continued revenue shortfalls in the Transit and MiWay service areas, a significant and long-term loss of Payment In Lieu of Taxes (PILT) revenues from the Greater Toronto Airport Authority (GTAA) is projected in 2022. Currently announced Federal and Provincial funding will not be sufficient to fully offset 2022 and 2023 pressures, and PILT revenues will not return to pre-COVID levels for many years, especially if the legislated 5% cap on PILT revenues continues. City staff are reviewing potential actions to address future shortfalls. These include a combination of aggressive management of costs, monitoring of revenues, continued advocacy for Federal and Provincial assistance and use of Reserves.

Background

This report is the first 2021 update on the financial pressures arising from the COVID-19 pandemic. Similar to the process undertaken throughout 2020, staff will provide updated financial information to Council on a regular basis. These updates will ensure Council and the Public are aware of the financial challenges the City is facing as a result of COVID-19, and assist Council in making decisions that may have an impact on the City's finances and its ongoing ability to maintain services and capital construction.

Financial Principles

The City continues to be guided by financial recovery principles. The principles followed in 2020 have been modified for 2021 to reflect what we have learned in 2020:

1. **<u>Ensure Public Health is the City's first priority</u>**:

   Services should be adjusted to respond to and support our community and employee health. Financial goals are secondary to following direction and advice from Public Health to protect the health of our citizens.

2. **Preserve the long-term strength of the balance sheet**:

   The City should maximize the use of its various financial tools to minimize the impact of tax increases on rate payers while ensuring our strong financial position is maintained. Any deviation from our financial plan and policies should be temporary where possible. Any relief should be targeted to those requiring assistance, and should be through an application process. Similarly, new programs or relaxation of existing programs should be reconsidered by Council after the crisis is over.

3. **Coordinate efforts with other levels of Government**:

   Each level of government has a different financial capacity which drives that level's ability to provide assistance and undertake programs. Staff will continue to ensure funding and other assistance from senior levels of government is maximized.

4. **Continually assess business plans, budget requests and in-year spending**:

   Master Plans and strategies need to be reviewed in the context of the corporation's financial capacity; spending levels and project implementation schedules will need to be regularly reassessed, and updates will be provided to Council on a regular basis. Capital spending can be increased or reduced as needed to meet corporate, senior government or economic objectives. Additional spending may occur in response to funding provided by other levels of government,

5. **Comply with legislation**:

   The City is provided with legislative obligations, authority and spheres of influence by the *Municipal Act*, the *Planning Act* and other legislation. The City needs to ensure it provides equality of treatment for any programs it provides to its residents and businesses. Use of funds provided by other levels of government is established through agreements and legislation which must be adhered to and unless allowed may not be diverted to reduction of property taxes or fees and user charges.

These principles provide guidance to staff in evaluating options for assistance to residents and businesses, making adjustments to 2021 operations to deal with the deficit, and evaluating business plans and budget proposals for 2022 and beyond.

Comments

Forecasting Challenges

Restrictions arising from the COVID-19 pandemic have resulted in reductions in transit usage and intermittent closures of City facilities and services, resulting in revenue losses in almost all areas.

Revenues will slowly return to normal, but it is difficult to predict the pace of recovery. Provincial guidelines regarding the opening and closing of facilities change on a regular basis. An example of the volatility of the situation is the fact that this report has been prepared based on actual expenditures to the end of February 2021, and information regarding closures up to the end of March 2021. The impact of the Province’s 28-day Stay-At-Home order issued on April 7, 2021 continues to be analyzed, and staff will report on an updated year-end position at the June 23, 2021 Budget Committee.

Many other factors impact the pace of recovery. It is difficult to predict when the Public will be able to fully access City services, and when the Public will be comfortable doing so. Each stream of revenue is affected in different ways. For example, transit revenues are dependent on factors such as which sectors are open or closed; riders’ comfort level in taking transit; the number of students choosing at-home learning versus the number attending school in person; how quickly people will return physically to work; etc. Projections for each revenue stream have been developed based on their own unique challenges.

As a municipality, we are limited in the ways we can adjust our costs in line with revenues. Many of our services are essential and must be maintained. Staff have been able to take some action including slower filling of vacancies to increase labour gapping, temporary staff layoffs where facilities are closed, and reductions in discretionary spending. Staff continuously adapt to our changing circumstances.

Financial Assistance from the Federal and Provincial Governments

The Provincial and Federal governments have announced much-needed support through the Safe Restart Agreement and 2021 COVID-19 Recovery Funding for Municipalities. Separate funding streams have been identified for transit and for non-transit pressures.

Table 1 summarizes the funding announced to date to address transit-related funding pressures. As of March 31, 2021, a total of $100.4 million has been allocated to the City of Mississauga. $35.1 million has been used to offset the 2020 year-end deficit position in transit, and the remaining $65.3 million is available to offset 2021 and, potentially, 2022 deficits. There are specific rules regarding each funding stream. The most notable condition is regarding Phase 2 funding: the remaining $34.9 million can only be applied to deficits incurred up to March 31, 2021. Preliminary estimates of expenditures up to March 31, 2021 indicate an estimated $19.9 million of Phase 2 funding will not be eligible to be claimed.

Table 1. Federal / Provincial Support for Transit Pressures

TRANSIT PORTION	Funding Allocation	2020 Year-End Position	Funding After 2020 Year-End
Year-End Position **before Safe Restart** - Surplus / (Deficit)		(35,060.2)	
Safe Restart Transit, Phase 1	31,086.1	31,086.1	(0.0)
Safe Restart Transit, Phase 2 *	38,886.3	3,974.1	34,912.2
Safe Restart Transit, Phase 3, announced in 2020	30,393.1	0.0	30,393.1
Total Safe Restart Transit funding	**100,365.5**	**35,060.2**	**65,305.3**
Year-End Position **after Safe Restart** - Surplus / (Deficit)		0.0	

* Current Provincial rules indicate funding can only be used up to March 31, 2021

Table 2 summarizes the funding announced to date to address non-transit-related funding pressures. As of March 31, 2021, a total of $56.2 million has been allocated to the City of Mississauga. $20.5 million has been used to offset the 2020 year-end deficit position in all service areas other than transit, and the remaining $35.8 million is available to offset 2021 and, potentially, 2022 deficits.

Table 2. Federal / Provincial Support for Non-Transit Pressures

NON-TRANSIT PORTION	Funding Allocation	2020 Year-End Position	Funding After 2020 Year-End
Year-End Position **before Safe Restart / 2021 Recovery Funding** - Surplus / (Deficit)		(20,473.1)	
Safe Restart Municipal, Phase 1	14,997.1	14,997.1	0.0
Safe Restart Municipal, Phase 2	9,676.0	5,476.0	4,200.0
Safe Restart Municipal, additional funding, announced in 2020	11,292.0	0.0	11,292.0
2021 COVID-19 Recovery Funding for Municipalities ^	20,260.0	0.0	20,260.0
Total Safe Restart / 2021 Recovery Funding	56,225.1	20,473.1	35,752.0
Year-End Position **after Safe Restart / 2021 Recovery Funding** - Surplus / (Deficit)		0.0	

2021 Financial Analysis

Modelling the impact of COVID-19 on City finances continues to mature. Staff have adapted modeling to reflect the Province's current approach to staged reopening. There is no one date for the end of physical distancing. There may be movement back and forth between the various stages, depending on the advice provided by the Chief Medical Officer of Health and decisions made by Provincial Ministries. Furthermore, Public response to the stages and willingness to resume normal activity can vary significantly. For example, when some community centre resources were able to reopen in 2020, community participation remained low.

As a result, scenarios have now been developed based on a “best case,” “anticipated,” and “worst case” approach. Table 3 provides estimates for each of these scenarios. For clarity, the numbers reflect not the impact to the month indicated, but the full-year impact.

It is still quite early in the year. Projections have been prepared based on end of February 2021 actuals, provincial regulations in place at the end of March 2021, and anticipated trends. Table 3 identifies current best estimates for the direct impact of COVID-19, such as loss of revenues due to closing of recreation facilities; the mitigating actions taken by City staff to reduce the impacts of COVID-19; and, business-as-usual surpluses and deficits that further affect the City's bottom line. A discussion on each variance line item is provided below Table 3 (paragraph numbers align with the numbers in the table).

Table 3. 2021 Year-End Projections, Reflecting Impact of COVID-19 Pandemic ($Ms)

Major Expenditure / Revenue Category	Best Case	Anticipated	Worst Case
1 MiWay - net impact on revenues and costs	(37.1)	(41.0)	(44.6)
2 Recreation - revenue loss	(27.1)	(28.5)	(29.9)
3 Other service-specific revenue losses	(10.6)	(10.9)	(11.4)
4 Parking, Admin Penalty (APS) Fees, Licensing Revenue Losses	(7.1)	(7.9)	(8.6)
5 PPE, Cleaning, Social Distancing costs	(3.9)	(4.1)	(4.7)
6 MAT - loss of revenues	(3.3)	(5.3)	(7.8)
7 POA-related revenues	(4.2)	(4.2)	(4.2)
8 Other various impacts	(0.2)	(0.4)	(0.5)
DIRECT COVID IMPACT	(93.4)	(102.3)	(111.7)
9 Staffing savings (permanent and temporary staff)	16.5	16.1	16.2
10 MAT - reduced contribution to RF	3.3	5.3	7.8
11 Recreation - reduced operations	4.7	4.9	5.0
12 Other service-specific expenditure savings	5.4	5.7	6.0
13 Utility savings (closed facilities)	4.8	4.5	4.2
14 Discretionary savings to help mitigate costs	0.4	0.4	0.4
MITIGATING ACTIONS TAKEN BY CITY	35.1	36.9	39.7
15 Base gapping (BAU) / minor salary variances	6.4	6.4	6.5
16 Various other expenditure / revenue impacts	1.3	(1.0)	(4.1)
BUSINESS AS USUAL VARIANCES	7.7	5.4	2.4
NET SURPLUS / (DEFICIT)	**(50.6)**	**(59.9)**	**(69.6)**

Direct COVID-19 Impact:

The COVID-19 pandemic and the Province's measures regarding staying home and physical distancing have had a direct impact on the City's bottom line, primarily through reduced revenues but also through additional costs. The total direct impact of COVID-19 on the City's bottom line is estimated to be $102.3 million, although this could range from $93.4 million (best case) to $111.7 million (worst case). The specific pressures are outlined below. Detailed assumptions are provided for the "anticipated" scenario.

1. The most significant impact of COVID-19 has been on our transit services. Since the Federal and Provincial funding is provided for all transit-related pressures separately, all transit-related pressures, regardless of type of pressure, are identified in this line item.

   Ridership was significantly reduced in 2020, and had returned to only 47% of pre-pandemic levels at the end of 2020. This projection assumes ridership will continue to slowly increase to 67% by the end of 2021. Ridership patterns will depend on many factors, including but not limited to how comfortable people are to return to transit, and how quickly the economy and businesses rebound. The recently announced Stay-At-Home order will also likely impact this projection. A shortfall of $40.9 million in fare revenue is projected for the year (ranging from $36.7 million to $44.8 million).

   Other transit-related impacts include savings in salaries, diesel, utilities and PRESTO commissions, offset by reduced bus advertising revenue and increased costs for personal protective equipment (PPE) and cleaning of vehicles. All of these are currently generating a net pressure of $0.1 million. Specific staffing or expenditure reductions identified as 'mitigating actions' for other service areas are included in the MiWay pressure, to be consistent with Provincial reporting requirements.

   Together, the COVID-19 impact on MiWay alone is projected to be $41.0 million (ranging from $37.1 million to $44.6 million).

2. The second most significant impact of COVID-19 has been on recreation services' loss of revenues. Recreational facilities had been slowly reopening by the fall of 2020, but the December lockdown created further pressures in this area, and these pressures continue into 2021. As observed during 2020, different recreation services will return to normal at a different pace, beginning with outdoor recreation facilities like marinas and golf courses, followed by Camps, Aquatics, Fitness and Therapy facilities. Similar to transit, a full reopening with 100% normal attendance level is not anticipated for some time. Return-to-normal patterns have been analyzed based on each line of service, and it is anticipated that revenue losses will be $28.5 million (ranging from $27.1 million to $29.9 million).

3. Various other service-specific revenue streams have been impacted. Culture is projecting a revenue loss of $8.9 million, including lost revenues from the Living Arts Centre. Parks, Forestry & Environment, Library and Fire service areas are projecting revenue losses of $2.0 million, for a total estimated impact of $10.9 million (ranging from $10.6 million to $11.4 million).

4. Parking revenues and enforcement fines are gradually returning to normal levels. Revenues realized through the Administrative Penalty System (APS) have been affected by the pandemic, as have licencing fees. The overall reduction in revenue for these fees and fines is estimated to be $7.9 million (ranging from $7.1 million to $8.6 million).
5. Many of the direct COVID-19 pandemic impacts arise from lost revenues. However, there are increased cost pressures arising from additional cleaning and disinfecting costs, the need for PPE, additional security and equipment rentals. The estimated pressure related to these costs is $4.1 million (ranging from $3.9 million to $4.7 million).
6. The pandemic continues to impact Municipal Accommodation Tax (MAT) revenues. The City is anticipating a loss of $5.3 million in MAT revenues (ranging from $3.3 million to $7.8 million).
7. Fewer Provincial Offences Act (POA) tickets have been issued during the pandemic period and, with the closure of courts, some revenues have been deferred. Efforts are being made to maximize the number of virtually held court sessions. Based on revenues received since the shutdown, the current estimate is that POA revenue will be reduced by $4.2 million, regardless of scenario.
8. Other revenue streams are impacted to a lesser extent. The most significant of these is continued rent forgiveness. The total impact of all other areas is currently estimated at $0.4 million (ranging from $0.2 million to $0.5 million).

Mitigating Actions:

City staff have taken measures to reduce the direct impact of COVID-19 wherever possible. These measures are projected to reduce the COVID-19 impact by $36.9 million (ranging from $35.1 million to $39.7 million), and are outlined below.

9. Staffing savings are being generated both from delays in hiring staff, and in lay offs of temporary staff where facilities are closed. Savings are estimated at $16.1 million (ranging up to $16.5 million).
10. MAT budgeted revenues are contributed to the MAT Reserve Fund and the Tourism Mississauga Reserve in equal parts. These MAT contributions will be reduced to match the level of revenue received, resulting in savings of $5.3 million (ranging from $3.3 million to $7.8 million).
11. Due to the closure of recreation facilities, staff reviewed all non-salary expenditures and identified expenditure reductions. These savings are estimated at $4.9 million (ranging from $4.7 million to $5.0 million).
12. Staff in other service areas similarly reviewed all non-salary expenditures and identified expenditure reductions as a result of closed facilities and cancelled events. These reductions are anticipated to generate $5.7 million in savings (ranging from $5.4 million to $6.0 million).

13. Utility savings have been realized due to reduced consumption as a result of closed, or under-used, facilities. Savings are estimated to be $4.5 million (ranging from $4.2 million to $4.8 million).
14. All service areas continue to review all expenditures to mitigate costs. Discretionary savings of $0.4 million have been identified at this time.

Business as Usual:

In addition to the specific pressures arising from COVID-19 and the mitigating actions taken by staff, the City also realizes variances as a result of regular business each year. These variances have reduced the COVID-19 impact by $5.4 million (ranging from $2.4 million to $7.7 million), and are outlined below.

15. At this time, savings arising from vacant positions, in addition to the savings already budgeted for, are estimated to be $6.4 million.
16. There are various other program-related changes to expenditure and revenue estimates. An unfavourable variance of $1.0 million is currently anticipated as a result of an increased number of assessment appeals. An unfavourable variance in the Fire service area is anticipated due to asbestos abatement work. These pressures are offset by some savings, such as $0.7 million in leaf collections. A net pressure of $1.0 million is currently projected (ranging from a savings of $1.3 million, to a pressure of $4.1 million).

The currently projected 2021 operating budget deficit, even in its worst case, is anticipated to be offset by already-announced Provincial and Federal funding through the Safe Restart Agreement and through 2021 COVID-19 Recovery Funding for Municipalities.

COVID-19 Echo Impact on 2022 and Future Years

The COVID-19 pandemic is anticipated to have an echo impact on the City's budget beyond 2022.

- Transit ridership is anticipated to continue to rebound, but is only projected to be at 80% of pre-pandemic levels by the end of 2022, and anticipated to return to normal levels by the end of 2023. Current projections assume pressures of $27.8 million in 2022 and $11.0 million in 2023. Normal operations are anticipated by 2024, although this may change as the pandemic continues.
- Recreation service utilization is also not anticipated to return to normal until the end of 2022. The residual impact on recreation services is estimated to be $1.2 million (anticipating lost revenues of $8.4 million offset by expenditure savings of $7.2 million). Normal operations are anticipated by 2023, although this may change as the pandemic continues.

- Payments in lieu of taxes (PILTs) from the Greater Toronto Airport Authority (GTAA) are based on passenger count from two years earlier (e.g., 2022 PILT revenue is based on 2020 passenger count). Passenger count decreased by 75% in 2020 due to the closure of the border and the restrictions placed on air travel. Based on this decrease, a $22.2 million reduction in PILTs is projected for 2022. Provincial legislation caps annual increases in PILTs at only 5 per cent. As a result, PILT revenue will only increase by 5 per cent in future years, and will not return to 2021 levels for many years, unless the Provincial legislation is changed.

Table 4 summarizes the anticipated echo-impact of the COVID-19 pandemic on future years.

Table 4. 2022-2024 Pressures Arising From COVID-19 Pandemic ($Ms)

	2022 Outlook	2023 Outlook	2024 Outlook
Transit shortfalls	(27,800.0)	(11,000.0)	normal operations
Recreation shortfalls	(1,200.0)	normal operations	normal operations
GTAA Payment In Lieu of Taxes - revenue loss (assuming 5% cap)	(22,183.8)	(21,755.5)	(21,305.8)
Currently identified pressure:	(51,183.8)	(32,755.5)	(21,305.8)

Currently announced Safe Restart and 2021 COVID-19 Recovery Funding for Municipalities will not be sufficient to manage 2022 and future pressures. Staff continue to evaluate potential mitigating actions and will be identifying possible solutions at the June 23, 2021 Budget Committee.

Liquidity Update

The City maintained strong cash balances through proactive measures taken in 2020, and no issues with respect to liquidity are identified for 2021. A separate report on the 2020 investment results is included on today's agenda.

Development Charges and Cash in Lieu Revenues

Planned development appears to be continuing across the City. In fact, revenues for development and building permit fees exceeded anticipated levels in 2020. However, a review of results after the 2008 recession show a lag of 18 months between the onset of the recession and the reduction in building projects. It is too early to gauge if this will occur again in late 2021 and 2022. Staff continue to monitor development trends.

Engagement and Consultation

Projections included in this report have been developed through consultation with members from all service areas in the City.

Financial Impact

COVID-19 is having a wide-ranging and negative impact on the City's 2021 financial position. Loss of revenue and increased costs are projected to generate a negative variance to budget of $102.3 million (ranging between $93.4 million to $111.7 million). These are offset by cost-reduction efforts such as staff layoffs, a slower pace for hiring of staff, and reductions in spending where possible. With these positive adjustments, the overall year-end deficit is projected to be $59.9 million (ranging between $50.6 million and $69.6 million).

The currently projected 2021 operating budget deficit, even in its worst case, is anticipated to be offset by already-announced Provincial and Federal funding through the Safe Restart Agreement and through 2021 COVID-19 Recovery Funding for Municipalities. However, the impact of the Provincial Stay-At-Home order issued on April 7, 2021 may further negatively impact the City's projected year-end position.

COVID-19-related pressures in 2022 and 2023 are anticipated to be managed through a combination of already-announced Safe Restart and COVID-19 Recovery Funding, aggressive management of costs, monitoring of revenues, continued advocacy for Federal and Provincial assistance and use of Reserves.

Staff will report on an updated year-end position for 2021, and 2022 and future year outlooks at the June 23, 2021 Budget Committee.

Conclusion

The COVID-19 pandemic continues to impact the City's financial position in 2021. Current modeling identifies a projected deficit of approximately $59.9 million by year end (ranging from $50.6 million to $69.6 million). Projections will be updated as Provincial guidelines regarding the opening and closing of facilities continue to change in response to pandemic conditions, and as a result of any decisions made at today's and future meetings. The currently projected deficit is anticipated to be managed through Federal and Provincial Safe Restart Agreement and 2021 COVID-19 Recovery Funding. funding, aggressive management of costs and use of reserves.

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