

COVID-19: Financial Recovery Pillar

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Executive Summary

This report on the financial recovery pillar is based upon a recovery framework adopted by Council in May 2020 which established five overarching recovery principles to be used in development of four subsidiary reports encompassing community, economic, financial and corporate pillars to be used to implement recovery within the City.

The Pandemic is not a typical emergency limited to a geographic area. It has affected stakeholders around the world all at once both from a health perspective and financially. This report considers the financial impact of the emergency upon the City.

Loss of revenue and increased costs are creating a 2020 negative variance to budget of between \$95.4 and \$120.3 million. This is offset by cost reduction efforts such as staff layoffs, a temporary hiring freeze, reductions in discretionary costs, deferral of capital projects and deferral of debenture issue until 2021. With these positive adjustments the overall deficit by year end is expected to be between \$58.9 and \$63.4 million. There will also be an echo effect from COVID-19 which will affect the 2021 budget and a loss of revenue from the Greater Toronto Airports Authority (GTAA) payment in lieu of taxes (PILT) in 2022 that will negatively impact the City for many years to come.

The City's cash position is strong and not at risk. While programs introduced by Council to reduce the impact on our taxpayers, residents and businesses have deferred cash flow, the deferral of Regional and Education property tax payments and early receipt of the Federal Gas Tax have helped to maintain a strong cash position.

While other recovery reports will focus on the community, the economy and the Corporation more broadly, this report outlines the strategy and actions required to allow the Corporation to financially recover effectively over the next few years, outlining actions already implemented by the City and other levels of government to provide financial relief to residents and businesses within the City of Mississauga and next steps including the need for higher order levels of government to partner in the financial recovery as this crisis continues.

A graphic with a yellow border and a teal background featuring a city skyline. The text is centered and reads: COVID-19 Update Recovery Framework.

COVID-19 Update
Recovery
Framework

This report identifies seven financial principles which may be used as Council considers how to eliminate the 2020 deficit and reduce the echo effect in 2021 and beyond.

Financial principles to guide recovery:

- Public Health is the first priority
- Preserve the long-term strength of the property tax base
- Comply with legislation
- Allow other levels of Government time to fulfill their mandates
- Use reserves appropriately to manage financial challenges
- Deviation from our financial plan should not be permanent
- Assess approved and future budgets and business plans to reconfirm priorities including service levels

Actions to be considered by Council to assist in financial recovery will include:

- Return to normal fee schedule and collection as soon as feasible
- No material financial investment in master plan advancement in 2021
- No new material service level changes in 2021
- Reduce discretionary spending
- Critical assessment of capital expenditures
- Use of reserves
- Continued collaboration with other municipalities to seek assistance from higher levels of Government
- Increase taxes and user fees
- Aggressive, timely monitoring of financial position
- Explore and recommend options to fund the deficit years

There is much work yet to be done before COVID-19 has run its course. Staff will continue to innovate with Council and the public being engaged fully along the way.

Introduction

The COVID-19 Pandemic presents the greatest financial challenge that families, businesses, communities and municipalities have seen in generations. While

Mississauga has managed its finances well and has provided for emergencies such as floods, ice storms and other weather related events, these have been limited in duration and been targeted to specific geographies or stakeholders, making financial recovery more straightforward.

This report draws upon the May 13, 2020 report titled “COVID19 Recovery Framework” which provides a framework for recovery operations in the City of Mississauga. These are detailed in the report and consist of:

- Protect the Health and Safety of the Public and Employees
- Phased Approach
- Mental Wellness & Psychosocial Support
- Building Back Better
- Whole Community Approach

The report identified four pillars of recovery, each to be detailed in a separate report. These pillars are:

1. Community
2. Economic
3. Financial
4. Corporate

This report discusses the financial pillar and outlines the strategy and actions required to allow the Corporation to financially recover effectively over the next few years.

Background

In mid-March the Province of Ontario, the Region of Peel and City of Mississauga declared states of emergency to control the spread of COVID-19. Chief Medical Officers from the Province and the Region are responsible for rules and regulations aimed at limiting the spread. The City of Mississauga as a municipal service provider is responsible for ensuring that its services comply with these pronouncements.

Council recognized the financial impact on residents and businesses due to physical distancing and has taken actions to reduce their severity, including rear-door only boarding on MiWay buses, closure of City facilities, work from home directive for non-essential City staff, cancellation of all events and spring programs, virtual Council meetings, deferral of courthouse hearings and enforcement of physical distancing in parks and at private establishments and residences.

To assist the public financially, Council deferred tax and stormwater due dates by 90 days, suspended parking enforcement, deferred rent payments from tenants in City facilities, deferred collection of the Municipal Accommodation Tax, and temporarily suspended fines, penalties and late fees.

These actions significantly reduced the City’s revenues resulting in a forecasted deficit in 2020.



The Scale of the Problem: Cash Flow and Budget

Forecast Difficulties

Unlike a geographic or weather emergency, it is difficult to predict the course of a pandemic and the actions necessary to reduce transmission. A casual reading of the daily news since the beginning of the emergency shows the actions taken have varied between countries and regions. Further, as this was a novel coronavirus, direction from medical officers of health has been constantly evolving. Originally it was thought that physical distancing measures would remain in place for a finite period of time, and would then end and the economy would return to pre-COVID levels. We now know that recovery will take place in stages and will occur over a longer timeframe. Changing information makes forecasting difficult and forecasts can be short-lived. The forecast provided in this report is based upon information known on June 16, 2020 and a series of assumptions based upon this knowledge.

Updated 2020 Budget Financial Analysis

Modelling the impact of COVID-19 on City finances has matured since Council received its first financial update on April 8, 2020. That report identified scenarios assuming physical distancing ended at the end of April, May, June, and so on until the end of the year. We now know there is no one date for the end of physical distancing. Ontario has announced its framework for reopening. At date of writing of this report, the Province has authorized Stage 1 reopening across the Province, with most regions moving into Stage 2. The Region of Peel continues to be at Stage 1.

As a result, scenarios have now been developed based on assumptions of when Mississauga indoor facilities will open. In each scenario, it is assumed there would be a staggered return to full services. Table 1 provides estimates assuming Mississauga indoor facilities begin to open at the end of June, the end of September or the end of December. For clarity, the numbers reflect not just the impact to the month indicated, but the full-year impact.

Table 1 identifies 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.

Table 1. Year-End Projections for COVID-19 Crisis (\$'000s)			
Assume Mississauga Indoor Facilities Open On:	Jun. 30	Sept. 30	Dec. 31
By Major Expenditure/Revenue Category	Surplus/ (Shortfall)	Surplus/ (Shortfall)	Surplus/ (Shortfall)
MiWay - loss of revenue/reduced costs	(44,841.4)	(44,220.0)	(43,598.5)
Recreation - loss of revenue	(20,731.1)	(28,537.9)	(38,279.3)
Various other COVID-related revenue reductions	(7,598.4)	(9,998.1)	(11,415.6)
Loss of tax penalty and interest	(5,790.0)	(5,790.0)	(5,790.0)
Provincial Offences Act - loss of revenue due to reduced operations	(5,390.3)	(5,390.3)	(5,390.3)
Parking enforcement losses	(4,956.0)	(5,690.1)	(6,424.3)
Lower returns on investments (lower cash/lower interest)	(3,100.0)	(3,100.0)	(3,100.0)
Emergency management costs (communications, PPE, etc.)	(1,400.0)	(1,850.0)	(2,300.0)
Various other COVID-related expenditures	(1,615.0)	(2,816.0)	(4,017.0)
DIRECT COVID PRESSURES	(95,422.2)	(107,392.3)	(120,315.0)
Savings related to temporary staffing reductions	7,295.7	13,483.2	19,716.7
Hiring freeze	7,039.2	7,428.8	7,852.2
Discretionary expenditure review, including Emerald Ash Borer	6,694.8	6,694.8	6,694.8
Recreation - program expenditure savings	3,747.0	5,902.4	8,012.6
Various other COVID-related expenditures	2,871.9	3,351.8	3,899.5
Utility savings (closed facilities)	1,250.3	2,192.2	3,134.1
MITIGATING ACTIONS	28,899.0	39,053.1	49,310.0
NET SURPLUS/(DEFICIT) RELATED TO COVID	(66,523.2)	(68,339.2)	(71,005.1)
BUSINESS-AS-USUAL CHANGES	7,637.4	7,637.4	7,637.4
NET SURPLUS/(DEFICIT) - 2020 BUDGET	(58,885.8)	(60,701.8)	(63,367.6)

No revenues were collected by MiWay from mid-March to July 2nd due to rear-door only boarding on buses. Recreation programs were cancelled, along with events at Paramount Fine Foods Centre and the Living Arts Centre. Council took actions to assist the public which further affected revenues. New costs were incurred for enhanced cleaning, public communications, and additional technology requirements.

Council took mitigating actions to offset these costs including staff layoffs, hiring freeze and reduction in discretionary costs. Some additional costs and savings occurred in the normal course of business and are not COVID-19 related.

The Echo Impact on Future Year Budgets (2021-2023)

The COVID-19 crisis is anticipated to “echo” for several years to come. Table 2 outlines the anticipated impacts over the next three years.

Table 2. COVID-19 Impact on Future Years (\$000s)			
	2021	2022	2023
	Pressures	Pressures	Pressures
By Major Expenditure / Revenue Category	Surplus / (Shortfall)	Surplus / (Shortfall)	Surplus / (Shortfall)
COVID-related residual gapping	3,519.6	0.0	0.0
Transit revenues - ramping back to normal	(29,186.5)	(14,593.3)	0.0
Recreation (revenue loss net of expenditure savings)	(1,232.1)	0.0	0.0
Utility impact	(1,400.0)	0.0	0.0
Investment income - potential loss	(2,000.0)	(1,000.0)	0.0
Impact on GTAA PILT revenue	0.0	(18,428.8)	(17,814.5)
Annualized impact	(30,299.0)	(34,022.0)	(17,814.5)
Incremental (year-over-year) increase		(3,723.0)	16,207.6

Some of the revenue streams will be slow to return as physical distancing remains in place and the public avoids perceived areas of risk. By 2023 we assume that these impacts will be gone. However, the City receives a PILT from the GTAA based on passenger counts which is delayed by two years. The 2020 reduction in air travel will reduce this revenue starting in 2022. The revenue will recover over a generation due to a provincially legislated five per cent annual cap limiting increases.

Reserves and Reserve Funds

R&RFs are established by Council to assist with long-term financial stability and financial planning in the City. R&RFs assist the City in managing unexpected in-year fluctuations. While some Reserve Funds are earmarked for specific purposes, others are in place to assist in times of unexpected events. Staff are closely monitoring Council-established reserves as one of the tools to mitigate the 2020 deficit and will report to Council in the future.

The following table summarizes the balances in the Reserves and Reserve Funds at May 31, 2020.

Category	Reserves & Reserve Funds	Balance May 31 2020
Stabilization Reserves	Arts	1.8
	Building Permit*	18.2
	Elections	3.0
	Fiscal Stability*	53.1
	Winter Maintenance*	11.3
	Stormwater (Accrual Management)	5.4
Other Reserves Established by Council	Tax Reserve Funds	219.5
	Operating Reserve Funds	83.8
	Stormwater Reserve Funds	45.4
Statutory Reserves	DC & Other Development-related Funds	211.3
	Gas Tax and Transit Reserve Funds	77.9
	Stormwater Development Charge Reserve Funds	32.4
	Other Reserve Funds	21.2

*stabilization reserves assisting with in-year pressures

Strengthening Our Liquidity

The City continues to have positive cash balances through proactive measures taken such as deferral of some 2020 capital projects, deferral of payments to the Region and School Boards and a reduction in payroll costs. Additionally, the Province deferred the June 30 and September 30 education property tax due dates by 90 days, and the Federal government advanced the Federal Gas Tax payment. These items have helped to offset cash flow restraints from the property tax and stormwater charge deferrals, reduced Municipal Accommodation Tax and reduction in other revenue receipts.

Development Charges and Cash in Lieu Revenues

Planned development appears to be continuing across the City. It is expected that the budget will be met in 2020 for these revenue sources. 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 a similar lag will occur again in late 2021 and 2022. Staff continue to monitor development trends.

Financial Recovery Principles

The financial recovery pillar contains seven principles that align with the overall recovery framework principles.

1. Public Health is the first priority

- Services should be adjusted to respond to and support our community and employee health as a first priority. 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 property tax base

- Taxes provide 58 per cent of the revenues that fund City services. Any loss in taxes in response to the COVID-19 crisis will require a reduction in services or a disproportionate increase in taxes in the future.
- Tax deferrals provide short-term relief to taxpayers while ensuring sufficient funding to maintain services. Cancellation of fees is a cost that will need to be borne by the taxpayers in another way in a later year.
- Staff are assessing approved and forecasted resources and will report to Council on an urgent basis with recommendations to assist with the financial challenge as we look to the Provincial and Federal Governments for assistance.

3. Comply with legislation

- The City is provided with legislative obligations and authority and spheres of influence by the *Municipal Act*, the *Planning Act* and other legislation.
- For example, the City needs to be aware of the bonusing provisions of the *Municipal Act* and ensure that it provides equality of treatment for any programs it provides to its residents and businesses.

4. Allow other levels of Government time to fulfill their mandates

- Other levels of government have different jurisdiction, rights and obligations. Each level has a different financial capacity, which drives that level's ability to provide assistance and undertake programs.
- The City should only consider support in areas in which it has jurisdiction and which it can provide cost effectively.
- The City should leave larger programs to those levels of government which have the financial capacity to undertake them and avoid the risk of duplicate programs with other levels of government.

5. Use reserves appropriately to manage financial challenges

- The City has limited reserves to manage some of the financial unpredictability resulting from the COVID-19 crisis. These reserves should be used for the purposes for which they were set aside.
- Reserves are established for a number of purposes and are a key mechanism to smooth out unforeseen pressures and the tax rate from year to year. Some Reserves are discretionary and some are restricted.
- Some Reserves provide for unknowns (Winter Maintenance, Fiscal Stability Reserve) or for future liabilities (Insurance). Others provide for future spending (Tax-Capital Reserve Fund) or are required by law (Development Charges, Cash in Lieu, Federal and Provincial Gas Tax).

6. Deviation from our financial plan should not be permanent

- Any assistance to the public and businesses should be one time or have a defined end date if approved by Council. Similarly new programs or relaxation of existing programs should be reconsidered by Council after the crisis is over with an appropriate Corporate Report and empirical evidence of need and affordability.

7. Assess approved and future budgets and business plans to reconfirm priorities including service levels

- The Corporation will run a significant deficit in 2020 and it is unclear what, if any, assistance will be provided by higher levels of government.
- Council has several master plans and strategies in place, based on public engagement. These plans need to be reviewed to understand if different timelines and service levels are required to align with our changed financial circumstances.
- A temporary hiring freeze is in place alongside temporary layoffs. Labour costs will be reflective of the service levels approved by Council on an annual basis.
- The approved budget for 2020 will be reassessed and the 2021 budget used as an opportunity for engagement and “resetting” to meet the financial capacity of the Corporation.

These principles will provide guidance to staff in evaluating options for assistance to residents and businesses, making adjustments to 2020 operations to deal with the deficit and evaluating business plans and budget proposals for 2021 and beyond.

Financial Recovery Actions

Utilizing the financial principles, this section identifies areas that Council will need to consider to offset the 2020 deficit and to minimize the echo effect on the 2021 budget. Staff expect that a combination of actions will reduce the need for future large tax increases.

1. Return to normal fee schedule and collection as soon as feasible

The City has two main revenue sources to fund operations: property taxation and user fees. These were deferred or reduced to provide relief to the public or because of inability to collect. The longer the situation remains, the higher the deficit. As soon as feasible, the City should return to its normal fee schedule and resume collection activities. For transit revenue, this has been determined to be by July 2. For property taxes, it will be January 1, 2021. Recommendations for other revenues will be brought forward to Council over the next few months. Community circumstances will determine the appropriate timing to do this.

2. No material financial investment in master plan advancement in 2021

Master plans including Parks, Recreation, Fire, Transportation, Parking and Transit provide future direction for capital construction projects and the build out of the City as well as appropriate service levels. In the absence of any new Provincial or Federal assistance, it will be necessary to pause the rollout of the master plans to reduce pressure on the tax rate. This means that 2021 will be a year to reassess and complete the investments already made rather than funding new ones.

3. No new material service level changes in 2021

Surveys have shown that quality of life in Mississauga is rated very high by its residents, in part because of its services, amenities and programs. The focus should be to protect those service levels before considering investment in higher or new ones. Only if these relate to public safety should they be considered; given the need for spending restraint there would need to be a corresponding reduction in other services.

It may also be necessary to review existing service levels and reprioritize spending if the deficit cannot be overcome with other measures due to its magnitude.

4. Reduce discretionary spending

Cost control will be critical to maintaining public services. Council has already taken action to control costs by invoking a temporary hiring freeze and layoff of temporary staff related to services which are not considered essential and consequently have been cancelled. Staff have reviewed discretionary spending such as courses, supplies and other items to provide savings.

It will be important to continue our culture in the organization by investing in people and ensuring that we can remain a learning culture. However, with travel restrictions currently in place and with some discretion on expenditures, each line item of the budget needs to be reviewed to contribute to offsetting the projected deficits.

5. Critical assessment of capital expenditures

The capital budget provides for maintaining assets in a state of good repair as well as providing for new facilities and facility growth. Seventy per cent of the City's capital expenditure is for state of good repair as it is appropriate to maintain what is already owned before building new infrastructure. Capital budgets need to be assessed for project timing and need given the financial pressures being faced by the City.

Traditional economic recovery programs from senior levels of government which provide infrastructure funding often require a City contribution to secure the funding. A review of the capital budget will consider the appropriateness of deferring or cancelling projects to free up funding to offset the deficit, or to avoid new operating costs or participate in recovery programs. The City already has a list of \$900 million in unfunded capital projects for the next ten years.

6. Use of reserves

Staff will be assessing the balances in the various reserves to determine where it makes sense to use reserves to fund the deficit in part. In a typical emergency with a much shorter timeframe, discretionary reserve balances such as the fiscal stability reserve would be adequate. The impact of COVID-19 exceeds the balance in these reserves. This would result in a future tax impact as the reserves would need to be replenished to ensure availability of funds for future emergencies. Another option would be to cancel infrastructure projects and use the freed-up funds from the tax capital reserve to offset the current year's deficit. Of course, this would mean a delay in implementation of the master plans.

Reserves are best used to mitigate one-time revenue shortfalls or cost overruns. For ongoing deficits, continuing measures such as review of service levels or ongoing cost cutting are necessary.

7. Continued collaboration with other municipalities to seek assistance from higher levels of Government

The Federation of Canadian Municipalities (FCM) has estimated that municipalities across Canada will need an infusion of \$10 to \$15 billion between May and October of this year. Neither the Province of Ontario nor the Federal Government has committed to providing funding to municipalities as requested. Council passed a motion in April calling for an operating grant, acceleration of approvals for the Investing in Canada Infrastructure Program (ICIP) and a new capital stimulus program to help the economy. So far there has been no response.

Also noted will be the continued request to the Province of Ontario to remove the five per cent cap on the PILT from the GTAA which has been sought for decades to avoid the type of dramatic fall in PILTS that is currently happening. While the City understands and accepts its role to share in the difficult times, the five per cent per annum cap on any increases prevents the City from rebounding in the same way the GTAA will.

8. Increase taxes and user fees

Council will need to consider increasing property taxes or user fees. This is not desirable in times when the economy is poor but may be necessary once all other options to eliminate the deficit have been used.

9. Aggressive, timely monitoring of financial position

Since the start of the crisis, staff have aggressively monitored financial performance and put in place additional requirements. With so many assumptions in play it will be critical to stay on top of these and report out to senior management and Council on a timely basis. Critically important will be the assumptions made over the summer regarding the economy and the impact of Development Charges and Cash In Lieu revenues.

10. Explore and recommend options to fund the deficit years

There are many unknowns including when City facilities and services will reopen and what financial assistance will be provided by senior levels of government to the City. This makes it difficult to determine the magnitude of the 2020 deficit gap. Public acceptance of the reopening measures is difficult to assess. Take up of City programs and use of public transit are not known although assumptions were made in preparing the financial analyses for 2020 and future years.

As determined by the *Municipal Act*, the City cannot budget for a deficit. The City can run a deficit, but it must either be made up through revenue increases, cost reductions or transfers from reserves in the current year, or funded in the subsequent year through a tax increase. A \$60 million deficit would require a tax increase of approximately 11 per cent. Staff expect that a combination of actions will reduce the need for a tax increase.

As noted earlier, the impact on the 2021 budget and future years could result in a tax increase independent of any tax increase resulting from inflation, service level changes and the infrastructure levy. An increase of approximately 5.7 per cent related to COVID-19 has been projected. Staff will be working through these budget issues throughout the summer.

Staff will report out and engage with Budget Committee in the Fall on the range of options available to Council.

The solution will be a combination of:

- Assistance from the Federal and Provincial governments
- Depletion of reserves necessary to maintain a healthy fiscal corporation
- Service level adjustments
- Future property tax Increases.
- Increased user fees
- Continued innovation

Committee will also be provided with an update on the 2021 budget at that time. The financial recovery principles listed in this report will form the basis on which recommendations to Committee can be built. However, Council will need to consider limiting service growth in 2021 and deferring master plans implementation, new facilities and infrastructure until the cost of COVID-19 is paid for and the economy improves.

It makes sense that staff use the budget process to continue to engage Budget Committee and Council in the financial recovery.

Staff propose that the 2021 Budget deliberations remain scheduled for November 23, 24, 30, December 1 and 2 with budget approval by Council on December 9, 2020 if appropriate. This would allow the City Budget to proceed ahead of the Region of Peel budget where deliberations commence on December 10, 2020 with anticipated Council approval on February 18, 2021. The Federal government has announced that it will provide an economic update on July 8, 2020 which will provide additional information that can be incorporated into the budget if necessary.



Conclusion

COVID-19 has put extraordinary pressures on the world, Canada, Ontario and Mississauga, both as a health disaster and an economic disaster as the economy shut down due to social distancing. The City as a municipal service provider has had limited ability to scale down in services in response to declining revenues. Additionally, it was necessary to support residents and businesses in other ways that have had a negative financial impact. These pressures have led to a projected deficit in 2020 of approximately \$60 million which must be made up as the City cannot have a deficit or must increase taxes by an equivalent amount in the subsequent year. An echo effect is expected in 2021 which if cost cutting or other measures are not taken will result in a 5.7 per cent pressure on the budget in addition to any increase required due to inflation or increased service levels. The City is anticipating a reduction in the GTAA PILT in 2022 due to reduced air passenger counts in 2020. It will take many years before the PILT returns to 2020 levels as long as provincial legislation caps growth in the PILT at five per cent per year.

This report expands upon the Recovery Framework adopted by Council in May by establishing seven financial principles which can be used to assess measures that can be taken to eliminate the 2020 deficit and reduce the echo effect in 2021 and to offset the impact of the reduction in PILT revenue in 2022 and beyond. A number of funding and cost cutting options presented in this report will be analyzed by staff over the summer and discussed with Budget Committee on October 7.

There is much work yet to be done before COVID-19 has run its course. Staff will continue to innovate with Council and the public being engaged fully along the way.

