City of Mississauga
Corporate Report

MISSISSAUGA

Date: September 18, 2020	Originator's files:
To: Chair and Members of Budget Committee	
From: Gary Kent, CPA, CGA, ICD.D, Commissioner of Corporate Services and Chief Financial Officer	Meeting date: October 7, 2020

Subject
October 2020 Update on the Financial Impacts of COVID-19

Recommendation
That the report of the Commissioner of Corporate Services and Chief Financial Officer dated September 18, 2020 entitled "October 2020 Update on the Financial Impacts of COVID-19" be received for information.

Report Highlights
- The City of Mississauga is facing significant financial impacts in 2020 due to COVID-19. Anticipated year-end deficit projections are currently at $55.4 million, ranging from $46.6 million (best case) to $66.0 million (worst case). This projected deficit is caused by the reduction of revenues, primarily in MiWay and Recreation as well as additional costs.
- The City continues to be guided by seven 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 property tax base; complying with legislation; allowing other levels of government time to fulfill their mandates; using reserves appropriately to manage financial challenges; ensuring any deviation from our financial plan is not be permanent; and, assessing approved and future budgets and business plans to reconfirm priorities including service levels.
- City staff have implemented measures to mitigate the financial impact of COVID-19 where possible, including temporary staff layoffs, a hiring freeze and cuts to discretionary spending. Proactive measures such as deferral of some 2020 capital projects and deferral of payments to the Region and School Boards have ensured that the City continues to have positive cash balances.
- The Provincial and Federal governments are providing the City with one-time support through the Safe Restart Agreement. Phase 1 funding of $46.1 million provides much-needed relief for our 2020 pressures.

- The 2021 COVID-19 financial impacts are expected to be managed through a combination of further Safe Restart funding, aggressive management of costs, monitoring of revenues, continued advocacy for Federal and Provincial assistance and use of Reserves. As a result, these potential impacts have not been included in the 2021 budget to minimize the impact on the taxpayer while uncertainty exists.
- Staff will report on the final 2020 year-end position through regular annual reporting.

Background

This report forms part of a staff commitment to provide updated financial information to Council on a regular basis. These updates 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 seven financial recovery principles:

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

These principles 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.

June Projections

The June 2020 COVID-19 update report provided a financial analysis based on when Mississauga facilities might open. The options considered at that time were end of June, end of September and end of December, as stage 1 and stage 2 reopening dates were not yet known. The projected deficit ranged from $59M to $63M.

The June 2020 report also noted the City's liquidity was strong and that sufficient cash balances were expected through to the end of the year. The City's line of credit with the CIBC was increased from $100 million to $250 million, with an alternative to issue Banker's Acceptances through the CIBC at a preferable rate as a result of a Federal program to add liquidity to the economy. The Province deferred the June 30 and September 30 education property tax due dates by 90 days. Although Regional Council approved the deferral of the Region levy through a new payment schedule, the July 1 payment to the Region was made on June 9 to assist the Region with its liquidity concerns. The City continued to receive payments from some taxpayers in April and May notwithstanding the property tax deferral and passed these on to the Region on June 9.

Comments

Forecast Challenges

COVID-19 impacts on the City's financial position are due to the various restrictions designed to reduce the transmission of this virus. These restrictions resulted in closures of City facilities, reductions in transit usage and other revenue losses.

It is challenging to project our various revenues. For example, transit revenues are dependent on a variety of factors such as: the public's 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. Provincial decisions regarding opening and closing of various sectors will also impact transit ridership. Projections for recreation fees and other revenues each have their 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 temporary hiring freezes to increase labour gapping, the cutting of discretionary expenses, the deferral of some 2020 capital projects and the resulting deferral of issuing 2020 debt in 2021.

The Province has been taking a regional approach to reopening facilities based on trends in key public health indicators. We have been gradually and methodically resuming services such as golf and marinas, libraries, outdoor splash pads and pools. Small social gatherings such as weddings in our venues are now permitted. It is difficult to predict the pace at which the City will be able to return to some degree of normalcy. It is further difficult to predict when the Public will feel comfortable fully accessing our services. Consequently, it is hard to project the City's operating position at year end.

Financial Assistance from the Federal and Provincial Governments

The Provincial and Federal governments are providing the City with one-time support through the Safe Restart Agreement. Two funding phases have been announced, and funding for

Phase 1, to cover the first six months of COVID-19 impacts, has been allocated. The City is eligible to receive $46.1 million in funding through Phase 1.

Transit funding: Phase 1 provides $31.1 million in transit funding relief for pressures such as low transit ridership. Funding covers retroactively from April 1, 2020 to September 30, 2020. The City is required to report back to the Ministry on transit-related costs by October 30, 2020. Details on specific reporting requirements are not yet known.

Municipal funding: Phase 1 provides $15.0 million for other operating budget pressures. Municipalities are expected to report back to the Province in March 2021 with details on the 2020 COVID-19 operating costs and pressures, the overall 2020 financial position and the use of this $15.0 million. Details on specific reporting requirements are not yet known.

Phase 2 funding will be made available to municipalities that can demonstrate 2020 COVID-19 pressures exceed Phase 1 funding. To be eligible for Phase 2 funding, municipalities will be required to submit forecast reports outlining COVID-19 costs and pressures to the Province no later than November 6, 2020.

The Federal and Provincial governments have provided or identified other program-specific support. The impacts of these supports have been considered when preparing current year-end projections:

- The Federal government accelerated the 2020/21 allocation of the Federal Gas Tax. This is not new money but has helped to maintain positive cash flow throughout the year.
- The City has applied for $743,000 through a Municipal Transit Enhanced Cleaning grant.
- The Department of Canadian Heritage has recently awarded the City with $100,000 through the COVID-19 Emergency Support Fund for Culture, Heritage and Sport Organizations. These funds will support our ongoing museum operations during COVID-19.

Updated 2020 Financial Analysis

Modelling the impact of COVID-19 on City finances continues to mature. Initially, staff considered the possibility of strict physical distancing remaining in place to the end of April, May, June and so on until the end of the year. The June 2020 report on COVID-19 impacts considered the possibility of Peel Region remaining in Stage 1 until the end of June, end of September and end of December.

Staff have now 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 Stage 1, Stage 2 and Stage 3 depending on the advice provided by the Chief Medical Officer of Health. Furthermore, Public response to the stages and willingness to resume normal activity can vary significantly. For example, some community centre resources have reopened but community participation is still low.

As a result, scenarios have now been developed based on a “best case,” “anticipated,” and “worst case” approach. Table 1 provides estimates for each of these scenarios. 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. A discussion on each variance line item is provided below Table 1 (paragraph numbers align with the numbers in the table).

Table 1. Year-End Projections for COVID-19 Crisis (Ms)

	By Major Expenditure / Revenue Category	Best Case Surplus / (Shortfall)	Anticipated Surplus / (Shortfall)	Worst Case Surplus / (Shortfall)
1	MiWay (loss of revenue / reduced costs)	(35.9)	(41.7)	(47.7)
2	Recreation - loss of revenues	(24.4)	(26.7)	(36.3)
3	Various other COVID-related revenue impacts	(10.7)	(12.1)	(13.4)
4	POA - loss of revenue due to reduced operations	(5.3)	(5.6)	(5.8)
5	Parking enforcement / APS losses	(4.1)	(4.5)	(5.0)
6	Loss of tax penalty and interest	(4.5)	(4.5)	(4.5)
7	COVID-related expenditures (PPE, cleaning, communications, etc)	(4.3)	(4.5)	(5.0)
8	Lower returns on investments (lower cash / lower interest)	0.0	(0.3)	(0.5)
	DIRECT COVID PRESSURES	(89.1)	(99.8)	(118.1)
9	Savings related to temporary staffing reductions	11.9	13.0	18.4
10	Discretionary expenditure review, including EAB	5.7	6.7	7.7
11	Hiring freeze	6.6	5.9	5.2
12	Recreation - program expenditure savings	3.9	4.4	5.9
13	Various other program expenditure impacts	3.4	4.0	4.5
14	Utility savings (closed facilities)	2.7	2.7	2.7
15	Changes to Reserve contributions	2.3	2.3	2.3
	MITIGATING ACTIONS	36.5	39.0	46.8
	NET SURPLUS / (DEFICIT) RELATED TO COVID	(52.7)	(60.8)	(71.3)
16	Baseline gapping savings	8.3	8.3	8.3
17	Other expenditure / revenue variances	(2.2)	(2.8)	(3.0)
	NET SURPLUS / (DEFICIT) BAU	6.1	5.5	5.3
	NET SURPLUS / (DEFICIT) - 2020 BUDGET	(46.6)	(55.4)	(66.0)

Direct COVID-19 Pressures:

COVID-19 and the Province's measures regarding staying home and physical distancing has 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 $99.8 million, although this could range from $89.1 million (best case) to $118.1 million (worst case). The specific pressures are outlined below.

1. The most significant impact of COVID-19 has been on our transit services. To protect the health of both transit operators and passengers and to implement physical distancing, rear-door only entrance was introduced on March 21, 2020, with the result that fares could not be collected. In addition, ridership decreased significantly due to work places being closed and so many people working from home, laid off or unemployed. At its meeting on June 10, 2020, Council approved a return to fare collection and front-door boarding, thanks to the implementation of driver compartment bio-barriers. Ridership is slowly increasing. Ridership increased to 50% of normal by the end of August, and is expected to remain at this level for the rest of the year. 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. A shortfall of $48.9 million in revenues is projected for the year (ranging from $44.0 million to $53.8 million). COVID-19 has also impacted diesel costs. Diesel savings due to cost per litre and adjustments to service levels are anticipated to be $5.8 million (ranging from $5.2 million to $6.4 million). Other transit-related impacts include reduced bus advertising revenue and reduced cost of PRESTO commissions. Together, the COVID-19 impact on MiWay alone is projected to be $41.7 million (ranging from $35.9 million to $47.7 million).

2. The second most significant impact of COVID-19 has been on recreation services' loss of revenues. All recreation facilities were closed on March 17, 2020, resulting in significant lost revenues. These revenue losses are very sensitive to when indoor facilities became operational again, and how quickly the Public is comfortable using the facilities. Recreation facilities have been opening gradually, beginning with 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 $26.7 million (ranging from $24.4 million to $36.3 million).

3. Various other revenue streams have been impacted in Parks, Culture (including the LAC), Libraries, and Fire, for an estimated impact of $12.1 million (ranging from $10.7 million to $13.4 million).

4. Fewer Provincial Offences Act (POA) tickets have been issued and, with the closure of courts, some revenues have been deferred. Based on revenues received since the shutdown, the current estimate is that POA revenue will be reduced by $5.6 million (ranging from $5.3 million to $5.8 million).

5. Parking revenues and enforcement fines were at a reduced level during the COVID-19 lockdown, and are gradually returning to normal levels. There continue to be fewer cars on the road. Revenues realized through the Administrative Penalty System (APS) have also been lower than in other years. The overall reduction in revenue for Parking fees and fines is estimated to be $4.5 million (ranging from $4.1 million to $5.0 million).
6. The three-month relief on property tax payments and the setting of penalty and interest charges to zero per cent from July 2 to December 31, 2020 is estimated to reduce property tax penalty revenue by $4.5 million. It is too early to estimate the level of delayed payments subsequent to year end.
7. COVID-19 has resulted in additional cleaning and disinfecting costs, the need for personal protective equipment, additional security and equipment rentals. The estimated pressure related to these costs is $4.5 million (ranging from $4.3 million to $5.0 million).
8. The City maintains sound reserve and reserve fund balances, and benefits from investment earnings on its assets. Current economic conditions indicate a small potential for lower returns, currently estimated at $0.3M (ranging from no impact 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 $39.0 million (ranging from $36.5 million to $46.8 million, and are outlined below.

9. The decision to lay off temporary staff, and delays in hiring some temporary staff, have generated savings estimated at $13.0 million (ranging from $11.9 million to $18.4 million).
10. Specific budget adjustment decisions have been made where possible. This includes a $2 million reduction in contribution to the Emerald Ash Reserve Fund; $2.5 million in savings through the deferral of debt issuance to 2021; and an estimated $2.2 million in cuts in discretionary spending. These changes assist with cash flow and, in the case of the Emerald Ash Program, better aligns revenues with costs. Total savings generated are anticipated to be $6.7 million (ranging from $5.7 million to 7.7 million).
11. The decision to freeze hiring wherever possible, including the hiring of new staff related to 2020-approved new initiatives, has resulted in savings estimated at $5.9 million (ranging from $5.2 million to $6.6 million).
12. Due to the closure of recreation facilities, staff reviewed all non-salary expenditures and identified expenditure reductions. These savings are estimated at $4.4 million (ranging from $3.9 million to $5.9 million).
13. All service areas have been reviewing potential non-salary savings as a result of closed facilities (e.g. libraries) and cancelled events (e.g., Culture). Total identified savings are estimated at $4.0 million (ranging from $3.4 million to $4.5 million).

14. Utility savings have been realized both due to reduced consumption as a result of closed, or under-used, facilities, as well as a deferral in costs provided by utility companies. Savings are estimated to be $2.7 million.

15. A detailed review of contributions to Reserves and Reserve Funds has been conducted. Taking into consideration new information with respect to the City's projected insurance-related costs, a one-time reduction in contributions to the Insurance Reserve of $2.3 million is being projected to assist with COVID-19 pressures.

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 $5.3 million to $6.1 million), and are outlined below.

16. At this time, savings arising from vacant positions, in addition to the savings already budgeted for, are estimated to be $8.3 million.

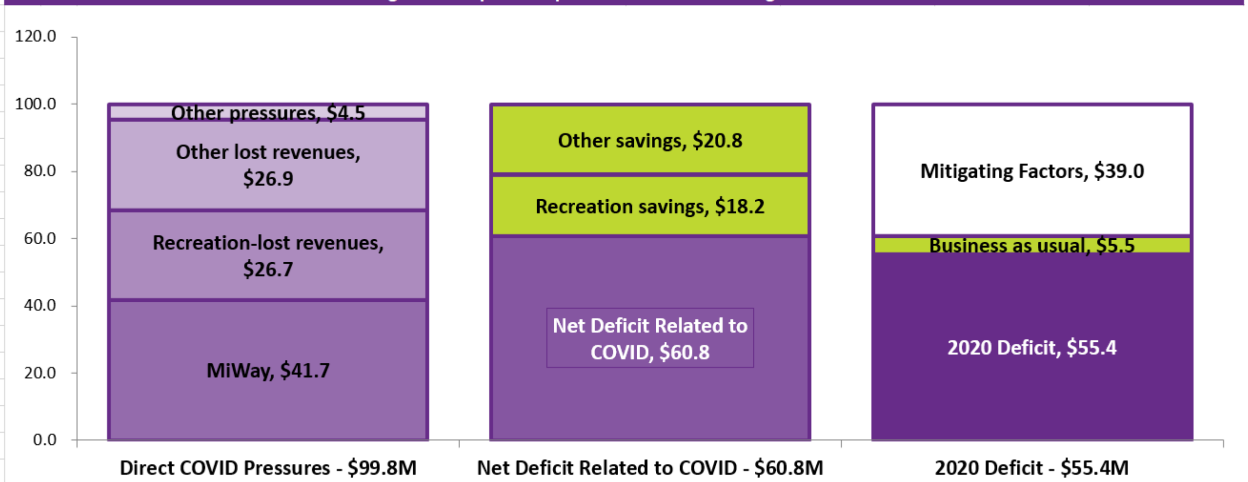
17. There are various other program-related changes to expenditure and revenue estimates. For example, the City's street-sweeping contract has been renewed with savings of $0.4 million, but the City's insurance policies have been renewed at $1.0 million higher than anticipated. Legal services activity required some unplanned outsourcing due to demand. The total impact of these changes is projected to be $2.8 million (ranging from $2.2 million to $3.0 million).

Figure 1 provides a graphical representation of the various impacts outlined above. The left bar indicates the impact of direct COVID-19 pressures, showing the majority of the projected pressures arise from impacts on the MiWay program (revenues net of expenditures), and Recreation revenues. Without any mitigating actions taken by the City, the impact is projected to be $99.8 million.

The mitigating actions taken by the City have reduced these pressures by $39 million. Hiring freezes, temporary staff layoffs and other program expenditure savings in the Recreation service area contribute $18.2 million. The remaining $20.8 million has been realized throughout all other service areas.

Base budget variances have further reduced this pressure and the City is currently facing a potential deficit of $55.4 million (depicted on the right bar in Figure 1).

Figure 1. Graphical Representation of 2020 Budget Pressures



COVID-19 Echo Impact on 2021 and Future Years

The COVID-19 crisis is anticipated to have an echo impact on the City's budget for several years to come. Table 2 outlines the anticipated impacts over the next 3 years.

Table 2. COVID-19 Impact on Future Years ($Ms)

	2021 Pressures	2022 Pressures	2023 Pressures
By Major Expenditure / Revenue Category ($Ms)	Surplus / (Shortfall)	Surplus / (Shortfall)	Surplus / (Shortfall)
Gapping due to hiring freeze and other COVID-related actions	6.9	0.0	0.0
Transit revenues - net impact of slow ramping back to normal	(24.6)	(10.5)	0.0
Recreation - net impact of slow ramping back to normal	(2.6)	(1.1)	0.0
Utility impact	(1.4)	0.0	0.0
Investment income - assumes markets continue at pre-COVID levels	0.0	0.0	0.0
Impact on GTAA PILT revenue (assumes 5% cap remains in place)	0.0	(22.0)	(21.6)
Enersource dividend	(1.0)	0.0	0.0
Anticipated Pressure From COVID	(22.7)	(33.7)	(21.6)
Impact on GTAA PILT revenue included in budget	0.0	22.0	21.6
Enersource dividend impact included in budget	1.0	0.0	0.0
Unbudgeted Pressure From COVID on Annual Budget	(21.7)	(11.6)	0.0

The total anticipated impact in 2021 is a pressure of $21.7 million:

- The hiring freeze implemented in 2020 is anticipated to result in residual gapping in 2021, due to the time required to return to normal staffing levels.
- MiWay ridership is not anticipated to return to normal by 2021, and a pressure of $24.6 million is anticipated in 2021. Ridership is projected to be at 67% of normal by December 2021, and 86% of normal in 2022. Full transit ridership is anticipated to return by 2023.
- Recreation service utilization is also not anticipated to return to normal by January 2021. The residual impact on recreation services is estimated to be $2.6 million (anticipating lost revenues of $14.1 million offset by expenditure savings of $11.5 million).
- No impact on investment income is projected. However, the state of the economy may continue to fluctuate due to COVID-19, and this line item will be very sensitive to the state of the economy.
- Some of the 2020 utility savings are deferred costs only, and will be a pressure of $1.4 million in 2021.
- A potential reduction in dividends from Enersource is estimated at $1.0 million. Historically, and surplus in Enersource dividends has been transferred to Reserves, specifically to mitigate any future shortfalls. As a result, the projection assumes $1.0 million would be transferred from the Fiscal Stability Reserve to offset this pressure.

Many of these costs will reduce in 2022 but a new budget pressure resulting from loss in payment in lieu of taxes (PILT) from the Greater Toronto Airport Authority (GTAA). The GTAA PILT is based on passenger count from two years earlier (e.g., 2022 PILT revenue is based on 2020 passenger count). Passenger count has decreased drastically due to the closure of the border and the restrictions placed on air travel. In April, global passenger capacity was down 90%. The full-year impact on the 2020 passenger count is not yet known, but assuming a drop of 75% passenger count for the year, a $22 million reduction in PILTs is projected for 2022. Provincial legislation caps annual increases in PILTs at only 5 per cent. As a result, while the full decrease in air travel will be felt by the City in the 2022 PILT, the PILT can only increase by 5 per cent in future years. In fact, PILT revenues are not anticipated to return to 2021 levels until 2038, unless the Provincial legislation is changed. As a result, the PILT decrease in 2022 has been included as a base budget pressure. All other variances identified for 2021 and 2022 are being treated as projected year-end variances, since all of these numbers are greatly impact by our COVID-19 recovery path.

We anticipate there will be no COVID-19 echo impacts by 2023, with the exception of PILTs. PILTs will still be lower than pre-COVID-19 levels, but all other lines of business are anticipated to return to normal.

Liquidity Update

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. These have helped to offset cash flow restraints through the property tax and storm water charge deferrals, reduced municipal accommodation tax and reduction in other revenue receipts. Staff were able to defer the issuance of the 2020 debenture to 2021 thanks to the deferral of some 2020 capital projects. If necessary the City will sell some financial investments or access the line of credit with CIBC. This will result in reduced interest costs and debt repayment. The earlier receipt of Federal Gas Tax has also improved liquidity.

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 this will occur again in late 2021 and 2022. Staff continue to monitor development trends.

Closing the 2020 Deficit and Future Years' Budget Gaps

As identified in the June 2020 COVID-19 update report to Council, the Fiscal Stability Reserve is available to offset unexpected in-year pressures such as COVID-19. The Federal and Provincial governments' Safe Restart Agreement has allocated $46.1 million to the City of Mississauga to help offset COVID-19 pressures. Assuming a manageable second wave of COVID-19, the City will not be in a deficit position at the end of 2020, thanks to the Safe Restart funding and the availability of the Fiscal Stability Reserve.

As noted earlier in this report, only permanent impacts (such as the reduction in PILTs) are budgeted for in future years. This means the City is currently anticipating a deficit in 2021 and in 2022. These deficits will be managed through mitigating actions approved by Council, anticipated Phase 2 funding of the Safe Restart program, and further reliance on the Fiscal Stability Reserve.

Financial Impact

COVID-19 is having a wide ranging and negative impact on the City's 2020 financial position. Loss of revenue and increased costs are creating a negative variance to budget of $99.8 million (ranging between $89.1 million to $118.1 million). These are offset by cost-reduction efforts such as staff layoffs, 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 $55.4 million (ranging between $46.6 million and $66.0 million).

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.

COVID-19-related pressures in 2021 and 2022 are anticipated to be managed through a combination of further Safe Restart funding, aggressive management of costs, monitoring of revenues, continued advocacy for Federal and Provincial assistance and use of Reserves. As a result, these potential impacts have not been included in the 2021 budget to minimize the impact on the taxpayer while uncertainty exists.

Conclusion

Since staff provided an update on the City's financial position to Council in June 2020, more has been learned about the impact of COVID-19 on the City's finances. The Province has developed and is following a roadmap as to how the City and Province are gradually reopening for business. Nonetheless, various assumptions have been made to create a year-end forecast on the impact of COVID-19 on the City's financial position.

A deficit is projected to be approximately $55.4 million by year end (ranging from $46.6 million to $66.0 million). The deficit is caused by the reduction of revenues, primarily in MiWay and Recreation. Staff have taken action to reduce the impact of the revenue loss through staff layoffs, a temporary hiring freeze, deferral of capital projects and reduction of discretionary expenses. The 2020 and future COVID-19-related deficits will be managed through a combination of Federal and Provincial Safe Restart Agreement funding, aggressive management of costs and use of reserves.

Attachments

N/A

G. Kent.

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