

Information Report

Service Area	Corporate Services
Date	Friday, May 22, 2020
Subject	First Quarter 2020 Operating Variance Report

Executive Summary

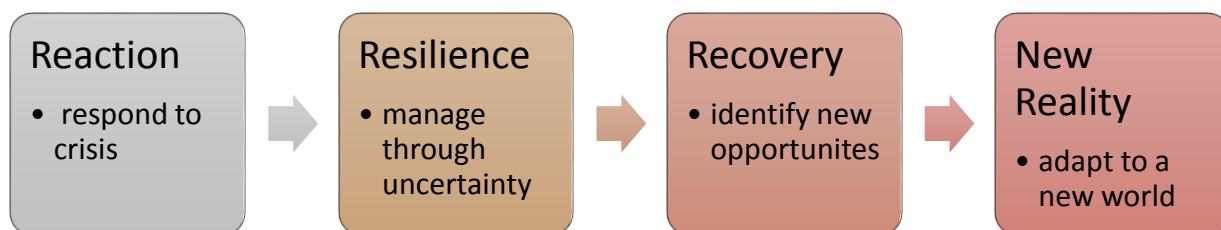
Purpose of Report

The purpose of this report is to provide Council notice of any financial risks that could affect the 2020 year-end position based on actual financial information as of March 31, 2020, which is the end of the first quarter (Q1) for the tax supported and non-tax supported budgets. As Council is aware, the greatest risk to the 2020 financial results is the ongoing COVID-19 pandemic.

Key Findings

Due to the COVID-19 pandemic, the City is projecting to be in a deficit position for both the tax and non-tax supported budgets at year-end. Preliminary year-end deficit projections indicate between \$2 million to \$4 million for each of the two budgets; however, as the situation is changing on a daily basis, health authorities are not certain when the pandemic will end, and no timeline has been provided by the Provincial Government on when Ontario will return to business as usual, staff are continuing to update and monitor financial projections.

While there will be operating deficits in the current year, Council should start to consider the longer-term financial recovery journey, looking beyond the “Reactionary” period as the economy enters a recession. In a recent webinar by KPMG LLP, they describe the financial future four-phases:



As a City, we are moving into the “Resiliency” period where strategy and evaluation become critical with much uncertainty. The business landscape that we have known and operated within is changing, and we need to manage our diverse organization through this evolving environment with an eye on financial sustainability and resiliency. There is an opportunity to leverage the great work of the City’s Strategic Plan to prioritize recovery efforts and stimulus programming with very deliberate

outcomes that will keep the City focused on delivering to be Future Ready. The City cannot afford to be everything to all people and businesses; other governments and associations also have their role. Staff are actively planning for the future and starting to consider the three-year budget implications that may unfold from this emergency. An updated multi-year budget planning report will be forthcoming to Council in June 2020, followed by a joint workshop on the City Strategic Plan and Multi-year budget

Council has been very responsive and proactive in making decisions to mitigate the City's current financial impact as well as provide relief for businesses and citizens who may be facing financial challenges due to the pandemic. In response to the emergency declaration, and fiscal difficulties brought by the pandemic, the City implemented several measures including; closure of facilities, service delivery changes, modified working environment for employees, redirected resources, casual and seasonal part-time layoffs, halted non-critical hiring, and placed some full-time employees on declared emergency leave. Actions taken to date are resulting in an estimated \$11.8 shortfall in revenue and increased expenses related to COVID-19 of \$1.5 million. Council and staff have recognized the need to mitigate the impact of these losses and the estimated cost savings is projected in the range of \$7.8 to \$9.8 million from the mitigation measures implemented.

Internally the City has established various working tables in collaboration with partnering agencies who are reporting to Council monthly to ensure Council and staff remain connected and address financial and service changes quickly and efficiently for the citizens of Guelph.

Financial Implications

Forecasting these financial impacts to year-end, the City will likely experience deficits in both the tax supported and non-tax supported budgets. It is difficult to forecast these deficits at this early stage, however they are expected to be in the range of \$2 to \$4 million for each of the tax supported and non-tax supported budgets. The City's contingency reserves are sufficient to mitigate through deficits in this range, however, wherever possible, continued actions to reduce these losses to protect the City's long-term sustainability is recommended.

On April 23, 2020, The Federation of Canadian Municipalities (FCM) made urgent federal recommendations to the Government of Canada to inject \$10 to \$15 billion over the next six months to address the financial crisis in our cities and communities due to COVID-19.

Subsequently, the Large Urban Mayors' Caucus of Ontario (LUMCO) has passed a resolution stating that Ontario's big-city mayors are united in their position that running deficits as a way to manage municipal financial challenges as a result of the pandemic is not in the public interest.

At this time, the City has not received any formal announcements from the Federal or Provincial Government that financial aid will be transferred to the City. The City must continue to mitigate costs wherever possible to offset losses and protect the financial sustainability of the City.

Report

Background

The COVID-19 pandemic has caused an unprecedented public health crisis, creating uncertainty in the economy. Municipalities as frontline service providers are particularly impacted and the City is not an exception.

City departments were provided financial information as of March 31, 2020. Actual expenditures, revenues and related commentary were analyzed and any significant budget deviations, challenges, and risks that are expected to have an impact on the year-end financial position were identified with Finance staff support.

In addition, departments were asked to assess the impact of the pandemic and provide commentary assuming potential disruption into the second quarter. It is however too early to quantify the full impact without knowing the timeframe for a return to some form of normalcy. With the help of department management, Finance staff is monitoring and assessing the financial impact to the City taking into consideration all measures taken by the City and will continue to update Council as more information becomes available as the year progresses.

Through Council-approved fiscal relief measures and declaring a state of emergency, broad economic impacts, deferring non-essential spending, and halting non-critical hiring, currently the City is projecting a year-end deficit position in each of the tax and non-tax supported budgets.

COVID-19 Variance Highlights

The impact on revenues related to operations during the COVID-19 crisis is an estimated \$11.8 million shortfall, a cost increase of \$1.5 million and a corresponding cost reduction of \$7.8 to \$9.8 million for a net impact of \$2 to \$4 million deficit at the time of writing this report. This is a very early projection and the final COVID-19 financial impacts on the City will not be fully known until City programming and services return to normal (or a new form of normal). Likely, the impacts will continue for years as the businesses and employment in our community change, working-from-home becomes much more prevalent and the Province enacts new legislation to help mitigate pandemic emergencies in the future.

Further, not all impacts were known and analyzed at the time of writing this report. Staff continue to monitor and will provide updates through the monthly COVID-19 Council reporting as more information becomes available.

Revenue Impact

Public Services

- Transit estimated revenue loss is \$3.5 million mainly due to waived transit fares which includes the U-pass, late night fares, and cancelled advertising revenues. There is a risk of an additional unfavourable variance from the U-pass if the University of Guelph continues to offer only online courses in the fall, and as a result looks for forgiveness on the existing contract, and reduction in late night fees if retail and restaurant establishments do not return to normal. There is risk

of lower monthly passes and reduced ridership if the crisis leads to significant job losses and/or a change to a work-from-home culture.

- Parks and Recreation estimated revenue loss is \$1.1 million through the second quarter due to closure of facilities, cancellation of programs, memberships, and events and bookings.
- Culture, Tourism, and Community Investment estimated revenue loss is \$783 thousand due to cancellation of shows and events through the second quarter at the Sleeman Centre and River Run Centre. In addition, the closure of the Farmer's Market is also impacting revenue. There is risk of further revenue loss if there are provincial restrictions on group sizes when facilities reopen, and attendance may be reduced if households' finances are significantly impacted. The tourism industry will take some time to return to normal as surveys have shown the general population will be slow to resume life as it was prior to the pandemic and physical distancing. Staff predict it may not be until summer 2021 when tourism returns to pre-pandemic levels.
- Operations estimated revenue loss is \$436 thousand due to suspension of parking ticket fines for 2am to 6am, the downtown two-hour limit, and other infractions. Further, this area of business is deferring revenue collection for animal tags and business licenses as digital process for revenue collection is not yet available. There is risk of potentially refunding some business licenses to compensate for business closure, and this cannot be quantified at the time of writing the report.

Infrastructure, Development and Enterprise Services

- Environmental Services estimated revenue loss is \$356 thousand due to closure of the public drop-off and reduced tipping fees resulting from lower construction and demolition tonnage. The implementation of spring residential yard-waste is also contributing to this loss as tonnage will no-longer be user pay. Additional losses are likely as staff estimate once restrictions are lifted, it may take up to three months for operations to return to normal.
- Planning and Building Services and Engineering and Transportation Services combined estimated revenue loss to June 30th is \$658 thousand. This is due to reduced development activity levels and pausing of subdivision and construction projects from the provincial closure order. For context, the previous recession resulted in a 16% decline in building permit revenues due to a decline in local construction and building project activity. This revenue risk will persist through the remainder of 2020 and likely for a number of years.
- Parking Services projected revenue loss is \$1.2 million through the second quarter due to waiver of all parking fees.
- Water and Wastewater Services were unable to provide a projection for consumption revenue due to limited data available at the time of this report. Data from Alectra in the coming months will provide a better indication of the impact from the pandemic which is likely to result in lower Industrial, Commercial, and Institutional consumption and increased residential demand. There will also likely be a variance related to the growth rates budgeted in these revenues that may not be realized.

Corporate Services

- The City Clerk's Office is projecting a revenue loss of \$70 thousand for fees, licenses and permits.
- Court Services is projecting revenue loss of \$1.0 million to June 30th due to mandated closure of courts, reduced charge base, and no enforcement or collection activities taking place for Provincial Offences Act. However, it should be noted that the revenue loss is shared between the City and the County, 56 per cent and 44 per cent respectively. The Ministry of Attorney General may be reluctant to return courts to normal operation due to group size and physical distancing requirements or may be reluctant to allow as many matters on a court docket thus requiring more court dates to deal with the same number of court matters. It may take until 2021 for business to return to normal for courts.

General Revenues

- Loss of investment income is projected at \$500 thousand for the year due to the Bank of Canada decreasing interest rates.
- Supplementary taxation revenue is projected at a loss of \$1.0 million for the year due to lower development activity and the waiver of penalty and interest revenue on taxes.

Local Boards and Shared Services

- Guelph Police Services has projected revenue loss of \$109 thousand through June 30th due to lower number of record checks. An overall year-end projection has not been provided and this will be updated in the second quarter operating variance report. Council approved an additional 30.5 positions as part of the 2020 budget approval phased-in throughout the year.
- Guelph Public Library has projected revenue loss of \$115 thousand through June 30th from lack of fines, room rentals, printing, and merchandise as a result of closure during the pandemic. An overall year-end projection has not been provided and this will be updated in the second quarter operating variance report.

Expenditure Impact

In response to the emergency declaration by various levels of governments, the City has been dedicated to managing through the crisis; balancing both the need to protect the economic well-being of the City and dedication to public safety while delivering essential services to the community. From the day the Province proclaimed a state of emergency on March 17, 2020, City staff created a cost centre to track expenses directly related to COVID-19 response, and all departments were instructed to monitor the financial impact of COVID-19 on their operations.

1. Compensation

To mitigate the lost revenues being experienced, the City implemented a hiring freeze for non-critical positions creating savings through vacancies. Further, action was taken through the month of April with temporary lay-offs of casual, part-time and full-time staff creating over \$1 million of savings per month. Early projections indicate a potential savings in compensation of \$4.3 million for the year based on these actions, however, this number is likely to change as

decisions are fluid and staff will be called back to work based upon changing Provincial orders.

2. Utilities

Overall energy and water expenditures are projected to be \$390 thousand below budget due to facility closures and reduced consumption. Staff will continue to monitor and update accordingly.

3. Fuel

Fuel prices have been lower than budgeted due to disruptions in crude oil markets resulting in estimated savings of \$750 thousand. Staff will continue to monitor and update accordingly.

4. Delayed implementation of projects

During the 2020 budget deliberations, Council approved the transit route enhancements and some operating impacts to previously approved capital projects. Due to the pandemic an estimated \$1.4 million of expenses are projected to be realized by delaying the implementation of these initiatives.

5. Mitigation measures and other cost savings

In addition to the corporate variance drivers explained above, departments were encouraged to defer discretionary expenses to 2021 as well as operating impacts from capital that were approved as part of budget but may not be required in 2020 due to project timing. Operational savings are estimated to be \$1.8 million and will be required in future years as business returns to the new normal.

6. Additional COVID-19 related expenditures

The City is currently projecting \$1.5 million in additional, unplanned expenses for responding to the COVID emergency. These costs include additional cleaning and sanitizing supplies, personal protective equipment for frontline staff, and information technology solutions for a digital workforce. Specifically for the Guelph-Wellington Paramedic Services, the City received correspondence from the Ministry of Health and Long-term Care requesting a forecast of COVID-19 related expenses. The City provided an estimate of \$714 thousand with anticipation of additional funding for these costs. It is unknown at this time if the City will receive funding from the Province for these increased costs.

Other Considerations

County Provided Social Services

- At the time of writing, the County had not provided estimates of the full impact of COVID-19 costs to the City. The Province has provided enhanced funding for these programs due to the pandemic including funding for emergency benefits as a one-time payment to Ontario Works recipients. Funding has also been provided to support additional resources required to help prevent the spread of the virus amongst those experiencing or at risk of experiencing homelessness and others who require social services supports including community housing, people with low incomes and social services recipients. There is a risk of

increased costs for the City-portion of these services if the pandemic closures are prolonged and as the province enters into a recession.

Wellington-Dufferin-Guelph Public Health

- As the Public Health Unit is at the frontlines of fighting the pandemic, it is expected that costs will increase, but there is expectation that the Province will provide emergency funding because of these pressures.

Corporate Variance Risks

Looking ahead beyond COVID-19, the City remains to have business-driven variance pressures from the lasting effects of COVID-19 or other external factors.

- Winter control costs are currently trending over budget. Depending on the number of winter weather events in November/December 2020, a transfer from reserve may be required to offset this shortfall.
- There is concern that the University will continue virtual classes through the fall semester because of the COVID-19 pandemic. If this occurs, transit revenues will be further negatively impacted by an additional \$3.5 million.
- Information within the report will change significantly if the guidance from Public Health or the Province of Ontario changes due to COVID-19.
- How consumers react to the new normal as the government gradually reopens the economy may further impact the overall financial picture of the City.

A Long-term Road to Recovery

While there will be operating deficits in the current year, Council should start to consider the longer-term financial recovery journey, looking beyond the “Reactionary” period as the economy enters a recession. In a recent webinar by KPMG LLP, they describe the financial future four-phases:

- Reaction – respond to the crisis
- Resilience – manage through uncertainty
- Recovery – identify new opportunities
- New Reality – adapt to a new world

As a City, we are moving into the “Resiliency” period where strategy and evaluation become critical with much uncertainty. The business landscape that we have known and operated within is changing, and we need to manage our diverse organization through this evolving environment with an eye on financial sustainability and resiliency.

As an example of a longer-term impact, the recession may lead to capacity in the commercial real estate market as businesses downsize due to the economic market realities. Assessed value of these businesses and properties will naturally follow as the Municipal Property Assessment Corporation uses these factors in determining property value for taxation purposes. This may cause taxation shifts to residential properties because of the lowered commercial values creating significant limitations for future budgets. A work-from-home culture across the province may change transportation patterns (including the use of parking structures and transit services) and facility space requirements further reducing the need for industrial and commercial space. The City relies heavily on growth revenues to fund the

expansion of our services to a growing population and plans will need to be adjusted to reflect slowed growth experience.

There is an opportunity to leverage the great work of the City's Strategic Plan to prioritize recovery efforts and stimulus programming with very deliberate outcomes that will keep the City focused on delivering to be Future Ready. The City cannot afford to be everything to all people and businesses; other governments and associations also have their role. Staff are actively planning for the future and starting to consider the three-year budget implications that may unfold from this emergency. An updated multi-year budget planning report will be forthcoming to Council in June 2020, followed by a joint workshop on the City Strategic Plan and Multi-year budget

Financial Implications

Forecasting these financial impacts to year-end, the City will likely experience deficits in both the tax supported and non-tax supported budgets. It is difficult to forecast these deficits at this early stage, however they are expected to be in the range of \$2 to \$4 million for each of the tax supported and non-tax supported budgets. The City's contingency reserves are sufficient to mitigate through deficits in this range, however, wherever possible, continued actions to reduce these losses to protect the City's long-term sustainability is recommended.

The year-end operating position is important in determining the City's overall fitness as assessed by an external credit rating agency. This credit rating affects the price in which the City can issue debt and therefore impacts the affordability of long-term capital projects for the City tax and rate payers.

Consultations

Departments are responsible for managing their programs according to municipal standards and within the approved budget. The responsibility of monitoring the operating budget is shared by the operating departments and the Finance department. Department managers were provided financial reports based on their actual revenue and expenditures to March 31, 2020 with which they provided commentary in consultation with the Finance department.

Strategic Plan Alignment

Reporting quarterly on the operating variance along with a year-end forecast supports the Strategic Plan's Working Together for our Future pillar through maintaining a fiscally responsible local government.

Departmental Approval

Karen Newland, Manager Finance Client Services

Report Author

Ron Maeresera, Senior Corporate Analyst

This report was approved by:

Tara Baker
General Manager Finance/City Treasurer
Corporate Services
519-822-1260 extension 2084
tara.baker@guelph.ca

This report was recommended by:

Trevor Lee
Deputy Chief Administrative Officer
Corporate Services
519-822-1260 extension 2281
trevor.lee@guelph.ca