

From: Stan Karwowski
Director, Finance & Treasurer

Subject: Financial Update on the Impact of COVID-19

Recommendation:

1. That Report FIN 05-20 of the Director, Finance & Treasurer entitled "Financial Update on the Impact of COVID-19" be received for information;
 2. That the Director, Finance & Treasurer be authorized to create a COVID-19 Community Grant based on the principle of providing financial assistance to those groups who are supporting Pickering's vulnerable during the COVID-19 pandemic;
 3. That the COVID-19 Community Grants program be funded by a transfer from the Rate Stabilization Reserve in the amount of \$100,000;
 4. That local grant recipients funded from 2020 Budget retain their funding provided it is used for its intended purpose or to ensure the organization's business continuity;
 5. That the City Centre project be paused due to economic uncertainty as a result of the COVID-19 pandemic until the Fall of 2020; and
 6. That the appropriate City of Pickering officials be authorized to take the necessary actions as indicated in this report.
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Executive Summary: The COVID-19 pandemic presents the greatest financial challenge that individuals, families, businesses and municipalities have seen in generations. Paul Krugman (distinguished world economist) describes the current financial situation as putting the world's economy in a financial induced coma in order to save the patient. Unfortunately, there is no historical experience from which to draw upon, in order to guide economic or financial decision making in reviving the patient.

The high level financial review is based on the following assumptions:

- Lockdown and social distancing continues until June 30th.
- For the summer months, the City is transitioning to the "new normal".

- From September to December, the City continues to operate under the new normal that includes some degree of social distancing.
- Pickering receives 100 percent of its dividend from Elexicon.

The key outcome of the high level financial projection exercise is that it appears that the City will be at least in a breakeven financial position unless there are future unknown negative circumstances and or conditions that would impact the City. The most significant impact on City finances is related to a loss of revenues offset by savings in expenditures due to program cancellations and operational savings.

Over the last two weeks, the City has funded two community “asks” St. Paul’s on-the Hill (\$5,000) and Canada Sews – Durham Chapter (\$3,000). Recommendation two is establishing a budget of \$100,000 to meet the needs of the Pickering community by providing financial assistance to non-profit organizations who are helping Pickering residents through the COVID-19 pandemic.

Financial Implications: Under the direction of the Chief Administrative Officer, senior staff including library undertook a high level financial exercise based on the assumptions referenced above. The results of the financial exercise indicate that the City operations may generate a small surplus in the range of approximately \$100,000 to \$203,000. The surplus measured against the City’s total operating expenses (\$113.6 million) is 0.18 percent or less than 2/10’s of one percent. Presented below is a high level financial projection based on several assumptions that will probably change over time.

Estimated Financial Impact of COVID-19 Pandemic For Pickering - 2020			
	Projected Revenue Changes	Financial Projection	
1	Recreation Area	\$ 1,780,600	- \$ 1,968,100
2	Building Permits & App Fees	1,004,600	- 1,110,400
3	Penalty & Interest & Inv. Income	536,750	- 593,250
4	Business & Taxi Licenses	167,680	- 185,330
5	Other: Reduced Revenues	<u>1,076,800</u>	- <u>1,190,160</u>
6	Sub Total	\$ 4,566,430	\$ 5,047,240
	Projected Expenditure Changes	Financial Projection	
7	Personnel Expenses	\$ (2,301,900)	\$ (2,544,200)
8	Cost Containment Exercise	(608,800)	- (608,800)
9	General Equip & Supplies	(199,000)	- (220,000)
10	Program & Event Supplies	(176,710)	- (195,300)
11	Building Repairs & Mtce	(111,300)	- (123,000)
12	Fuel Savings	(63,750)	- (70,500)
13	Savings from Canada Day	(250,000)	- (250,000)
14	Other: General Reductions	<u>(1,058,510)</u>	- <u>(1,135,700)</u>
15	Sub Total	\$ (4,769,970)	\$ (5,147,500)
16	2020 Projection (Surplus)/Deficit	\$ <u>(203,540)</u>	- \$ <u>(100,260)</u>

The financial projection identifies financial changes on the 2020 operating Budget arising from the various COVID-19 impacts. The above analysis is based on the assumption that social distancing and self-isolation practices will continue until June 30th. For the summer months, it is assumed that Ontario is transitioning to a new normal that includes to some degree a level of social distancing until a vaccine is developed.

Current literature indicates that the world economy will be operating under the “new normal” until a vaccine is developed. The projected timeline for the development of a vaccine is 12 to 18 months. After the vaccine is developed, it will probably be distributed to our “hero” front line health workers and to vulnerable Canadians. Therefore, the vaccine would probably be distributed to the general public within 24 months. Therefore, it appears that we won’t return to the “old or regular normal” until after two years.

COVID-19 Financial Explanation of Key Projections:

1. The closure of recreation facilities has resulted in significant lost revenues. The lost revenues are a result of immediate closures, cancellation of spring classes, smaller level of summer programs and anticipated reduced revenues for the rest of the year as customer behavior gradually returns to the new normal.
2. It is projected that there will be a decrease in construction activity resulting in a lower revenue projection for building permits. Home sales recorded over Canadian MLS® Systems dropped by 14.3 percent in March 2020 compared to February, as the economic turmoil and physical distancing rules surrounding the COVID-19 pandemic caused both buyers and sellers to increasingly retreat to the sidelines over the second half of the month. Transactions were down on a month to month basis in the vast majority of local markets in March. The GTA area experienced a sales decline of 20.8 percent. If the economic rebound follows a “U” shape, there is a strong probability that the forecast building permit revenue reduction may be higher.
3. The two month relief on the application of penalty and interest on property taxes will reduce the City’s revenue from this fee. However, there is the potential that future tax payments from residents may be paid later than usual that would reduce this revenue loss. Investment income is projected to decrease due to: extended timeline for second due date and tax payers opting out of the Pre-Authorized Payment Plan has reduced cash flow resulting in a loss of investment income. On March 4th, the Bank of Canada lowered its target interest by 50 basis points and again on March 27 with another 50 basis points reduction. These interest rate reductions will have an impact on the City’s investment income.
4. Other revenue reductions include various accounts such as lower projected photocopier income for the library (\$17,000) and reduction in various property tax fees including property tax certificates (\$40,000).
5. Reduction in personnel costs is due to: staff salary savings because of cancelled recreation programs, reduced hiring of summer students and delayed hiring of the majority of new staff approved in the 2020 Budget. The Council approved Budget included funding for 18 new positions and staff have now postponed the hiring of most of these new positions except for Fire (3); mechanic and By-law.
6. The CAO directed staff to undertake a cost containment exercise focusing on the following three accounts: consulting, conferences and education and training. The financial results of this exercise are presented below:

CAO Cost Containment Exercise		
Gross Consulting Reductions	\$ 1,003,680	
Less:		
Cost Recovery/Reserves Funding	<u>(529,580)</u>	
Taxpayer Consulting Funded Reductions		\$ 474,100
Education & Training		101,700
Conferences		<u>33,000</u>
Total Savings		<u>\$ 608,800</u>

Some of the City's consulting projects are funded from reserves or are recovered from third party funding. This financial exercise is focused on the net bottom line taxpayer funded position and that is why the net consulting figure is used in the total savings amount.

Without these savings, the City would have been projecting a deficit position. For professional staff there is a requirement to complete "X" hours of verifiable and documented education to maintain their professional designation. However, it should be noted that the education and training account was still reduced by 26.25 percent. Where possible, staff will be encouraged to undertake web based training to save on travel costs that will in-turn meet possible future social distancing requirements. The City staff conferences budget was reduced by almost 40 percent and there are probably further reductions as conferences planned for this year are cancelled due to the pandemic.

7. Other cost savings includes various accounts such as printing (\$63,000) and office supplies (\$10,450).

Discussion: Council approves an annual Budget with a four year capital forecast as part of its plan to align service delivery with community expectations, manage growth and finance community priorities. In a time of a global pandemic, plans change so that public health and critical services are prioritized. As the City manages through the pandemic, program and related financial changes will occur throughout the year based on local, national and global health and economic events.

It is in this context that the following recommendations were developed and or required.

Recommendation 2

Over the last two weeks, the City has funded two financial requests from non-profit organizations that are helping Pickering residents through the pandemic. These requests demonstrate that there is need in the community to provide additional funding to these various groups so that they can continue to assist those in need.

Staff envision that these COVID-19 community grant requests will come through directly or indirectly with staff working with various groups or through “word of mouth”. It should be recognized that unlike the City’s formal grant process whereby user groups have to complete a detailed application form, these grant requests will be based on the applicant providing a written description of the identifiable need and how City the funds will be used to address the need. In some situations such as the for the local food bank, it may be necessary for the City to provide more than one grant. Before the grant is provided, staff will make “best efforts” to discuss the grant “ask” with Members of Council who may be familiar with the good works of the asking organization.

Recommendation 4

Many of the City’s funded community groups are considering postponing or cancelling their events due to the COVID-19 pandemic. However, it should be recognized that these groups may still have expenses and commitments that could threaten their ability to continue operations. In addition, these organizations may be seeing a decrease in corporate sponsorship funding due to the pandemic. Therefore, this recommendation allows these important local groups to use already **Council approved and received** City funds to maintain operations and to meet their financial obligations. When these groups apply for 2021 funding, they will be asked to provide written documentation as to how they used their 2020 funds if they were used in alternative means. If the funds were not used in 2020, then their grant request may be reduced as part of their 2021 grant request.

Recommendation 5 – The Qualitative Factors to Consider for a City Centre “Pause”

In the early days of the COVID-19 pandemic, Bay Street was banking on a brief idling of the economy. The “Bay Street” thinking that the shutdown would be long enough to conquer the virus after which everything would quickly return back to the “old normal”. Unfortunately, the prospects of a “V shaped” recovery have all but evaporated.

The current scope of the lockdown now rules out more optimistic forecasts and Bay Street consensus is that we are now looking at a “U shaped” recovery. Under this scenario, businesses and social restrictions drag into the summer and late fall and the recouping of Canada’s lost economic output gets pushed into the future. How far into the future depends upon on consumer and business confidence. Businesses need to feel confident in order to invest and or spend. For the consumer, the perceived threat of a layoff or reduced hours will affect their spending decisions.

Another factor to consider is the impact of COVID-19 on the supply chain used in the construction industry. While the labour component is local or regional, it is not known what impact the pandemic and corresponding lockdown has had on the construction industry suppliers. Unfortunately, there is a possibility that key construction suppliers are no longer able to provide components and/or their foreign supplier is no longer able to provide critical subcomponents that they require.

All of this uncertainty dictates that it would be prudent to financially pause the project until we are more certain of the direction of the economy and the availability of the construction supply industry to meet demand. In addition, it is assumed that the project's economics may need to be recalculated and or reviewed by our private sector partner due to the COVID-19 pandemic and they may welcome the use of this time to review the project economic fundamentals based on the new economic reality and its impact on the business cycle.

The other factor to consider is the impact of the COVID-19 on the opening and operation of the Pickering Casino. The City is fortunate, that sometime this year, the casino will open. The casino may or may not be operating under a social distancing rules that in-turn may mean a reduction in the number of gaming positions or the number or individuals allowed into the building. The City Centre project is based on the City receiving \$10.0 million per year from casino revenues. If Council adopts Recommendation 5, the uncertainty regarding casino operations and the corresponding economic fog may be partially resolved.

It should be noted that staff are **not recommending** that the City Centre project be cancelled or deferred, instead staff are recommending that the project be "paused" for a few months until some of the concerns or unknowns identified above are resolved.

2020 Capital Program

The COVID-19 pandemic is expected to cause some delays for the delivery of the City's 2020 capital program as a consequence of adjustments associated with alternate work arrangements, such as working from home, for projects that require a high degree of collaboration between City staff and its external consultants. Social distancing and other best practices to be adopted by contractors are also changing construction methods and introducing delays. In some cases, contractors are experiencing employee shortages with crews having to self-isolate and mobilize off a construction site. Over recent decades, supply chains have globalized, specialized and become leaner or just-in-time, making them more susceptible to supplier chain disruptions and delays due to the COVID-19 pandemic.

City staff have conducted a review of its 2020 Capital program and have identified \$12.3 million in capital projects and expenditures that will probably be delayed and carried over into 2021 due to the current and anticipated challenges caused by the COVID-19 pandemic. The attached listing of delayed 2020 Capital projects is based on the assumptions referenced earlier in this report that were used for this high level financial projection exercise. As more information becomes available, staff may be able to complete some of these capital projects in 2020 or there may be further delays causing additional 2020 projects to be carried over to 2021 due to the COVID-19 pandemic.

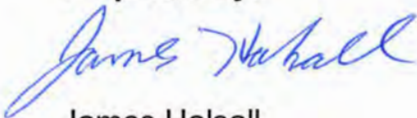
Next Steps

In the fall, it is staff's intent to provide Council with a report based on Actuals vs Budget that includes a financial projection for the remainder of the year. The structure of this report is based on several months of actual financial data that will develop the year-end financial projection. The current general assumptions used in this report could drastically change in the next few weeks and that is why the fall financial report will have a greater significance.

Attachments:

1. Delayed 2020 Capital Projects

Prepared By:



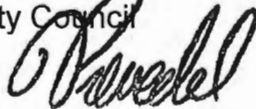
James Halsall
Manager, Budgets & Internal Audit

Approved/Endorsed By:



Stan Karwowski
Director, Finance & Treasurer

Recommended for the consideration
of Pickering City Council



Tony Prevedel, P.Eng.
Chief Administrative Officer

**City of Pickering
Delayed 2020 Capital Projects
Due to COVID-19 Pandemic**

Account #	Project Name	Amount
<u>Information Technology</u>		
5206.2002	City Network Upgrades	\$ 89,000
5206.2001	Fire Services Mobile Devices	36,000
<u>Animal Services</u>		
5219.2002	Cargo Van - Replacement	45,000
<u>Property Maintenance</u>		
5311.2004	Sidewalk Plow with Attachments - New (Seaton)	175,000
5311.2003	Wide Area Mower Replacement	155,000
<u>Roads Equipment</u>		
5319.2009	Tractor with Attachments - Replacement	170,000
<u>Development Projects</u>		
5321.2002	Highway 401 Road Crossing Design	2,000,000
5321.2004	Highway 401 Road Crossing - Land Acquisition	5,000,000
<u>Streetlights & Signalization</u>		
5325.2004	Accessible Pedestrian Signals - 4 locations	360,400
<u>Fire Services</u>		
5340.2003	Fire Pumper Rescue Replacement	1,000,000
<u>Building Services</u>		
5612.2001	E-Permitting Software - Phase 1	500,000
5612.2002	Building Services Vehicle - New	52,000
<u>Community Centres</u>		
5719.2010	Pickering Heritage Community Centre Project Management	450,000
5719.2005	3/4 Ton Van Replacement	45,000
5719.2009	George Ashe Library & Community Centre HVAC Rebalancing	20,000
<u>Seaton Community Centre</u>		
5720.2001	- Preliminary Planning & Investigations	80,000
<u>Recreation Complex - Core</u>		
5731.2004	Tennis Court Flooring Replacement - Construction	1,200,000
5731.2007	Tennis Court Repainting	80,000
<u>Recreation Complex - Arena</u>		
5735.2004	Sealant Replacement	85,000
<u>Museum</u>		
5744.2010	Harvey House Restoration - Design	30,000
<u>Parks</u>		
5780.2006	Diana, Princess of Wales Park - Pathway Construction	300,000
5780.2019	Dunmoore Park Tennis Courts Reconstruction	300,000
5780.2007	South Pine Creek Ravine - Pathway Reconstruction	150,000
<u>Library</u>		
5800.2007	Utility Van - Replacement	45,000
TOTAL		<u><u>\$ 12,322,400</u></u>