



Covid19 Financial Impact Report – April Update

www.kitchener.ca

Date: April 2, 2020
To: Mayor & Council
From: Jonathan Lautenbach, Chief Financial Officer
Subject: COVID-19 Initial Financial Impacts: April Update

Executive Summary

The COVID-19 pandemic is an unprecedented global event. In addition to the immediate health concerns that it represents for Canada and the world, it already has, and is expected to continue to have, wide-reaching economic impacts. We know that the spread of Covid-19 is creating financial challenges for many people and businesses in our community. As a City, we are also experiencing these challenges.

The closure of our facilities and cancellation of programs, events, and rentals is having a significant impact on the people we serve while also leading to a significant loss in revenue for the City. When combined with a number of unplanned expenses we have incurred in order to respond effectively to this unprecedented local emergency, we are already projecting the City will incur a deficit this year.

Based on an initial review of financial impacts related to this event, it is anticipated that the City will incur a \$4.4 million deficit in 2020 related to tax-supported operations, and a \$1.1 million deficit related to enterprise operations. It is important to note that these are initial estimates that will likely increase over time based on the overall duration of the event and the response efforts that are required.

To begin to manage these deficits, the City has already taken mitigation measures including:

- a freeze on discretionary spending and new hiring
- redeployment of existing staff to support critical services
- prioritization of capital spending
- reducing overtime where possible
- closely monitoring cash flow throughout this emergency

The intent of this update is to highlight for Council the initial short- and long-term financial impacts this pandemic is expected to have on the City's financial position. A more detailed summary of these impacts is outlined further in this memo for awareness.

Summary Projections – Tax Supported Operations

An initial deficit of \$4.4M is projected for tax-supported operations. It is important to note that this is an initial projection based primarily on known impacts, where staff are able to confidently make projections for particular budget lines. As staff continue with further financial analysis related to this event, and depending on the duration of the event, it is expected that additional impacts will be identified which will increase the overall projected deficit.

Division	Budget Line	Variance
Bylaw	Bylaw Fines	(\$350,000)
Neighbourhood Programs & Sport	Recreation Revenues	(\$1,975,000)
Legislative Services	Licensing Revenue	(\$250,000)
Facilities Management	Utility Savings	\$264,000
General Expenses	Covid19 Tracked Costs	(\$356,000)
General Revenue	Investment Income	(\$750,000)
General Revenue	Penalty and Interest	(\$700,000)
Various	Other Items	(\$314,000)
Projected Deficit		(\$4,431,000)

The City has a number of rate stabilization reserves that have been established to mitigate unforeseen financial impacts and annual budget fluctuations related to City operations. The impact of the projected deficit on applicable rate stabilization reserves related to tax supported operations is shown below:

Reserves	Current Balance	Projected Balance
Tax Stabilization Reserve	\$4,483,898	\$802,450
Investment Stabilization Reserve	\$1,766,423	\$1,016,423

As the Covid19 event continues, it is expected that the projected deficit will continue to grow and rate stabilization reserves will be completely depleted. The City is losing \$2M in revenue each month as a result of closure to facilities and will need to look to cost mitigation measures to help reduce this overall financial impact.

This event not only represents a significant financial impact for the City in 2020 but will also add additional budget pressures in 2021.

Summary Projections – Enterprise Operations

A deficit of \$1.1M is projected for enterprises. Similar to projections provided related to tax-supported operations, projections for enterprises are initial projections based on known impacts. It is anticipated that as further analysis is completed, additional financial impacts will be identified that impact all enterprises and not just those identified below.

Enterprise	Budget Line	Variance
Golf	Golf Fees	(\$400,000)
Parking	Parking Revenue	(\$806,000)
Fleet	Fuel Prices	\$85,000
Projected Deficit		(\$1,121,000)

Enterprises each have their own rate stabilization reserves that can be used to mitigate annual budget fluctuations. The impact of the projected deficit on applicable enterprise rate stabilization reserves is shown below:

Reserves	Current Balance	Projected Balance
Golf Stabilization Reserve	(\$1,039,692)	(\$1,439,692)
Parking Stabilization Reserve	\$1,270,500	\$464,500

Further financial analysis will identify financial impacts related to this event for the following enterprises:

- Building
- Water
- Sanitary Sewer
- Storm Water
- Gas

Once these impacts are identified, they will be added to overall financial projections.

Key Financial Impacts – Tax Supported

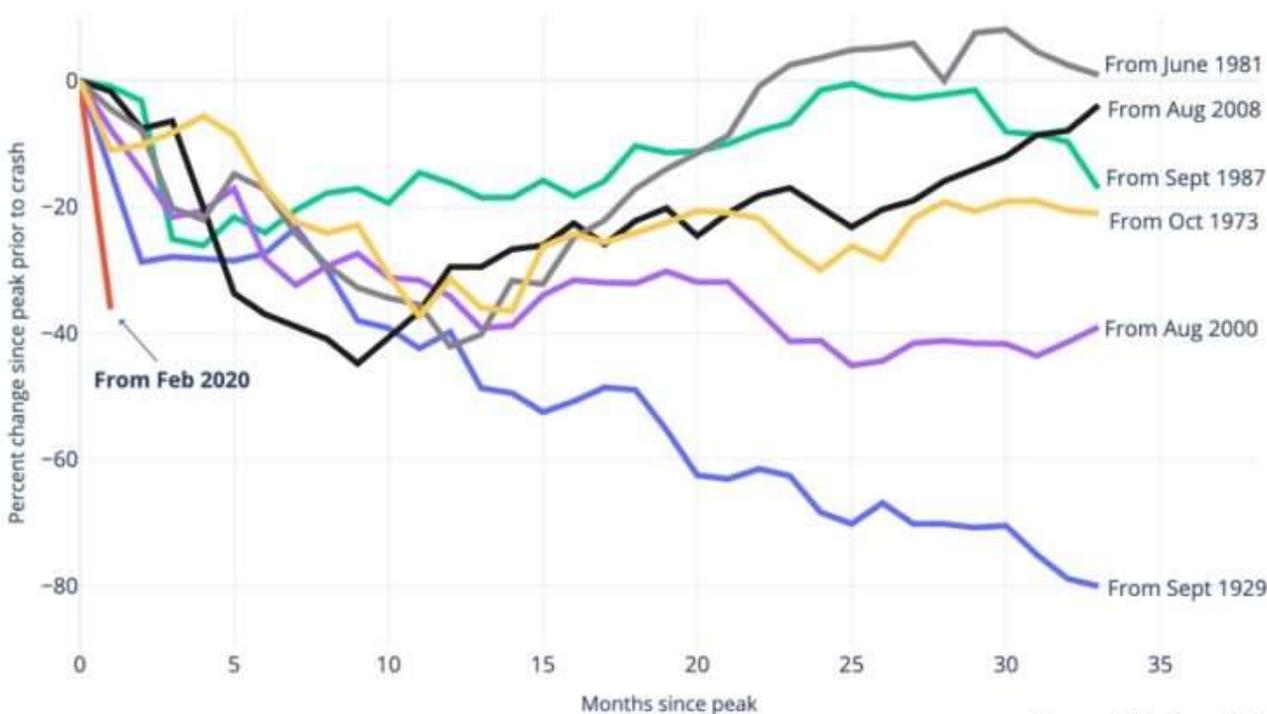
Bylaw	Bylaw Fines	-\$350,000	
<p>Bylaw enforcement has been reduced due to the COVID-19 pandemic. Staff continue to enforce any bylaws related to the health and safety of our residents and staff will respond to parking enforcement requests that are safety-related. Due to the reduction in enforcement, staff have estimated revenues for the second half of March and assumed 10% of budgeted revenues for April and May.</p> <p>Staff are also assuming there will be a time delay on defaulted fines from the province but still expect to get most of our regular revenues. The City will see an impact next year for the time period we were not issuing tickets this year in the form of lower defaulted fines.</p>			
Financial Risk	Low	Medium	High

Neighbourhood Programs & Sport	Recreation Revenues	-\$1,975,000	
<p>All City cultural and recreational facilities were closed to the public on March 16 and all March Break programming was cancelled. Staff have assumed no recreational revenue for any of the Neighbourhood Programs & Services and Sport facilities/activities from mid-March to the end of May. This is offset by a reduction in some expenses.</p>			
Financial Risk	Low	Medium	High

Legislated Services	Legislated Services Revenues	-\$250,000	
<p>With the shut down of all City facilities to the public as of March 18, staff have assumed no marriage license, business license, lottery license, or committee of adjustment fees from mid-March to the end of May.</p>			
Financial Risk	Low	Medium	High

Facilities Management	Utilities Savings	+\$264,000	
<p>All City cultural and recreational facilities were closed to the public on March 16. Further closure of all City facilities (e.g. City Hall) to the public followed quickly thereafter on March 18. Staff expect savings to various utility costs at each of the facilities due to reduced usage. Savings have been forecasted for mid-March to the end of May using the following assumptions:</p> <ul style="list-style-type: none"> • Community Centres: Water: 90%, Hydro: 20%, Gas: 10% • Arenas: Water: 90%, Hydro: 70%, Gas: 30% • Pools: Water: 70%, Hydro: 20%, Gas: 30% • City Hall: Water: 50%, Hydro: 20%, Gas: 10% 			
Financial Risk	Low	Medium	High

General Expense	COVID Tracked Costs	- \$356,448	
<p>A number of corporate costs related to COVID-19 have been tracked separately for reporting purposes. Examples of the costs include:</p> <ul style="list-style-type: none"> • Purchases of personal protective equipment and other health & safety supplies • Additional digital workspace licenses to accommodate a higher number of staff working from home • Other direct costs <p>The current variance figure includes all costs up to March 26, less \$175,000 of savings projected corporate-wide for training & conferences (assumed ¼ of budget would be unspent).</p>			
Financial Risk	Low	Medium	High

General Revenue	Investment Income	- \$750,000
<p>The Canadian financial market impacts of COVID-19 are more abrupt than anything ever felt before. The graph below from a March 19 Macleans article shows a steeper decline in the TSX index compared to other financial crises of the past 100 years.</p> <p>Covid-19 crash versus past TSX routs</p>  <p>Source: TMX, Jason Kirby</p> <p>Amidst significant economic uncertainty the Bank of Canada reduced the key interest rate on March 4th and provided a further emergency rate reduction March 13th. The timing of the initial rate reduction was expected but a 0.50% reduction as opposed to a 0.25% reduction caught financial experts/analysts by surprise. A further emergency rate reduction of 0.50% is a cause for concern and reflects the seriousness of this financial crisis. With travel bans, supply chain</p>		



Covid19 Financial Impact Report – April Update

issues, and significant reduction in equity, the overall concern is the ability of companies to remain as a going concern.

In terms of the City’s investments, staff took some proactive measures the same day that rate reductions were announced. This included shifting and locking in approximately \$75M at higher rates before banks lowered the rates that they were offering. On March 5th the City’s overnight bank rate dropped from 2.40% to 1.90%. This was further reduced from 1.90% to 1.40% on March 13th. And on March 26th, the overnight bank rate was reduced a further 0.50% from 1.40% to 0.90%

A 1% reduction to rates represents a \$1.6M reduction investment income compared to 2019. Assuming that there are no additional rate reductions on the horizon, this will result in a \$750k negative variance related to investment income for 2020. The City currently has \$1.7M in the investment rate stabilization reserve that will be needed to offset some of these impacts.

Financial Risk	Low	Medium	High
-----------------------	------------	---------------	-------------

General Revenue	Penalties & Interest	-\$700,000	
As part report DSD-20-064 (Financial & Economic Supports for Residents and Businesses), Council approved: That the City provide support to residents and businesses for 60 days by:			
<ul style="list-style-type: none"> a) Waiving penalties and interest on property taxes for the months of April and May 2020; b) Waiving late payment charges on utility bills and miscellaneous receivable invoices for the months of April and May 2020; c) Suspending utility disconnection and collection activities until May 31, 2020; and, d) Waiving Non Sufficient Fund (NSF) fees charged by the City on customer accounts for the months of April and May 2020. 			
The staff report identifies an estimated financial impact of \$700,000.			
Financial Risk	Low	Medium	High

Potential 2020 Issues Being Tracked

- Fire Overtime – could be an increase in OT with potential exposure to COVID
- Tax Writeoffs – could be an increase if citizens/businesses have economic hardships
- Part-time seasonal staff – could be significant savings if PT staff aren’t hired
- Interest on reserves – decreasing interest rates will reduce interest paid to reserves

Potential 2021 Issues

- OMERS – if OMERS pension plan returns decline, they may raise their 2021 contribution rates for employers like the City of Kitchener
- Bylaw Fines – less bylaw tickets in 2020 will likely mean less defaulted fines, which typically would be paid when people renew licenses revenue in 2021
- Investment Income – the City has locked in many 1-year investments which will mature in early 2021. The rates of return in 2021 will likely be lower than they were when the investments were made in early 2020.

Key Financial Impacts: Enterprises

Golf			-\$400,000
<p>Given current behavioural measures (social distancing, self-isolation, and quarantine) staff have assumed golf courses will remain closed until the end of May instead of opening in mid to late April.</p>			
Financial Risk	Low	Medium	High

Parking			-\$806,000
<p>As part report DSD-20-064 (Financial & Economic Supports for Residents and Businesses), Council approved:</p> <ul style="list-style-type: none"> • That the Director of Transportation Planning be authorized to provide refunds to all parking customers of the City’s parking garages and lots, for the period of March 16th to April 6th; • That the City’s Parking Enterprise permit customers to temporarily suspend their accounts, without penalty or loss of their parking space, until a time determined by the City’s Director of Transportation Planning; <p>The report further notes that there will likely be additional impacts to parking revenues and that Parking staff will monitor and update projections. The projected variance includes the monthly refunds for the period of March 16-April 6 as well as estimated hourly impacts for mid-March to the end of May.</p>			
Financial Risk	Low	Medium	High

Potential 2020 Issues Being Tracked

- Building – uncertain of impact on development activity
- Water – revenue impact from business closures & increased residential water use
- Sanitary – revenue impact from business closures & increased residential water use
- Storm – expected savings from deferred maintenance
- Gas – expected savings from deferred maintenance
- Fleet – savings from decreased fuel pricing & consumption