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**Date:** May 4, 2020  
**To:** Mayor & Council  
**From:** Jonathan Lautenbach, Chief Financial Officer  
**Subject:** COVID-19 Financial Impacts: May 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.

Initial financial impacts were shared as part of the April update, highlighting that the City was projecting a \$4.4 million deficit in 2020 related to tax-supported operations. It was noted in that update that the projected deficit would likely increase depending on the overall duration of the event and the response effort that was needed. This increase is still a possibility, but so far **through cost mitigation measures introduced to date, the City has been able to keep the deficit in check**, projecting a \$3.9 million deficit at this time.

In the previous update, the significant loss of recreation revenue due to closure of facilities and cancellation of programs and events was identified as the main driver of the tax-supported deficit. This continues to be the case, with recreation facilities now expected to be closed until June 30<sup>th</sup> and reduced revenue expected over the summer months and into the fall. Based on this anticipated timeline, the City is projecting that it will lose approximately \$4.5 million in recreation revenue this year.

In an effort to mitigate this significant loss of revenue, the City made the difficult decision to place 842 temporary and casual part-time staff on declared emergency leave. Many of these positions are directly tied to recreation programs that the City delivers for residents. As a result of this decision, along with the introduction of other cost mitigation measures, the City has been able to reduce the overall financial impact and projected deficit.

In addition to the financial pressures that the City is facing related to its tax-supported operations, there are three enterprises that are currently projecting a deficit in 2020:

- Building - \$446K
- Golf - \$400K
- Parking - \$1.1M

Each enterprise is considered a self-sustaining business and has its own rate stabilization reserve that will be utilized where possible to cover any projected deficit. For some enterprises, it may be challenging to return to a positive position in the near term, and new strategies may need to be considered to support these enterprises.

## Summary Projections – Tax Supported Operations

A deficit of \$3.9M is projected for tax-supported operations. It is important to note that as further decisions are made related to the COVID-19 pandemic response, the deficit could increase over time.

Division	Budget Line	Variance
Bylaw	Bylaw Fines	(\$350,000)
Neighbourhood Programs & Sport	Recreation Revenues	(\$4,525,000)
Legislative Services	Licensing Revenue	(\$250,000)
Economic Development	Special Events & Market	(232,000)
Facilities Management	Utility Savings	\$385,000
General Expenses	Covid19 Tracked Costs	(\$125,500)
General Expenses	Staff Savings	2,500,000
General Revenue	Investment Income	(\$750,000)
General Revenue	Penalty and Interest	(\$700,000)
Various	Other Items	\$171,000
<b>Projected Deficit</b>		<b>(\$3,876,500)</b>

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	\$1,357,398
Investment Stabilization Reserve	\$1,766,423	\$1,016,423

As the COVID-19 event continues, the City will look to cost mitigation measures in an attempt keep the overall projected deficit within the existing limits of the stabilization reserves. This may prove challenging and highlights the need for other levels of government to provide financial assistance to municipalities so that critical services are not impacted.

## Summary Projections – Enterprise Operations

There are three Enterprise Operations that are currently projecting deficits; Building, Golf, and Parking as indicated below:

Enterprise	Budget Line	Variance
Building	Building Revenue	(\$446,000)
Golf	Golf Revenue	(\$400,000)
Parking	Parking Revenue	(\$1,160,000)
Fleet	Fuel Prices	\$102,000
<b>Projected Deficit</b>		<b>(\$1,904,000)</b>

The Parking Enterprise has been the most impacted so far, experiencing a significant drop in revenue due to the temporary closure of businesses and necessary social distancing measures which have limited travel across the City. It is anticipated that this projected deficit will continue to grow even as restrictions start to be lifted over the coming months.

Each enterprise has their own rate stabilization reserves that are intended to be used to mitigate annual budget fluctuations. The impact of the projected deficits on applicable enterprise rate stabilization reserves is shown below:

Reserves	Current Balance	Projected Balance
Building Stabilization Reserve	\$12,377,137	\$11,931,137
Golf Stabilization Reserve	(\$1,039,692)	(\$1,439,692)
Parking Stabilization Reserve	\$1,270,500	\$110,139

Financial analysis is still underway to determine the financial impacts for the following enterprises:

- Water
- Sanitary Sewer
- Storm Water
- Gas

It is anticipated that these impacts will be identified and included as part of the next update report.

## 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 only be responding to parking enforcement requests that are safety-related. Staff have used actual information up to the end of March and then assumed 10% of budgeted revenues for April and May, and partial revenues for June due to the reduction in enforcement.</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.</p>			
<b>Financial Impact</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>

Neighbourhood Programs & Sport	Recreation Revenues	-\$4,525,000	
<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 &amp; Services and Sport facilities/activities from mid-March to the end of June. As well, reduced revenues are projected for Sport (40% reduction for July-August, 25% reduction for September-December) and NP&amp;S (25% reduction for July-December). This is somewhat offset by a reduction in some of the expense GL's.</p>			
<b>Financial Impact</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>

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>			
<b>Financial Impact</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>

Economic Development	Special Events & Market	-\$232,000	
<p>All City cultural and recreational facilities were closed to the public on March 16, and all public events were cancelled. Staff have assumed no revenues for Special Events and the Market any of the Neighbourhood Programs &amp; Services and Sport facilities/activities from mid-March to the end of June.</p>			
<b>Financial Impact</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>

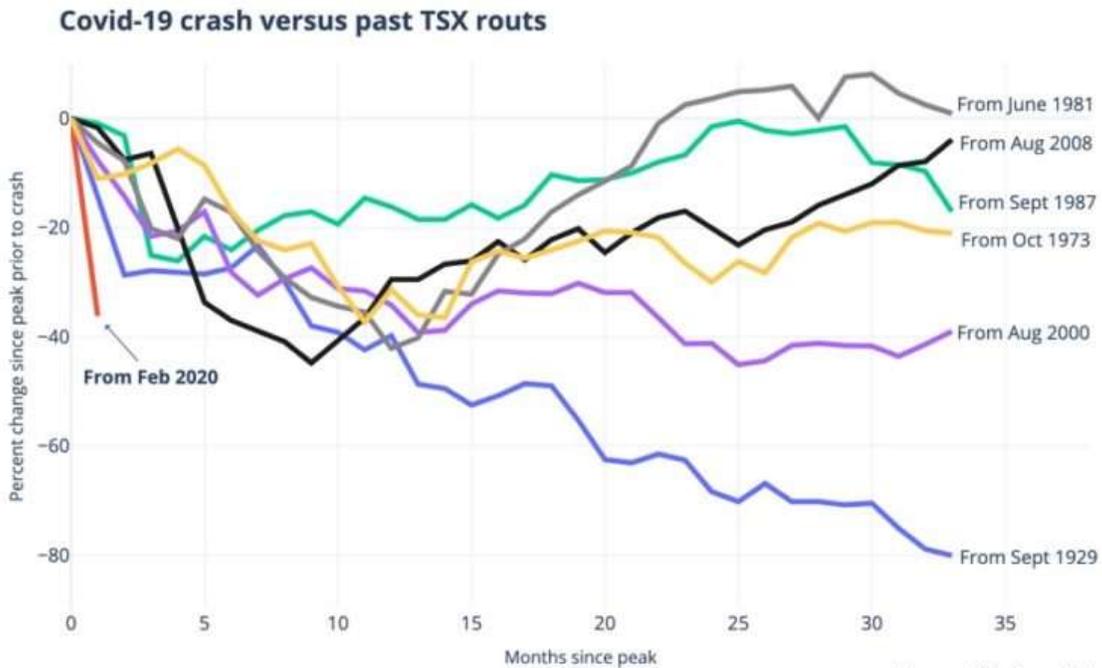
Facilities Management	Utilities Savings	+\$385,000	
<p>All City cultural and recreational facilities were closed to the public on March 16. Further closure of all City facilities (e.g. City Hall) to the public followed quickly thereafter on March 18. Staff expect savings to various utility costs at each of the facilities due to reduced usage. Savings have been forecasted for mid-March to the end of June using the following assumptions:</p> <ul style="list-style-type: none"> <li>• Community Centres: Water: 90%, Hydro: 20%, Gas: 10%</li> <li>• Arenas: Water: 90%, Hydro: 70%, Gas: 30%</li> <li>• Pools: Water: 70%, Hydro: 20%, Gas: 30%</li> <li>• City Hall: Water: 50%, Hydro: 20%, Gas: 10%</li> </ul>			
Financial Impact	Low	Medium	High

General Expense	COVID Tracked Costs	-\$125,500	
<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"> <li>• Purchases of personal protective equipment and other health &amp; safety supplies</li> <li>• Additional Citrix licenses for a higher number of staff working from home</li> </ul>			
Financial Impact	Low	Medium	High

General Expense	Staff Savings	+\$2,500,000	
<p>Effective April 13, a number of temporary, casual part-time, and 9000 series City employees were placed on a Declared Emergency Leave (DEL). On a normal day these staff would be found in arenas, pools and community centres, at the Kitchener Market or crosswalks across the city, delivering incredibly valued service to the community. With facility closures and program cancellations, these staff were unable to perform their regular duties, and were placed on DEL.</p> <p>The estimated savings of placing these staff of DEL is \$250,000/week x 10 weeks (mid-April until the end of June).</p>			
Financial Impact	Low	Medium	High

<b>General Revenue</b>	<b>Investment Income</b>	<b>-\$750,000</b>
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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.



Source: TMX, Jason Kirby

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 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 with another 0.50% rate reduction later in March. As of today the overnight bank rate is 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, 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.

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

### Potential 2020 Issues Being Tracked

- Fire Overtime – could be an increase in OT with potential exposure to COVID
- Tax Arrears – could see an increase if residents/businesses have economic hardships
- Interest on reserves – decreasing interest rates will reduce interest paid to reserves

### Potential 2021 Issues

- OMERS – if OMERS returns decline, 2021 contribution rates for the City may increase
- Bylaw Fines – less tickets in 2020 will mean less defaulted fine revenue in 2021
- Investment Income – City has locked up many investments through 2020, and may have decreased returns in 2021
- Development revenues in Planning & Engineering – expected that the slowdown of development in 2020 will have a ripple effect into 2021

## Key Financial Impacts: Enterprises

<b>Building</b>			<b>-\$446,000</b>
Based on measures already put in place by the Federal/Provincial governments and actuals up to the end of March, Building is projecting a 40% decrease in permit revenue from mid-March until the end of May. This could easily worsen if social distancing measures extend further into the year.			
<b>Financial Impact</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>

<b>Golf</b>			<b>-\$400,000</b>
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.			
<b>Financial Impact</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>

<b>Parking</b>			<b>-\$1,160,000</b>
As part report DSD-20-064 (Financial & Economic Supports for Residents and Businesses), Council approved: <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> </ul> 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: <ul style="list-style-type: none"> <li>• the monthly refunds for the period of March 16-April 6</li> <li>• estimated hourly impacts for mid-March to the end of May</li> <li>• estimated loss of revenue from suspended monthly permits for April-May</li> </ul>			
<b>Financial Impact</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>

<b>Fleet</b>			<b>+\$102,000</b>
Savings in costs related to fuel pricing.			
<b>Financial Impact</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>

## Summary of Changes

The following is a summary of major changes since the last update report

### Tax Supported Operations

<b>Projected Deficit – Tax Supported Operations (April Update)</b>	<b>(\$4,431,000)</b>
<b>Reduced recreation revenues - Neighbourhood Programs</b>	<b>(\$175,000)</b>
<b>Reduced recreation revenues – Sport</b>	<b>(\$2,375,000)</b>
<b>Staff related savings</b>	<b>\$2,500,000</b>
<b>Reduced market &amp; event revenue</b>	<b>(\$74,000)</b>
<b>Reduced utility consumption</b>	<b>\$142,000</b>
<b>Other cost mitigation measures</b>	<b>\$536,500</b>
<b>Projected Deficit – Tax Supported Operations (May Update)</b>	<b>(\$3,876,500)</b>

### Parking Enterprise

<b>Projected Deficit – Parking Enterprise (April Update)</b>	<b>(\$806,000)</b>
<b>Reduced monthly parking revenues</b>	<b>(\$354,000)</b>
<b>Projected Deficit – Parking Enterprise (May Update)</b>	<b>(\$1,160,000)</b>