
Subject: COVID-19 Financial Impacts Update

Report to: Regional Council

Report date: Thursday, August 13, 2020

Recommendations

1. That this report **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to provide an update on the potential financial impacts of the COVID-19 pandemic in the Niagara Region.
- Staff expect that a budget adjustment related to the changes in services, incremental cost and lost revenue associated with the COVID-19 emergency response will be required. Staff will bring back a proposed budget adjustment for Council approval when more clarity around funding sources and full cost is available.
- All financial implications quantified in this report include estimates up to December 31, 2020 unless otherwise noted. Estimates in this report are fluid and changing on a weekly basis as new information becomes available. Some items have not yet been quantified and this is outlined in the report.
- The Niagara Region's current estimate of the 2020 total gross cost of COVID-19 pandemic is \$50 million. Total regional gross cost (including all Local Area Municipalities, LAMS) is estimated at \$79 million.
- The Region's current estimate of 2020 net deficit as a result of the COVID-19 pandemic is \$5.2 million. Total regional net deficit (including LAMS) is estimated at \$13.1 million.
- The Region has received confirmed 2020 funding announcements of \$10.6 million in specific program areas. Additional funding announcements are expected but not confirmed.
- 2021 budget pressures exist as a result of ongoing COVID-19 measures. To date limited 2021 funding announcements from upper levels of government have occurred and our estimates only include confirmed funding sources. Should additional funding sources be received this would reduce the pressure identified.
- The 2021 projected net budget pressure identified to date is \$10.7 million or 2.74% for levy programs, \$0.1 million or 0.04% for water/wastewater programs, and \$0.1 million or 0.14% for waste management and will continue to be refined as new information is received.

Financial Considerations

Given the uncertainty around timelines and availability of funding sources, it still remains difficult to quantify the full impact of individual items as well as the overall long term impact to the Region. That being said, based on estimates at this time the pandemic will result in a 2020 operating deficit at year-end. Ongoing discussions continue with respect to opportunities for cost savings and mitigations as well engaging of Provincial and Federal governments for financial assistance. Staff will continue to provide monthly updates to Council and any action that may be required as more details become known.

It is important to note that this report only contains financial estimates of the pandemic and does not attempt to quantify other non-COVID related pressures that may exist. A more fulsome forecast considering all regional activities as of the second quarter is being prepared now and will be presented to Council in September.

As the pandemic progresses, the Region continues to identify strategies to fund any projected deficit. The following strategies have been identified in order of preference.

1. Continue pursuing Provincial and Federal government financial assistance. The provincial and federal governments have announced \$4 billion in funding but details on the allocation to Niagara have not yet been outlined.
2. Leverage the Taxpayer Relief Reserve and Rate Stabilization reserves.
3. Should the above be insufficient, use of other specific reserves could be recommended through the yearend transfer report.
4. Deficit could be funded in the 2021 budget. In light of existing known pressures for 2021 this is least desirable.

As of December 31, 2019 the Taxpayer Relief Reserve balance was \$23.8 million which is 4.2% of gross budgeted expenditures excluding agency boards and commissions (our minimum reserve target per the reserve policy is 10% of gross budgeted operating expenses or \$56 million at December 31, 2019). Should the Region draw approx. \$5.2 million from this reserve in 2020, it would be further depleted to \$18.8 million or 3.3% of gross budget. The depletion of this reserve to extremely low levels would eliminate the option of leveraging it to fund one-time pressures in the 2021 budget process. Funds in the reserve would need to be maintained to address unknown/unbudgeted risks in 2021 and beyond.

Analysis

Staff have been monitoring and assessing the potential financial impacts to the Region since the onset of the pandemic. A variety of operating expenditures and revenues are expected to be impacted. While it is still too early to fully understand and quantify all of the potential impacts, staff update projections as new information becomes available.

The information available and estimated to date has been summarized into the following key categories.

1. **Total Gross Cost:** This category represents all cost tracked and associated with the emergency response including costs that can be accommodated within our approved 2020 budget. It is important to note that while the Region does have an established base budget to support some of these expenditures, it is not what was originally contemplated in the base budget and may result in delays in work plans and/or backlogs after the emergency is complete.
2. **Total Net Cost:** This category considers confirmed funding sources that have been matched to eligible expenditures.
3. **Total Deficit/(Surplus):** This category removes the costs that can be supported by our approved base budget. It also considers strategic and other mitigations the Region has been able to identify and put in place to help manage the cost of the emergency.

The following is the current summary of the financial impacts. All estimates in the analysis have been made up to December 31, 2020 unless otherwise noted in Appendix 1.

Table 1: 2020 COVID-19 Financial Impact Summary

2020 Financial Impacts	Levy	Water/ Wastewater	Waste Management	Total
Total Gross Cost	\$ 48,522,151	\$ 1,193,699	\$ 225,743	\$ 49,941,593
Less: Confirmed Funding Matched to Expenses	(9,719,281)	-	-	(9,719,281)
Net Cost to Region	38,802,870	1,193,699	225,743	40,222,312
Less: Strategic and Other Mitigations	(12,882,242)	(726,164)	(160,064)	(13,768,470)
Less: Cost supported by our approved base budget	(21,049,095)	(173,871)	(49,378)	(21,272,344)
Net budget deficit/(surplus)	\$ 4,871,533	\$ 293,664	\$ 16,301	\$ 5,181,498

Further detail on the corporate assumptions and cost categories can be found in Appendix 1. Also a more detailed breakdown by operating department can be found in Appendix 2.

The Region has also been coordinating with local area municipalities to consolidate the full impact to Niagara residents. While all municipalities have been reporting to their Council using different estimates, assumptions and reporting schedules, we have been able to consolidate the information available into similar categories to provide big picture context on the total regional impact.

Table 2: Total Regional Impact

	Region & Local Area Municipalities
Total Gross Cost	\$ 78,562,193
Funding Received	(9,719,281)
Net Cost to Region	68,842,912
Accommodated in the Budget	(25,643,075)
Strategic and other Mitigations	(30,106,184)
Net Deficit	\$ 13,093,653

Since our previous report CSD 47-2020 on July 23rd information has been received and assumptions have been updated. The change between the July report and the current analysis is fairly insignificant. The main driver of change in the projected net deficit is a result of actual trends in the use of additional staff and overtime which is the basis for our projection to December 31.

In general the Niagara Region deficit reported continues to be driven by the following significant cost and saving items:

- **Niagara Regional Transit:** fare revenue reduction due to reduced ridership and cancellation of Niagara College on-campus spring/summer classes;
- **POA Court:** Reduced POA revenue due to lower ticket volumes and court closure, with some related expenditure savings offsets;

- **Public Health:** Increased staffing and overtime, supplies (including personal protective equipment and vaccination supplies) and cleaning costs; additional staff to support higher call volumes;
- **Paramedic Services:** Increased staffing, overtime, supplies (including personal protective equipment), and cleaning;
- **Housing:** Increased cleaning costs in common spaces; lower tenant income levels would result in higher rent subsidies at community housing units and lower rent payments at NRH units;
- **Homelessness programs:** Increased costs to support homelessness agencies, housing allowances and expenses relating to the rent, staffing, cleaning, personal protective equipment and food for a self-isolation center;
- **Seniors' Services:** Increased cleaning, staffing, security and personal protective equipment costs;
- **Niagara Regional Police Service:** Lost revenue from OLG payments through the City of Niagara Falls due to the closure of Casino operations. Staff are in ongoing discussions with the City of Niagara Falls to confirm funding that may be received if the Casino re-opens;
- **Technology Services:** Additional costs relating to increased licenses to ensure sufficient capacity for staff working remotely;
- **Labour related savings:** not filling non-essential vacant positions;
- **Fuel savings:** Short/medium term savings due to significant drop in world oil and local fuel prices;
- **Niagara Regional Transit/Niagara Specialized Transit savings:** reduction in daily service schedules resulting from decreased demand will result in significant savings;
- **Non-emergency maintenance work savings:** limiting work at NRH owned units to emergencies and move-outs; and

- **Operational savings:** reduced travel, meeting expenses, and conferences due to travel restrictions and cancelled events.

2020 Funding announcements

The Region has also received announcements of confirmed funding sources of \$10.6 million identified below. Amounts where eligibility criteria have been confirmed have been matched to expenses in the analysis above. There is a remaining \$0.9 million yet to be allocated to eligible 2020 expenditures and this funding is expected to support costs that occur in Q1 2021.

Table 3: 2020 Confirmed Funding Announcements

Description	Funding Agency	Amount
Community Homelessness Prevention Initiative *	Ministry of Municipal Affairs and Housing	\$ 2,408,100
Reaching Home Funding *	Employment and Social Development Canada	1,253,271
Community Response Fund	Canadian Medical Association Foundation	62,500
Childrens Services Fees Subsidy Funding Reallocation	Ministry of Education	925,978
Long-term Care Emergency Funding	Ministry of Long-term Care	1,394,100
Pandemic Pay **	Province of Ontario	4,580,269
		\$ 10,624,218

* Incremental funding to cover full fiscal year of April 1, 2020 to March 31, 2021
 ** Estimate to support pandemic payments from April 24 to August 13. Final amount to be determined based on actual

In addition to the confirmed funding announcements above, the Region is monitoring the following announcements. The timing and allocation to Niagara Region of these funding announcements is uncertain at this time.

- An additional \$9.2 million of provincial funding for continued prevention and containment of COVID-19 (for example, screening staff, additional staff, PPE) in long-term care homes. The total funding originally announced was \$88.3 million and \$34.8 million and \$44.3 million were allocated in May and June respectively.
- The federal-provincial governments will provide \$4 billion to Ontario municipalities to help fund a "safe restart" of the economy.
 - This funding announcement includes a \$777 million contribution from the federal government and \$1.22 billion from the Province. The provincial amount includes the previously announced \$350 million social services and \$100 million public health funding. This investment amounts to \$2 billion directly supporting municipalities and addressing operating shortfalls and relief related to COVID-19.
 - A funding deal for public transit was reached as part of the federal-provincial agreement. It was announced that up to \$2 billion will be

shared equally between the Province and federal government. This funding will assist transit operators address revenue losses and help maintain operations in a safe manner as the economy restarts and begins its recovery.

- An additional \$150 million of provincial funding through its Social Services Relief Fund to protect vulnerable people from COVID-19 by improving homeless shelters and creating opportunities for longer-term housing announced in June. This funding doubles the funding made available earlier in the year where Niagara received an allocation of \$2.4 million.
- An additional \$129 million in emergency capacity funding in long-term care homes. This funding is to be used to increase bed capacity and ease pressures in hospitals as they battle COVID-19.
- Re-instated minor capital funding program for long-term care homes. This funding was not anticipated for 2020 as the Ministry had signaled in would be ending the program. We now have an indication that it will be re-instating the program. This funding was not anticipated in our 2020 budget and therefore will help support the 2020 budget pressures in long-term care when received.
- Ontario Works expects to see increased funding to support an increase in subsidy claim payments to Ontario Works clients.
- The Province has indicated that it plans to work with municipal service managers to support Children's Services operations to minimize shortfalls.
- The Province has announced it plans to defer further reductions to the public health funding formula in 2021.
- The Province has issued a memorandum to Public Health saying they plan to help support incremental costs but no details provided yet.

2021 Budget Pressures & Long-term Considerations

On June 25, Council endorsed a budget planning strategy for 2021. This strategy includes identifying and quantifying separately all COVID-19 related budget considerations. Additionally Council expressed interest in being informed on a more regular basis of the other base service delivery pressures so that the COVID-19 and these pressures could be understood collectively. To that end as the budget process has now begun we will provide in this report each month a brief summary of the status of the consolidated operating budget inclusive of normal business costs as well as COVID-19 beginning with the September report.

The staff focus to date has been on the 2021 Capital Budget and Forecast and integrating the Asset Management Office Corporate Asset Management Resource Allocation (CAMRA) model to assist with the allocation of limited capital funds to the prioritized projects in accordance with the established Capital Financing Strategy. Projects in excess of \$700 million are being evaluated and the proposed program will be presented to Budget Review Committee on October 15 following a Capital Budget Workshop on October 1. The largest consideration for the 2021 budget is the South Niagara Falls Wastewater Treatment Facility and this project will be the subject of a separate report to Council in September.

Regarding the operating budgets, at this time staff have only begun efforts to identify and quantify the COVID-19 pressures. While there is still lots of work to be done on these items, at the time of this report staff have identified 2021 net budget pressures related to COVID-19 as \$10.9 million and is summarized by program area below. It is important to note that no new funding sources (outside of the homelessness program which has identified funding until the end of its fiscal year of March 31st 2021) have been identified from other levels of government. Should additional funding sources be received this would reduce the pressure identified.

Table 4: 2021 Net COVID-19 Related Budget Pressure by Department

2021 Financial Implications	Amount	Increase %
General Government & Corporate	TBD	TBD
Corporate Services	\$ 1,102,000	0.28%
Niagara Regional Housing	\$ 300,000	0.08%
Transportation	\$ 59,000	0.02%
Public Health		
Public Health	\$ 1,410,000	0.36%
Emergency Medical Services	\$ 688,000	0.18%
Community Services		
Seniors Services	\$ 5,921,000	1.51%
Social Assistance & Employment Opportunities	\$ 50,000	0.01%
Homelessness	\$ 1,210,000	0.31%
Levy Budget Pressure	\$ 10,740,000	2.74%
Water & Wastewater Services Pressure	\$ 55,000	0.04%
Waste Management Pressure	\$ 56,000	0.14%

Recognizing the levy is most impacted and to better understand the components, a summary of levy items by category is provided below. The most significant pressure relates to required incremental staffing in public health for five contact tracing resources and in long-term care homes for one additional housekeeping, registered nurse and personal support worker per shift per home per day. It is anticipated these resources

would be secured on a temporary basis until long-term clarity on sustainable funding is received.

Table 5: 2021 Levy COVID Related Budget Pressure by Category

	Amount	Increase %
Staffing	\$ 6,014,000	
Personal Protective Equipment	906,000	
Cleaning & Sanitation	1,710,000	
Shelter	1,902,000	
Agency Support	214,000	
Vaccination Program	900,000	
Total Gross Levy Cost	11,646,000	
Confirmed Funding	906,000	
Net Levy Cost	\$ 10,740,000	2.74%

The following items have been identified as potential impacts but have not yet been quantified. Staff will continue to monitor these items and work towards setting assumptions and quantifying impacts in future monthly updates.

- **Cost of borrowing:** a lower cost of borrowing for planned 2020 debenture issues would lower the amount of debt servicing costs required in the 2021 budget which can be used to offset the ongoing funding pressure of the infrastructure deficit;
- **Investment returns:** lower investment rate could impact interest income and interest allocations to reserves;
- **Property taxes:** the economic disruption could lead to a material increase in tax write-offs and lower supplementary taxes collected in year that would then result in lower net assessment growth for 2022;
- **Building Activity:** as construction activity has declined, this would also lead to a reduced level of development charge collections, potentially impacting the Region's ability to fund growth-related capital projects, and potentially a reduction in development charge grant costs. A slow down similar to last recession in 2008/2009 could result in building activity of approximately 25% equating to reduced development charges collected of approximately \$7 million this year;
- **Incremental staffing models for Seniors Services & Public Health:** the Region is expecting the Province to mandate changes in the way long-term care

homes are staffed and managed. Staff have started to quantify these resources it believes are needed to support current COVID-19 measures but many assumptions remain unknown. These will continue to be refined as we work to finalize the 2021 budget and get clarity on directives from the province;

- **Replacement pay related to increased vacation carry-over:** the Region is seeing higher vacation balances owed to staff and as result of business needs not all staff can take vacation as planned. Increased vacation carry-over into 2021 is expected and may result in increased replacement pay costs and/or reduced work capacity in the future when the time off is taken. Staff will continue to monitor vacation balances and should this be significant it would be considered in the 2021 budget;
- **Contract costs:** the Region has received request to support suppliers with their increased COVID-19 related costs. Each request would be reviewed in alignment with contractual obligations and only quantified if deemed a contractual obligation of the Region;
- **Rent revenue & additional support to housing providers:** the economic disruption could lead to reduced collections of rents in NRH and/or housing providers seeking additional support from NRH. NRH continues to monitor the impact of COVID-19 on NRH rent and arrears balances. To date, NRH has been able to manage any rent and arrears impacts within its budget;
- **Recycling end markets:** the economic disruption could lead to volatility in prices for the sale of recyclables in waste management; and
- **Provincial gas tax:** the economic disruption could impact Niagara Regions gas tax allocation in 2021 and 2022 if we experience a greater decrease in ridership relative to other municipalities or if the total provincial gas tax collected declines due to less gas purchases.

In addition to the items above, the Region and local area municipalities have been monitoring water and wastewater flow data. Reduction in water usage does not change the total water/wastewater budget, however it can put increased pressure on the volumetric rates used by both the Region and the local area municipalities or it could result in a shortfall in revenues. The current decline in water usage is generally driven by the business/commercial sector due to mandatory COVID-19 closures therefore the increase in rates would create a shift in the burden to the residential sector if business

closures continue into 2021. The need to incorporate changes in water volumes into the 2021 budget will be assessed in alignment with the economic recovery permitted by the Provincial reopening orders.

Alternatives Reviewed

Staff are working with both the area municipality treasurers within Niagara Region and with colleagues across the province (through the Ontario Regional and Single-Tier Treasurers group) to share ideas and strategies to respond to the financial and operational impacts of this pandemic.

Staff will also work with Standard and Poor's (who provide the Region's credit rating) on potential implications to the ratings of the municipal sector and across the country.

Relationship to Council Strategic Priorities

Supporting the COVID-19 emergency response directly supports Councils strategic priority of a Healthy and Vibrant Community.

Other Pertinent Reports

- CSD 30-2020 COVID-19 Preliminary Overview of Financial Impacts (April 23, 2020)
- CSD 31-2020 Concessions to Local Area Municipalities regarding Taxes and Water Wastewater Billings (April 23, 2020)
- CSD 34-2020 COVID Cash Flow Update (May 21, 2020)
- CSD 35-2020 COVID-19 Financial Impact Update (May 21, 2020)
- CSD 39-2020 COVID Cash Flow Update (June 25, 2020)
- CSD 40-2020 COVID-19 Financial Impact Update (June 25, 2020)
- CSD 46-2020 COVID Cash Flow Update (July 23, 2020)
- CSD 47-2020 COVID-19 Financial Impact Update (July 23, 2020)

Prepared by:

Melanie Steele, MBA CPA CA
Associate Director, Reporting & Analysis
Corporate Services

Recommended by:

Todd Harrison, CPA, CMA
Commissioner/Treasurer
Corporate Services

Submitted by:

Ron Tripp, P.Eng.
Acting Chief Administrative Officer

This report was prepared in consultation with regional departments and EOC members, and reviewed by Helen Chamberlain, Director, Financial Management & Planning/Deputy Treasurer.

Appendices

Appendix 1	COVID-19 2020 Financial Impact Summary
Appendix 2	COVID-19 2020 Financial Impact by Department