
Subject: COVID-19 Financial Impacts Update

Report to: Regional Council

Report date: Thursday, May 21, 2020

Recommendations

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

Key Facts

- The purpose of this report is to provide an update to CSD 30-2020 received on April 23, 2020 on the potential financial impacts of the COVID-19 pandemic in the Niagara Region.
- Staff continue to 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. At this time, full impacts are still unknown and staff will bring back a proposed budget adjustment for Council approval when more clarity around funding sources and full cost is available.
- Estimates and assumptions in this report are fluid and changing on a weekly basis as new information becomes available. All estimates have been made up to June 30, 2020 unless otherwise noted.
- As a result of Council dialogue on April 23rd surrounding the importance of highlighting the full cost of the emergency in addition to mitigations the Region has put in place, the presentation of the financial information has been adjusted to more clearly highlight these estimates.
- The Niagara Region's current estimate of the total gross cost of COVID-19 pandemic is \$28.5 million. Total regional gross cost (including all Local Area Municipalities ie. LAMS) is estimated at \$49 million.
- The Region's current estimate of net deficit as a result of the COVID-19 pandemic is \$2.9 million. Total regional net deficit (including LAMS) is estimated at \$7.5 million.
- The Region has received confirmed funding announcements of \$9.2 million in specific program areas.

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 across operating and capital budgets as well engaging of Provincial and Federal governments for financial assistance. Staff will 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 will be prepared after the second quarter of 2020 is complete.

In addition, the Region may need to consider offsetting a shortfall at year end using the Taxpayer Relief Reserve. 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).

Analysis

Staff have been monitoring and assessing the potential financial impacts to the Region since the onset of the pandemic. Only two months after approving the 2020 Regional budget, a variety of operating expenditures and revenues are now 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 June 30, 2020 unless otherwise noted in Appendix 1.

Table 1: COVID-19 Financial Impact Summary

	Levy	Water/ Wastewater	Waste Management	Total
Total Gross Cost	\$28,406,036	\$ 124,133	\$ (8,307)	\$28,521,862
Less: Confirmed Funding Matched to Expenses	(6,825,342)	-	-	(6,825,342)
Net Cost to Region	21,580,694	124,133	(8,307)	21,696,520
Less: Strategic and Other Mitigations	(6,784,954)	(449,023)	(76,489)	(7,310,466)
Less: Cost supported by our approved base budget	(11,354,944)	(135,647)	(36,787)	(11,527,378)
Net deficit/(surplus)	\$ 3,440,796	\$ (460,537)	\$ (121,583)	\$ 2,858,676

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 and assumptions, we have been able to consolidate the information 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	\$ 48,953,534
Less: Confirmed Funding Matched to Expenses	(6,825,342)
Net Cost to Region	42,128,192
Less: Strategic and Other Mitigations	(19,425,104)
Less: Cost supported by our approved base budget	(15,243,462)
Net Deficit	\$ 7,459,626

Since our previous report CSD 30-2020 on April 23rd new information has been received and/or quantified. In April we referenced net cost as \$9.3 million before funding announcements and net deficit of \$3.9 million. Since then we have received more clarity on eligible expenditures and have been able to match some of the funding against costs incurred. Below is a summary of the change since the last report.

Table 3: Change Since Last Report

	CSD 30-2020 April 23 *	CSD 35-2020 May 21	Change
Total Gross Cost	\$ 14,498,380	\$ 28,521,862	14,023,482
Less: Confirmed Funding Matched to Expenses		(6,825,342)	(6,825,342)
Net Cost to Region	14,498,380	21,696,520	7,198,140
Less: Strategic and Other Mitigations	(5,213,381)	(7,310,466)	(2,097,085)
Sub-total	9,284,998	14,386,054	5,101,056
Less: Cost supported by our approved base budget	(5,327,166)	(11,527,378)	(6,200,212)
Net deficit/(surplus)	\$ 3,957,832	\$ 2,858,676	\$ (1,099,156)

* Restated to align with current presentation format

The most significant drivers of change are as a result of:

- Corporate redeployment of resources
- Pandemic pay
- Niagara Regional Police impacts from NRPS 91.2020
- Investment income impacts from CSD 31-2020
- Additional strategic and other mitigations identified through review of Q1 results

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;
- **Children's Services:** Loss of parent fee revenue due to provincial order for no child care fees to be collected for emergency child care.
- **Seniors' Services:** Increased cleaning, staffing, security and personal protective equipment costs;
- **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.

Long-term Considerations

COVID-19 is causing an unprecedented amount of uncertainty and volatility in financial markets. Federal governments around the world are responding through both monetary policy (e.g. through the lowering of interest rates) and fiscal policy (e.g. by introducing spending and tax relief measures for residents and businesses). The impact of these measures is not yet known and as a result there is the possibility of major longer term impacts depending on the duration and severity of the pause in economic activity. The following items have been identified as potential longer term costs or loss revenues.

- **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;
- **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 net assessment growth for 2020 and into 2021;
- **Building Activity:** as construction activity has declined, there will be a lower amount of supplementary taxes collected and lower assessment growth during the year and in future years. 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;

- **Additional support to housing providers:** the economic disruption could lead to housing providers seeking additional support from NRH;
- **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.

Funding announcements

The Region has also received announcements of confirmed funding sources of \$9.2 million identified below. Amounts where eligibility criteria have been confirmed have been matched to expenses in the analysis above. There is a remaining \$2.4 million yet to be allocated to eligible expenditures and some of this funding is expected to support costs that occur after our June 30, 2020 cost projection period identified above.

Table 4: 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
Long-term Care Emergency Funding	Ministry of Long-term Care	951,000
Pandemic Pay **	Province of Ontario	4,605,745
		<u>\$ 9,218,116</u>
* 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 eligibility and actual payments.		

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

- An additional \$53.5 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 has been outlined and allocated in May.

- 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.
- Ontario Works expects to see increased funding to support a substantial 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.
- \$10 million donation from the Canadian Medical Association Foundation (CMAF) to be allocated to communities with homeless populations according to needs. May get information through the CAO's office.

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) to discuss potential implications on the ratings of the municipal sector as a whole across the country.

Relationship to Council Strategic Priorities

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

Other Pertinent Reports

- CSD 30-2020 COVID-19 Preliminary Overview of Financial Impacts
- CSD 31-2020 Concessions to Local Area Municipalities regarding Taxes and Water Wastewater Billings
- CSD 34-2020 COVID Cash Flow Update

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Appendices

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