



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Chair and Members of Committee of the Whole
COMMITTEE DATE:	April 15, 2020
SUBJECT/REPORT NO:	Financial Implications of COVID-19 Response (FCS20040) (City Wide)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY:	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That the City of Hamilton participate in efforts with other municipalities seeking financial support from senior levels of government for the financial impact of COVID-19 pandemic;
- (b) That the City Clerk forward Report FCS20040 to local MPs, local MPPs, the Federation of Canadian Municipalities and the Association of Municipalities Ontario.

EXECUTIVE SUMMARY

With the significant and unprecedented measures that the City has undertaken in response to the COVID-19 crisis staff has committed to provide Council with an assessment of the current and projected financial implications related to the City's Operating Budgets for 2020. As the crisis is principally impacting tax operating budgets, the balance of this report will focus on departmental budgets, exclusive of Boards and Agencies, which will likely be reporting back through their respective boards. Given how early in the year this report is being prepared and the evolving situation with COVID-19, staff has had to make a significant number of assumptions regarding additional costs or lost revenues in producing this report. Staff has also made efforts to capture costs that have been avoided due to changes in services being provided. Staff will continue to monitor, update and report on these impacts and assumptions as conditions change.

Based on current projections and assumptions to the end of May 2020, the anticipated net financial impact of the City's response to the COVID-19 pandemic on the 2020 Operating Budget is a \$22.9 M deficit. This consists of \$20.2 M of foregone revenue and \$6.6 M of additional costs net of confirmed funding from senior levels of government, which are partially offset by \$4.0 M of avoided costs.

The Federal and Provincial governments have made several funding announcements over the past few weeks in response to the COVID-19 pandemic. The City has received confirmation of \$18.0 M in additional funding, primarily for Social Housing (\$3.5 M) and Ontario Works (\$14.5 M), that has been included in this analysis. There have been several other funding programs announced, which principally are focused on addressing impacts in the private and not-for-profit sectors. Staff are reviewing opportunities under the Canada Emergency Response Benefit (CERB), as it relates to some of the costs of programs cancelled due to the pandemic. In future updates, staff will continue to amend the financial impact analysis for any potential subsidy offsets.

The financial impacts detailed below will be in addition to normal operating variances that would typically be expected in any normal year.

Additional details are presented in the Analysis and Rationale for Recommendations section of Report FCS20040.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The financial information is provided in the Analysis and Rationale for Recommendation section of Report FCS20040.

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

The COVID-19 pandemic is causing global anxiety, affecting human behavior and impacting the world's economic condition. In response, the City's operations have changed considerably with facility closures, program cancellations and modification of services provided. Employee's work environments have also been modified, where employees have been redeployed to other services, are working from home, or are remaining at home. Finance staff is considering all measures taken by the City when monitoring and assessing the financial impact to the City.

Given the unique circumstances the City is facing in response to the COVID-19 pandemic, staff has committed to provide Council with an assessment of the current

and projected financial implications related to the 2020 Operating Budget specific to this event. As this is an evolving event with many unknowns, it is important to keep in mind that these projections will need to be monitored and adjusted as conditions change.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Not Applicable

RELEVANT CONSULTATION

Staff in all City of Hamilton departments provided the information in Report FCS20040. The information was provided by the Finance and Administration staff in each department in consultation with Department management teams.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

The expected financial implications of the City’s response to COVID-19 Pandemic is reported in the following pages. A summary of the 2020 projected operating budget variances by department to the end of May 2020, specific to COVID-19, is shown in Table 1. This initial forecast to the end of May 2020 results in a 2020 budget pressure of \$22.9 M.

Table 1

CITY OF HAMILTON
2020 Costs with Budget Impact Related to COVID-19
(\$000's)

	2020 Foregone Revenue	2020 Additional Costs	2020 Avoided Costs	2020 Net Impact
<u>TAX SUPPORTED</u>				
Planning & Economic Development	3,300	23	(24)	3,298
Healthy and Safe Communities	3,368	5,135	(45)	8,458
Public Works	8,339	632	(2,670)	6,301
Legislative	0	0	0	0
City Manager	0	0	(50)	(50)
Corporate Services	2,706	551	(1,187)	2,070
Corporate Financials / Non Program Revenues	2,520	268	0	2,788
Hamilton Entertainment Facilities	0	0	0	0
TOTAL CITY EXPENDITURES	20,232	6,608	(3,976)	22,865

Note to Table 1: Anomalies due to rounding.

The projected deficit consists of \$20.2 M of foregone revenue and \$6.6 M of additional costs net of confirmed funding from senior levels of government which are partially offset by \$4.0 M of avoided costs.

Foregone Revenue

In addition to the increased expenditures resulting from the COVID-19 pandemic response, the City has experienced significant revenue losses as well. This report will provide estimates of the financial impact on the City to the end of May 2020. The current forecast estimates a loss of revenue of \$20.2 M with the majority of forecasted foregone revenues coming from transit, recreation, parking, Provincial Offences Act (POA) and Ontario Lottery and Gaming slots.

Transit

The current forecast to end of May estimates an unfavourable variance of \$7.3 M in transit fare revenues due to COVID-19 related health and safety measures. The analysis assumes a continued collection of \$1.6 M from University and College bus passes as there is currently no mechanism to return the funds to students.

Recreation

Lower recreation user fee revenues of \$3.3 M are due to closure of facilities and cancellation of programs. These include, but are not limited to, lost revenues of \$751 K from the Quad Pad, \$807 K from Golf Courses, \$790 K from Recreation Facilities and \$550 K from Arenas. Continuation of facility closures beyond May will result in further revenue losses.

Provincial Offences Act

POA lost revenues are currently estimated at \$2.6 M. The Provincial Offences Court has adjourned all court attendance matters until the end of May and it is reasonable to anticipate that the judiciary may choose to extend this date further. Further lengthy extensions could result in the withdrawal or dismissal of charges given an accused's right to a trial within a reasonable time pursuant to the Charter of Rights and Freedoms.

Parking

Lower parking fee revenues of \$1.6 M are anticipated as a result of fee cancellations and less vehicles using paid parking spaces.

Ontario Lottery and Gaming Slots

The closure of casinos and racetrack slots by the Province of Ontario is expected to result in \$1.0 M of lost revenues.

Other

Other foregone and deferred revenues include an estimated \$570 K in tax penalties and interest that has been waived to assist taxpayers facing financial hardship, \$950 K in supplementary taxes, \$371 K in building permits, \$300 K in development applications, \$800 K in red light camera fines and \$1.4 M in various other user fees and licences.

Additional Costs

Total gross additional costs are anticipated to be \$24.6 M as Public Health, Ontario Works and Housing Services are experiencing significant increases in response to the COVID-19 pandemic related to additional staffing requirements and additional payments for vulnerable individuals, which are largely offset by funding from the Provincial Government. Incremental costs from the COVID-19 pandemic response are also affecting many other City services, including additional cleaning and disinfectant costs. The net budget impact of additional expenditures is currently estimated at \$6.6 M.

Public Health Services

An additional \$3.8 M is anticipated for staffing costs associated with the COVID-19 pandemic response. Personal protective equipment (PPE) costs are also estimated at an increase of \$78K to the current budget. While it is anticipated that senior levels of government will provide funding for these additional expenditures, allocation methods or amounts to the City have yet to be provided.

Ontario Works

Additional \$14.2 M in Subsidy Claim payments to OW clients based on Provincial announcements has been accounted for. This increase will be directly offset by \$14.2M in grants and subsidies from the Province.

Housing Services

Anticipated an additional \$2.6 M in costs for Residential Care Facilities and shelter programs, which is offset by \$2.6 M in additional funding announced for the CHPI program. There is also an incremental increase of \$1.2 M in Agencies and Support payments for the Reaching Homes program announced by the Federal government on April 2, 2020. A one-time payment of \$226 K to Social Housing Providers for additional cleaning costs in the month of April has also been incorporated in the analysis.

Long-Term Care

The LTC program anticipates an additional \$89 K in costs for cleaning and medical supplies at Macassa and Wentworth lodge. Additional funding of \$150 K for the two facilities from the MOHLTC is expected to mostly offset these costs and the \$74 K in lost revenue due to cancellation of the Adult Day Program and not admitting new residents at the facilities.

Paramedic Services and Fire Services

A total of \$203 K in additional employee related overtime expenses for Paramedic Services and \$216 K for Fire Services is expected, a 50% increase to historical levels for the period of March, April and May. In addition, \$248 K in expenditures for medical and operating supplies is assumed.

Cleaning and Disinfectant

Estimates include \$391 K for cleaning and fogging for Transit Services, including a special chemical applied to bus interiors to repel the virus. In addition, \$117 K is estimated for cleaning requirements at the Emergency Operations Centre, Wentworth Contact Centre and City Hall. It is also expected that \$123 K will be spent on signage for park closures and PPE for essential workers.

Telecommuting

The Information Technology Division had an additional \$241 K of salary, benefits and contract costs related to the initial requirements in enabling work from home options for essential staff. Costs for laptops, additional hardware and software licenses are estimated at \$188 K.

Avoided Costs

Avoided costs, currently estimated at \$4.0 M, are comprised of current staff vacancies, anticipated decreases in insurance claims as a result of facility closures, and a reduction in materials and supplies resulting from service disruption.

Other Financial Items

Financial Assistance

The Federal and Provincial governments have made several funding announcements over the past few weeks in response to the COVID-19 pandemic. The City has received confirmation of \$18.0 M in additional funding, primarily for Social Housing (\$3.5 M) and Ontario Works (\$14.5 M), that has been included in this analysis above. There are several other opportunities for funding

to help reduce budget pressures on the City, but the details of specific allocations are unknown at this time. Once known they will be applied to further offset the forecast net operating budget deficit of \$22.9 M.

Staff will be participating in efforts with other municipalities seeking financial support from senior levels of government for the financial impact of COVID-19 pandemic.

Cash Flow Implications

Staff have been carefully monitoring cash flow during this crisis and will continue to analyze the City's position to ensure there is enough liquidity to provide for ongoing operations.

The second property tax installment due date is April 30, 2020. The City's decision to waive penalty and interest for a period of 60 days on the second installment and a period of 30 days on the June 30, 2020 installment will result in lost revenues of approximately \$500 K to \$1.0 M, as well as a cash liquidity impact.

The approved property tax assistance measures were designed to provide temporary relief to taxpayers facing hardship during the COVID-19 pandemic. Currently, it is extremely difficult to estimate the take up of the assistance measures. With respect to the property tax levy instalments, the measures do not reduce the amount the City will ultimately receive. However, cash flow will be temporarily impacted. The City has sufficient cash flow to provide for this period; however, if due dates are extended further, additional measures may have to be taken.

Capital Infrastructure Projects

The impact of COVID-19 pandemic on the City's capital infrastructure projects has not been assessed at this time. Staff will be reviewing the impact on project delivery by the construction industry and the impact on federal and provincial funding programs, including Public Transit Infrastructure Funding, Clean Water Wastewater Fund, Investing in Canada Infrastructure Program – Public Transit stream and Community, Culture and Recreation stream, Ontario Municipal Commuter Cycling Program, Ontario Main Street Revitalization Initiative Program, etc. In addition, the capital markets are being monitored for opportunities to improve our cash flow with the issuance of debt for previously approved capital projects.

Dividends

The City has reflected approximately \$13.0 M in the 2020 Tax Capital and Operating Budgets as it relates to Alectra/HUC dividends. At this time, Alectra is not in a position to provide staff with an indication on how this crisis might affect 2020/21 dividends, but may be in a position to do so in future updates.

Budget Deficits

Section 290(4) of *The Municipal Act*, states that the municipality shall provide for any deficit of the previous year in preparing their annual budget. Therefore, any amount remaining of the currently forecasted \$22.9 M deficit that is not funded from grants made available from higher levels of government will need to be reflected in the development of the 2021 operating budget unless other measures are adopted by Council.

Other measures to offset the forecasted COVID-19 pandemic operating budget deficit of \$22.9 M could include:

- 2019 tax supported operating budget surplus that could be transferred to the Tax Stabilization Reserve (approximately \$10.0 M to \$15.0 M)
- Non-Obligatory City Reserves
- One-time service level adjustments in 2020
- Deferral of 2020 approved capital projects
- A one-time special tax levy in 2021

ALTERNATIVES FOR CONSIDERATION

Not Applicable

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Not Applicable

KW/DR/dt