



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

<b>TO:</b>	Chair and Members General Issues Committee
<b>COMMITTEE DATE:</b>	June 15, 2020
<b>SUBJECT/REPORT NO:</b>	Financial Implications of COVID-19 Response (FCS20040(a)) (City Wide) (Outstanding Business List Item)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Kirk Weaver (905) 546-2424 Ext. 2878 Duncan Robertson (905) 546-2424 Ext. 4744
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
<b>SIGNATURE:</b>	

**RECOMMENDATION(S)**

- (a) That staff be directed to report back on additional cost containment measures that could be implemented to limit the potential 2020 budget deficit resulting from the COVID-19 response;
- (b) That the capital projects to be considered for delay / deferral in Appendix "A" to Report FCS20040(a) as potential sources to offset the anticipated COVID-19 related deficit be received as information;
- (c) That the General Manager of Finance and Corporate Services be authorized to transfer the \$1,144,000 of Capital Levy funds related to ongoing capital projects with surplus funding identified in Appendix "A" to Report FCS20040(a) to a new COVID-19 Reserve;
- (d) That the General Manager of Finance and Corporate Services be directed to close the completed and / or cancelled capital projects identified in Appendix "A" to Report FCS20040(a) in accordance with the Capital Projects Closing and Monitoring Policy;

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- (e) That the Federal Government be requested to provide a one-time increase of \$32.6 M to the Federal Gas Tax allocation for 2020 and that the Federal Government provide allowance for gas tax funding to offset previously approved capital works that have not been substantially completed pursuant to the eligibility requirements in the Administrative Agreement on the Federal Gas Tax Fund;
- (f) That staff, subject to the provision of a one-time transfer payment of \$32.6 M of Federal Gas Tax funds, be directed to apply such funds against open capital projects that have not been substantially completed and direct the subsequent available municipal funds to a new COVID-19 Reserve;
- (g) That staff report back with a revised 2020 tax supported capital financing strategy that utilizes \$11.2 M of uncommitted Federal Gas Tax Reserve funding in the place of Capital Levy funds, with the intent to free up additional funding to offset COVID-19 financial pressures;
- (h) That staff be directed to report back with recommendations related to adjustments to the 2021 Tax and Rate Operating and Capital Budgets process and timelines;
- (i) That the General Manager of Finance and Corporate Services report back on the potential of transferring funding from the following Reserves to address the 2020 forecasted year-end tax supported operating budget deficit, complete with effects to the existing infrastructure deficit:
- Parking Capital Reserve (108021);
  - Building Permit Fees Revolving Fund (104050);
  - Development Fees Stabilization Reserve (110086);
  - Social Housing Transition Reserve (112244);
  - Four Pad Arena Stabilization Reserve (110049);
  - OW Stabilization Reserve (110044);
  - Public Health Services Reserves (112219);
  - Airport Capital Reserve (108043);
  - H.E.F. – Capital Projects Reserve (100025); and,
  - Red Light Camera Project Reserve (112203);
- (j) That the City Clerk forward Report FCS20040(a) to local Members of Parliament, local Members of Provincial Parliament, 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 pandemic staff has committed to provide Council regular updates of the current and projected financial implications related to the City's Operating Budget for 2020. Report FCS20040(a) is an update to the first report, Report FCS20040, that Council approved at its meeting on April 15, 2020. Given the high level of uncertainty and rapidly changing circumstances, staff has had to make a significant number of assumptions regarding additional costs or lost revenues in producing Report FCS20040(a). 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.

As plans for gradual resumption of services take shape, staff will need to assess and project the public response to modified service delivery models. Through our work with other municipal groups, such as the Federation of Canadian Municipalities (FCM) and the Greater Toronto and Hamilton Area Treasurers (GTHA), we are in a better position to ensure our assumptions are comparable to experiences of similar municipalities and identify where we are experiencing different trends.

The assumptions made in Report FCS20040(a) are rooted in assumptions related to two scenarios developed by the GTHA Treasurers' group. In Scenario 1, a full lockdown is assumed for three months, followed by a six-month recovery period allowing for resumption of services. In Scenario 2, a nine-month lockdown period is assumed, followed by a twelve-month recovery period. Where additional information specific to Hamilton's situation is known it has been included.

Using these general assumptions, as well as, the most up-to-date information available, staff has forecasted the financial impact of the COVID-19 response based on the timelines introduced in the two GTHA scenarios. This forecast results in a 2020 budget pressure of \$61.6 M under Scenario 1, while the impact of Scenario 2 would have financial implications of \$86.5 M in 2020 and \$35.5 M in 2021 for a combined pressure of \$122.0 M. These financial impacts will be in addition to operating budget variances that would typically be expected in any normal year.

Financial implications for City Boards and Agencies have been included in the Analysis and Rationale section of Report FCS20040(a), where available. The Hamilton Police Services Board will be receiving an update specific to any implications they are facing at their meeting on June 11, 2020.

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In addition, Report FCS20040(a) provides information and makes recommendations related to cost containment measures being considered to limit the overall impact on the 2020 budget. This includes a review of the 2020 capital program for opportunities to delay projects as directed by Council at its meeting on April 15, 2020. Staff has recommended that the City of Hamilton engage the Federal Government with a request to provide a one-time transfer payment of Federal Gas Tax funding and that these funds be allowed to replace previously approved municipal funding for projects that have not been substantially completed. The subsequent available funding would be utilized to establish a COVID-19 Reserve for the purpose of funding infrastructure requirements for physical distancing, managing cash flow implications of lost revenues and providing emergency relief funding for programs experiencing deficits over the next few years.

The City of Hamilton has taken extraordinary measures to support its residents, including the most vulnerable, through this unprecedented public health and economic challenge. The response to the COVID-19 pandemic will result in significant financial pressures for the remainder of 2020, as well as over the next several years. Staff is currently working on cost containment measures to mitigate the estimated \$61.6 M to \$122.0 M shortfall and what that will mean to service delivery as the City slowly reopens facilities to the public.

Staff has also completed an extensive review of open Capital projects and identified \$25.0 M of funding that could be used to leverage additional funds received in stimulus packages through higher levels of government. Although the City is taking positive steps towards mitigating the financial losses of COVID-19, it is recommended that the City continue to work with higher levels of government to provide emergency funding. Without emergency funding, the City would be left with tough decisions between cutting services, deferring critical infrastructure projects during economic recovery, or reliance on debt financing that would result in property tax increases for households that are amid an economic downturn.

**Alternatives for Consideration – Not Applicable**

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

**Financial:** The financial information, including cost containment measures, is provided in the Analysis and Rationale for Recommendation section of Report FCS20040(a).

**Staffing:** Cost containment measures could include staffing impacts if adopted. Staff will report back on any cost containment measures with staffing implications in a subsequent report at a future GIC meeting.

To date, cost containment measures have included suspension of scheduling for part-time casual labour in affected program areas, not hiring full complement of student and seasonal positions and restrictions around hiring vacant non-essential positions.

Additional details related to measures having staffing implications are included in Appendix “D” to Report FCS20040(a).

Legal: N/A

## **HISTORICAL BACKGROUND**

The COVID-19 pandemic has resulted in many changes, 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. More recently, attention has turned to the resumption of some services in modified ways that meet evolving restrictions on social gathering. 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. In addition, as the year progresses, staff will also identify any budget variance items that are not directly linked to COVID-19. 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.

On April 21, City staff shared projections with FCM for the purpose of advocacy for Federal financial support. The FCM report was released publicly on April 23 making several recommendations for Federal government support to mitigate financial impacts of COVID-19.

Most notably, the FCM report communicated to the Federal Government of Canada that covering municipal losses related to the COVID-19 pandemic through one-time property tax levies was not a viable option given the significant impact it would have on households amid an economic downturn. The report outlined the following recommendations:

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Immediate Action:

1. Deliver at least \$10 B in targeted emergency operating funding to all local governments as direct allocations – with a new hybrid formula modelled on both the proven federal Gas Tax Fund (GTF) and a ridership-based allocation for municipalities that operate transit systems.
  - Specifically, allocate at least \$7.6 B of the fund using a GTF-style allocation formula for all local governments, and \$2.4 B based 100% on transit ridership.
  - For municipalities that operate transit systems, provide a single blended transfer.
  - Immediately provide advance payments to municipalities facing urgent liquidity issues.
  - Leverage the administrative infrastructure of the federal Gas Tax Fund, where possible, to expedite the rollout of dedicated emergency operating grants.
2. Deliver additional emergency operating funding to individual local governments facing unique financial pressures related to COVID-19 that are not fully met by the hybrid formula above. Our largest urban centres face distinct challenges supporting self-isolation, sanitation and good health among populations struggling with homelessness and mental health challenges, starting with access to health care services that can support isolation requirements and urgent care. These and other unique cost drivers will continue to require targeted supports for the full duration of this crisis.

Medium-term Action:

3. Commit to revisit the need for additional operating funding within four months.
  - Monitor trends in property tax delinquencies and consider additional supports for individuals and businesses that may not be able to pay property taxes after the expiry of short-term municipal deferral programs.
  - Depending on the duration and severity of the COVID-19 crisis, prepare for possible additional operating funding assistance in both 2020 and 2021.
4. Provide local governments with the ability to transfer unused allocations to the federal Gas Tax Fund program for capital expenditures as part of Canada's COVID-19 economic recovery plan.

The Federal and Provincial governments have made several funding announcements in response to the COVID-19 pandemic that could have implications for the City of Hamilton and other municipalities. These announcements have been summarized in Appendix “B” to Report FCS20040(a), which outlines the confirmed funding allocations that the City have or will receive, as well as, pending applications for financial consideration.

In addition, the Federal Government of Canada has made other infrastructure related announcements that may provide some potential relief on the City's capital program:

1. On May 12, 2020, announced a new COVID-19 fund that would portion off up to 10% of the \$33.5 B component of the provincial and territorial Investing in Canada Infrastructure Program to focus on responding to the pandemic. The COVID-19 fund will effectively bump up the federal share of infrastructure projects to 80% and leave the Province of Ontario to determine how to split the remaining 20% with municipal governments.
2. On June 1, 2020, announced the acceleration of the July and November instalments of the Gas Tax Fund transfers to municipalities as a step to help ease municipalities' operating financial crisis due to COVID-19. The full 2020 Gas Tax instalment for the City of Hamilton of \$32.6 M would now be received in June.

While these announcements took initial steps towards the recommendations in the FCM report, confirmed actions have only modestly aided in the City of Hamilton's liquidity issues and have not addressed the emergency operating funding needed to mitigate non-recoverable revenue losses, keep frontline services operating at an increased capacity or aided in an economic solution to recovery and reopening of municipal services.

The City of Hamilton is currently confirmed to receive \$32.6 M in Federal Gas Tax Funds, which has been allocated to capital works in the approved 2020 Capital Budget. Appendix "C" to Report FCS20040(a) outlines the confirmed funding amounts for 2019 to 2023 as executed under the Administrative Agreement on the Federal Gas Tax Fund.

In late April 2020, at a meeting of the Mayors and Chairs of the GTHA, the Treasurers were asked to prepare a high-level forecast of financial implications resulting from the COVID-19 pandemic. The goal was to share consistent information on COVID-19 financial implications to aid in discussions with the Provincial and Federal governments, as well to share information on cost containment measures in mitigating the financial impact.

That analysis prepared for the GTHA Treasurers' group forecasted two scenarios. In Scenario 1, a full lockdown was assumed for three months, followed by a six-month recovery period allowing for resumption of services. In Scenario 2, a nine-month lockdown period is assumed, followed by a twelve-month recovery period. The scenarios analyzed cash flow implications, as well as, operating shortfalls with specificity to Transit.

Based on the assumptions in GTHA Scenario 1, the anticipated net financial impact of the City's response to the COVID-19 pandemic on the 2020 Operating Budget was communicated as a \$42.7 M deficit. This consisted of \$20.4 M of foregone revenue and \$24.5 M of additional costs net of \$18.0 M of anticipated funding from senior levels of government and \$4.5 M of avoided costs through mitigation measures.

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In Scenario 2, the financial impact would extend to \$122.2 M under prolonged lockdown and recovery periods. Based on the City's current financial position, staff do not anticipate that the City of Hamilton will be able to manage liquidity issues arising from the COVID-19 crisis beyond 2020. The financial implications in Report FCS20040(a) are based on the assumptions in the GTHA submission with updates to assumptions, where required.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Not Applicable

**RELEVANT CONSULTATION**

Staff in all City of Hamilton departments provided the information in Report FCS20040(a). Detailed analysis was prepared by Finance and Administration staff in consultation with Department leadership teams.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)**

Given the high level of uncertainty and rapidly changing circumstances, staff has had to make a significant number of assumptions regarding additional costs or lost revenues in producing Report FCS20040(a). Staff has also made efforts to capture costs that have been avoided due to changes in services being provided. Through our work with other municipal groups, such as FCM and GTHA, we are in a better position to ensure our assumptions are comparable to similar municipalities and we identify where we are experiencing different trends.

The assumptions made in Report FCS20040(a) are rooted in assumptions related to the two scenarios developed by the GTHA Treasurers' group. Financial implications for City Boards and Agencies have been included, where available. The two scenarios provided to the GTHA Treasurers' Group have been updated based on the best information available. Table 1 highlights the key assumptions that were used in preparing the following analysis.



**TABLE 1 – City of Hamilton Assumptions for Scenarios 1 and 2**

	Lockdown Period: 3 months (to June 30, 2020)	Recovery Period: 6 months: July 1 to Dec 31, 2020
Scenario 1	Weekly burn rate extended for period of 3 months	50% reduction in user fees, 20% reduction in fines
	Net of approved Provincial funding for Social Housing, LTC and OW	50% reduction in Transit revenues
	Net of cost reduction measures	25% reduction in utility revenues (dividends)
		50% reduction in OLG slot revenues
		Extended costs for Public Health, Paramedics and Fire Services at 37.5% of lockdown weekly costs
	Lockdown Period: 9 months (to Dec 31, 2020)	Recovery Period: 12 months: Jan 1 to Dec 31, 2021
Scenario 2	Weekly burn rate extended for period of 9 months	20% reduction in user fees
	Net of approved Provincial funding for Social Housing, LTC and OW	15% reduction in fines
	Net of cost reduction measures	15% reduction in building permits/development applications
		20% reduction in Transit revenues
		20% reduction in utility revenues (dividends)
		20% reduction in OLG slot revenues
		Extended costs for Public Health, Paramedics and Fire Services at 37.5% of lockdown weekly costs

Using these general assumptions, as well as the most up-to-date information available, staff have forecasted the financial impact of the COVID-19 response based on the timelines introduced in the two GTHA scenarios. The expected financial implications of the City's response to COVID-19 Pandemic is reported in the following pages. A summary of the 2020 COVID-19 related operating budget variances by department is shown in Table 2 under the two scenarios. Each scenario has been broken down by lockdown and recovery periods and are representative of net financial impact, which includes foregone revenues, additional costs, additional funding and cost containment measures implemented to date. This forecast results in a 2020 budget pressure of \$61.6 M under Scenario 1, while the impact of Scenario 2 would have financial implications of \$86.5 M in 2020 and \$35.5 M in 2021 for a combined pressure of \$122.0 M.

**TABLE 2**

**CITY OF HAMILTON  
Financial Impact of COVID-19 Response  
(\$000's)**

	Scenario 1			Scenario 2		
	3-Month Lockdown	6-Month Recovery	Net Impact	9-Month Lockdown	12-Month Recovery	Net Impact
<b>TAX SUPPORTED</b>						
Planning & Economic Development	4,915	5,720	10,635	12,594	6,892	19,486
Healthy and Safe Communities	7,599	9,654	17,254	32,292	12,172	44,464
Public Works	9,738	14,102	23,840	25,568	9,499	35,067
Legislative	-	-	-	-	-	-
City Manager	(50)	-	(50)	(50)	-	(50)
Corporate Services	3,153	1,790	4,943	7,903	2,685	10,589
Corporate Financials / Non Program Revenues	2,788	2,458	5,246	8,499	4,141	12,640
Hamilton Entertainment Facilities	-	-	-	-	-	-
<b>TOTAL CITY EXPENDITURES</b>	<b>28,142</b>	<b>33,725</b>	<b>61,868</b>	<b>86,807</b>	<b>35,388</b>	<b>122,196</b>
Hamilton Police Services	-	-	-	-	-	-
Library	(126)	(257)	(383)	(383)	-	(383)
Other Boards & Agencies	55	55	110	110	110	220
City Enrichment Fund	-	-	-	-	-	-
<b>TOTAL BOARDS &amp; AGENCIES</b>	<b>(71)</b>	<b>(202)</b>	<b>(273)</b>	<b>(273)</b>	<b>110</b>	<b>(163)</b>
<b>TAX SUPPORTED</b>	<b>28,071</b>	<b>33,524</b>	<b>61,595</b>	<b>86,534</b>	<b>35,498</b>	<b>122,033</b>

Table 3 summarizes Scenario 1 with a projected deficit consisting of \$58.1 M of foregone revenue and \$31.7 M of additional costs. These additional pressures have been partially offset by assumed funding from senior levels of government of \$20.5 M and \$7.8 M of avoided costs.

As indicated in Appendix “B” to Report FCS20040(a), additional funding of \$9.5 M has already been confirmed with another \$2.8 M with pending applications. At this time, it can be reasonably assumed that Ontario Works will be able to cost recover their COVID-19 related expenses with a submission in the Fall, which makes up the balance of assumed grants and subsidies in the analysis.

**TABLE 3**

**CITY OF HAMILTON**  
**Scenario 1 COVID-19 Response**  
**(\$000's)**

	Scenario 1				
	Foregone Revenues	Incremental Costs	Grants/ Subsidies	Avoided Costs	Net Impact
<b>TAX SUPPORTED</b>					
Planning & Economic Development	11,987	23	-	(1,374)	10,635
Healthy and Safe Communities	9,440	28,859	(20,464)	(581)	17,254
Public Works	27,238	802	-	(4,200)	23,840
Legislative	-	-	-	-	-
City Manager	-	-	-	(50)	(50)
Corporate Services	4,496	1,633	-	(1,187)	4,943
Corporate Financials / Non Program Revenues	4,978	268	-	-	5,246
Hamilton Entertainment Facilities	-	-	-	-	-
<b>TOTAL CITY EXPENDITURES</b>	<b>58,138</b>	<b>31,585</b>	<b>(20,464)</b>	<b>(7,392)</b>	<b>61,868</b>
Hamilton Police Services	-	-	-	-	-
Library	-	-	-	(383)	(383)
Other Boards & Agencies	-	110	-	-	110
City Enrichment Fund	-	-	-	-	-
<b>TOTAL BOARDS &amp; AGENCIES</b>	<b>-</b>	<b>110</b>	<b>-</b>	<b>(383)</b>	<b>(273)</b>
<b>TAX SUPPORTED</b>	<b>58,138</b>	<b>31,695</b>	<b>(20,464)</b>	<b>(7,775)</b>	<b>61,595</b>

Note: Category breakdowns are not available for Boards & Agencies. Surplus and deficit positions for Boards and Agencies have been netted under Avoided Costs and Incremental Costs respectively.

### Foregone Revenues

The City has experienced significant revenue losses resulting from the COVID-19 pandemic response. Report FCS20040(a) provides estimates of the financial impact on the City to the end of 2020 based on the assumptions used in Scenario 1 (lockdown period of three months and a recovery period of six months).

The current forecast estimates a loss of revenue of \$58.1 M with the majority of forecasted foregone revenues coming from transit, recreation, parking, *Provincial Offences Act* (POA) and Ontario Lottery and Gaming slots.

### **Additional Costs**

Total gross additional costs are anticipated to be \$31.7 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. Some of these costs are offset by funding from the Provincial Government. Incremental costs are also affecting many other City services, including additional cleaning and disinfectant costs for Transit Services and other City facilities, needs for personal protective equipment, signage for park closures and technology requirements for adjusted working conditions. The budget impact of additional expenditures net of grants and subsidies is currently estimated at \$11.2 M.

### **Avoided Costs and Cost Containment**

Cost containment measures, currently estimated at \$7.8 M, are comprised of current staff vacancies, suspension of scheduling for part-time casual labour in affected program areas, utility savings for closed facilities, not hiring full complement of student and seasonal positions, anticipated decreases in insurance claims as a result of facility closures and a reduction in materials and supplies resulting from service disruption.

In addition, there have been several cost containment measures adopted by the Senior Leadership Team (SLT), including the implementation of a restrictions on hiring for non-essential positions and strict controls around discretionary spending, that have yet to be factored into this analysis.

Additional details related to measures having staffing implications are included in Appendix “D” of Report FCS20040(a).

Staff is currently reviewing additional options to mitigate the financial impacts of the COVID-19 response during lockdown and the subsequent revisions to service that will be required during reopening. Staff will report back to the General Issues Committee (GIC) with an update to Council, presenting additional cost containment measures.

Not included in the analysis are cost savings related to employer provided benefits. The restrictions put in place at the onset of the pandemic and currently still in existence have significantly impacted health and dental service delivery and the patient’s ability to access these services. Services like routine dental, physiotherapy and chiropractic services have largely been unavailable since mid-March. This has led to a significant reduction in benefit costs for the City. From January to April of this year, the City’s Health and Dental costs are -\$1.2 M less than the same period in 2019.

Projecting for the full year is a significant challenge. Consistent with other analysis within Report FCS20040(a), staff has assumed full restrictions to June 30 and a gradual easing of restrictions to December. With full restrictions assumed to June 30, staff can use the experience to date the project savings for this period.

Based on savings to date projected to the end of June, and then applying a variation for potential increased costs once services are available again, staff is projecting savings of \$0 M to \$3.0 M. Savings of \$0 M assumes the level and cost of services in the second half of the year will offset savings that occurred to June. Savings approaching \$3.0 M are projected if services remain restricted for the remainder of the year. When staff provides an update later this year, it will be based on more data and a better understanding of how these services are being delivered.

### **Capital Infrastructure Projects**

When Council considered Report FCS20040 on April 15, 2020, the following recommendation was approved:

- (c) That staff be directed to develop a list of capital projects that may be delayed offsetting the anticipated negative budget variance for 2020.

Staff has undertaken a review of all approved capital projects across the organization to identify projects that could be delayed. Through this review, a total of 127 projects have been identified with total available funds of \$29.1 M. These projects are included in Appendix “A” of Report FCS20040(a). Recommendation (c) of Report FCS20040(a) directs staff to seek additional Federal Gas Tax funding that could be used to fund these projects rather than the Capital Levy. This would free up 2020 Capital levy funds to be used to offset the projected deficit. It is important to note that should additional Federal Gas Tax funding or other stimulus funds not be forthcoming, Council could choose to defer these projects in 2020. If this were to take place, it would place significant tax levy pressure on 2021 and beyond in order to accommodate deferred projects along with critical infrastructure requirements. Based on the 2020 operating budget, a \$9 M pressure represents approximately 1.0% on the tax levy. Deferral of the full list of projects in Appendix “A” to Report FCS20040(a) could result in a 2.8% property tax pressure in 2021.

All projects were evaluated based on the restrictions established by the government of Ontario in respect to essential services and the timelines in which emergency orders are in effect, as well as, risk to the City if these capital works were not completed in 2020.

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There is approximately \$11.2 M available in the Federal Gas Tax Reserve that is remaining from the unallocated one-time payment transfer from 2019. Through Recommendation d) of Report FCS20040(a), staff is recommending that, where appropriate, capital levy funded projects that have been deferred in 2020, as well as infrastructure requirements related to reopening facilities such as retrofitting facilities for allowance of physical distancing, hygiene and handwashing stations and improvements to open spaces, be funded from the Federal Gas Tax Reserve.

Staff has also recommended that the Federal Government be requested to provide a one-time increase of \$32.6 M to the Federal Gas Tax allocation for 2020 and that they provide allowance for gas tax funding to offset previously approved capital works that have not been substantially completed pursuant to the eligibility requirements in the Administrative Agreement on the Federal Gas Tax Fund. This funding stimulus would be further applied to fund the list of projects identified in Appendix “A” to Report FCS20040(a), as well as others, to free up Operating Budget Capital Levy funds to offset the COVID-19 related operating deficit. If this funding stimulus were not received and the infrastructure projects identified in Appendix “A” to Report FCS20040(a) were deferred, it would further expose the City to the risks inherent in extending the infrastructure deficit. To advance these projects in subsequent tax years without increasing capital funding through taxation could result in delayed replacement of other critical infrastructure projects or implementation of Council’s identified priorities.

### **Cash Flow Implications**

Staff has 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. Based on current projections, the City’s financial position can sustain the cash flow implications of forgone and deferred revenues. However, if circumstances change and emergency orders are extended further into late 2020 or 2021, the City’s cash flow position may become more severe.

The approved property tax assistance measures were designed to provide temporary relief to taxpayers facing hardship during the COVID-19 pandemic. 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.

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.

## **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 \$61.6 M deficit, under Scenario 1, 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. While there has been some discussion of allowing municipalities to run deficits for a period, no decision on this matter has been announced in Ontario. In British Columbia, municipalities will be allowed to run deficits that must be repaid within five years. While this approach may be attractive in that it spreads the impact on taxpayers over a longer period of time, there is some risk in that it assumes all of the financial impacts of COVID-19 should be borne by property taxpayers.

Other measures to offset the forecasted COVID-19 pandemic operating budget deficit will be outlined in the report back to Council through the direction contained in Recommendation (a) of Report FCS20040(a). These measures could include:

- Non-Obligatory City Reserves
- One-time service level adjustments in 2020
- A one-time special tax levy in 2021 (or beyond, should a change in legislation allow)

## **2021 Budget Outlook and Process**

Given the significant uncertainty around the duration of impacts related to COVID-19, there are challenges in developing an accurate outlook and guidelines for departments to follow in the development of 2021 Tax and Rate Operating and Capital budgets at this time. In normal circumstances, the process for preparation of the next year's budget would begin in June or July with a budget outlook report to Council and some guidelines for departments to follow. Recommendation (e) of Report FCS20040(a) directs staff to report back with recommendations related to any adjustments to the process and timelines that may be needed given current circumstances. This may include recommendations to adjust previously established Budget GIC meetings this Fall.

## **Impacted Service Areas**

The sections below provide additional detail on some of the areas that have been most significantly impacted by the COVID-19 pandemic response.

## Transit

Lost revenues for Transit are estimated at \$27.0 M in 2020. This analysis assumes that fare collection will resume in early July in conjunction with the completed installation of operator bio-shields to allow for front door boarding. Although the situation continues to evolve, based on the information available, ridership is tentatively assumed at approximately 35% of budgeted levels (or a 65% reduction to gross revenue) for July and August. A 50% general ridership level can be cautiously assumed for September to December. In addition, disruption to the Spring semester and changes to move to an online learning model for the Summer and Fall semesters, no ridership is anticipated for universities and colleges, which will also result in significant lost revenues under the University / College Transit Pass (UCTP) agreements totaling \$4.8 M.

Costs for cleaning and disinfecting buses are estimated at \$521 K for 2020, including a special chemical applied to bus interiors to repel the virus. An additional \$250 K is assumed for outfitting buses with operator bio-shields in order to allow for front boarding.

Based on most recent data, it is estimated that Transit can avoid approximately \$1.2 M in costs related to vendor contracts, including PRESTO, and \$1.7 M in fuel costs.

## Recreation

Recreation is currently expecting foregone user fee revenues of \$9.2 M due to closure of facilities and cancellation of programs and a 50% reduction in enrolment during reopening. These include, but are not limited to, lost revenues of approximately \$1.3 M from the Quad Pad, \$760 K from Golf Courses, \$1.8 M from Recreation Facilities and \$2.4 M from Arenas during lockdown. Continuation of facility closures beyond September will result in further revenue losses. Approximately \$4.9 M of lost user fees has been assumed during reopening resulting from an anticipated 50% decline in registration.

Golf courses reopened in late May, but operations still expect significant revenue losses due to physical distancing requirements limiting single riders per cart and two carts per group, as well as further spacing of tee times, cancellation of leagues and tournaments and losses of food and beverage sales. Staff were able to mitigate some of the losses by renting golf carts for the season versus entering into a new lease agreement and delaying the hiring of seasonal workers and students by redeploying facility operators from the arenas.



### Public Health Services

An additional \$7.4 M is anticipated for staffing costs and personal protective equipment (PPE) associated with the COVID-19 pandemic response. 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.

The Provincial Government announced on April 25, 2020 that it will provide frontline support workers with temporary pandemic pay. Pandemic pay will be in effect for eligible workers from April 24, 2020 until August 13, 2020 and consists of:

1. A temporary top-up on hourly wages of \$4 per hour; and
2. Monthly lump sum payments for eligible workers who work at least 100 hours in a designated four-week period of \$250 up to a total of \$1,000 in lump sum payments.

In early June, ministries will start providing written funding commitments to employer partners that receive direct government funding. Pandemic pay applies to eligible workers in Public Health Services, as well as, Long-Term Care and the Hamilton Paramedic Service.

### Ontario Works

Additional \$14.2 M in payments to OW clients is assumed to be directly offset by \$14.2 M in grants and subsidies from the Province.

### Housing Services

It has currently been assumed that the financial pressures the City is facing in response to the protection of the community's most vulnerable and combatting homelessness will be offset through funding transfers from higher levels of government.

The City of Hamilton has been confirmed \$6.9 M in grants through the Community Homelessness Partnership Initiative (CHPI) program and \$2.3 M in Agencies and Support payments for the Reaching Homes program announced by the Federal government on April 2, 2020. FCM launched the Community Response Fund for Vulnerable Populations with a \$10 M donation from CMAF to complement the funding provided through federal homelessness programs. The City of Hamilton's allocation of this fund is \$345 K.

However, the City is currently experiencing monthly pressures of approximately \$2 M to \$3 M per month for emergency shelters during the lockdown. If these essential services continue for an extended period of time, the City could face a budget pressure in 2020 of near \$10 M that currently does not have confirmed funding from the Province of Ontario or the Federal Government of Canada.

#### Long-Term Care (LTC)

The LTC division received additional funding of \$302 K for Macassa and Wentworth Lodge from the Ministry of Long Term Care, through *Ontario's Action Plan: Responding to COVID-19*, which has been utilized to support increased operating costs related to screening, equipment and operational supplies, as well as \$89 K in lost revenue due to the cancellation of the Adult Day Program (assumed to be re-opening in September) and not admitting new residents at the facilities.

It is expected and has been assumed in the analysis that additional wages related to pandemic pay for eligible employees will be entirely offset through government transfers of funds.

#### Hamilton Paramedic Service

The Hamilton Paramedic Service (HPS) is estimating a net increase in costs of \$2.5M relating to the COVID-19 response. Additional costs include overtime, upstaffing for infection disease protocols and enhanced disinfection protocols, purchases of personal protective equipment and medical supply costs. The HPS anticipates \$31K in foregone revenues related to the cancellation of special events and has included savings of \$57K for protocols around discretionary spending for non-essential training, conferences and travel.

An estimate for pandemic pay for eligible employees has not been included in the analysis as the funding and eligibility requirements still remain unclear. It can be reasonably assumed that additional wages related to pandemic pay will be entirely offset through government transfer of funds.

#### Provincial Offences Act (POA)

POA revenues are expected to be \$4.5 M lower in 2020 due to court closure. The Provincial Offences Court has adjourned all court attendance matters until July 6, 2020. It is anticipated that these revenues will be realized in future years.

### Red Light Camera

In March, there was a year-over-year decline of 17% in fines received for violations in the Red Light Camera Program, which expanded to a 70% reduction in April. As of the end of April, fines are \$320 K lower than 2019 through the first third of the year. It is currently estimated that fines received in 2020 will be \$823 K below budget.

Approximately 50% of Red Light Camera tickets are paid in-year with the remaining 50% becoming an aged receivable that is typically received within the next two years upon license renewal. Therefore, the total impact of the lockdown on Red Light Camera fines will not be fully realized in 2020 but will be realized in future years.

### Parking

Lost parking fee revenues of \$4.5M are anticipated as a result of fee cancellations and less vehicles using paid parking spaces. In an effort to mitigate financial impacts on the 2020 Operating Budget, it is recommended that the Parking Capital Reserve (108021) be utilized to offset the deficit in parking operations in 2020.

### Ontario Lottery and Gaming Slots

The closure of casinos and racetrack slots by the Province of Ontario is expected to result in \$3 M of lost revenues.

### Dividends

Dividends from Hamilton Utilities Corporation and Alectra are estimated to be \$2.4 M lower than anticipated as a result of the COVID-19 pandemic.

### Airport Revenues

Airport revenues are expected to be down by approximately \$40 K per month for a total of \$280 K in 2020. A portion of TradePort's sub-tenants could qualify under Provincial financial relief programs for landlords, which is currently being investigated. TradePort is also investigating assistance through the Airports Capital Assistance Program with the Federal Government.

### Building Permits

It is recommended that staff be approved to offset the anticipated year-end deficit of \$3.1 M related to Building Services from the Building Permit Fees Revolving Fund (104050) in accordance with legislation.

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Property Tax Assistance Program

On April 8, 2020, Council approved several measures to assist property taxpayers who may be facing financial challenges due to the pandemic. These measures included waiving penalty and interest charges on the April 30, 2020 instalment for 60 days; waiving penalty and interest (P&I) on the June 30, 2020 instalment for 30 days; reducing the notification timing requirement for opting out of Pre-Authorized Payment (PAP) programs from 14 to seven business days; and temporarily waiving administration fees, P&I on other related payments.

At the time, staff was projecting financial impact of the approved measures as summarized in Table 4:

**Table 4 – Property Tax Assistance Impacts**

PROJECTED REVENUE LOSS		
Budget Impact of Waivers	Low	High
Penalty & Interest	\$290,000	\$570,000
Admin. Fees	\$160,000	\$160,000
Investment Income Loss	\$50,000	\$270,000
<b>Total</b>	<b>\$500,000</b>	<b>\$1,000,000</b>

Based on early information related to property taxpayers deferring their April 30, 2020 instalment and those opting out of PAP programs, the financial impacts are still trending within the range presented above.

With respect to the April 30<sup>th</sup>, 2020 instalment, revenue from this instalment was down approximately -18% over the same period in 2019. This compares well to the assumption of -10% for the low range and -50% for the high range above. This measure supports cash flow and the Investment Income Loss estimate above.

Analysis of the April 30, 2020 instalment payments indicates that the Commercial property class, the retail sector, required the option of deferring payment until June 30, 2020. The Commercial class had an 80% increase in outstanding payments when comparing April 30, 2020 to the same period in 2019 (\$34.1 M versus \$18.7 M). Most of this increase is from the areas large shopping centres.

With respect to Penalty and Interest (P&I) revenue, the City experienced a -30% reduction compared to the same period in 2019. Again, the projected range was -10% to -50%, so the experience thus far is well within the range.

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With respect to PAP, each month under normal circumstances there are additions and deletions of enrolment, often due to changes in ownership. However, during the pandemic, the City has seen an increase in deletions relative to additions. About 1,200 participants dropped out of the program in March and April, while about 600 joined, for a net reduction of about 600 participants. This is out of a total of about 64,000 participants, a reduction of about –1%.

At the May 20<sup>th</sup> Council, to encourage enrolment, a motion was approved that allows property taxpayers to enrol in the PAP plan after April 30<sup>th</sup> even if that instalment has not been paid yet. Previously, only accounts that were current could enrol in PAP.

The June 30, 2020 instalment will be a significant watermark in the analysis of participation in the Property Taxpayer Assistance Program. Staff will continue to analyse the program, including evaluating the need for any adjustments or extensions.

#### Boards and Agencies

Staff has reached out to our partner Boards and Agencies with respect to their projected financial implications as a result of the pandemic. Police, Library and Farmer's Market have direct implications for the City's 2020-year end position. The other Boards and Agencies are not expected to impact the City in 2020 but may have implications for the City's 2021 budget.

#### Police Services

The Police Services Board was scheduled to consider an update with respect to the COVID-19 pandemic financial impacts at their meeting on June 11, 2020. Information was not available to City staff as of the printing of Report FCS20040(a).

#### Library

On May 20, 2020, the Library Board was advised that staff is projecting a favourable variance of about \$380 K for year end. This is largely due to employee-related savings from Library closures partially offset by reduced revenues.

#### Hamilton Farmer's Market

Hamilton Famer's Market is currently estimated approximately \$11 K per month in additional expenses related to cleaning and disinfectant. That translates to an anticipated deficit of \$110 K in 2020 related to the COVID-19 pandemic. The Farmer's Market is looking into alternative cleaning methods in order to reduce costs.

## Conservation Authorities

Information available from the City's four Conservation Authorities (CA) varies, so impacts specific to each cannot be identified. In aggregate, the CA's that have reported projected impacts have done so with a range indicated. The information available to date indicates projected deficits that total about \$3.0 M to \$5.5 M. This is largely a result of lost revenues for program fees, parks and campgrounds. Currently, many of the guidelines and timing of relaxed restrictions around these programs is limited, so the estimated impact could vary.

The projected deficits are net of significant mitigation measures including cancelled programs and relate staffing savings, other staffing reductions and deferred capital / maintenance.

Conservation Authorities are not able to adjust their levy in-year, so there should be no impact to the City in 2020. However, certain losses may be budgeted and impact the 2021 levies.

## Royal Botanical Gardens (RBG)

RBG has not identified a projected financial impact from the pandemic but has indicated that revenue will be significantly affected. This includes admissions, food service, retail, programs and donations. Some of these revenues are expected to return as restrictions are eased, but the overall impact will be significant.

The RBG is eligible and is taking advantage of the Canadian Emergency Wage Subsidy Program to provide some expenditure savings.

## **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**

Appendix “A” to Report FCS20040(a) – Available Capital Funding to Offset Anticipated COVID-19 Deficit – Balances as of April 19, 2020

Appendix “B” to Report FCS20040(a) – Funding Announcements with Implications for Municipalities – COVID-19 Pandemic Response, as of June 1, 2020

Appendix “C” to Report FCS20040(a) – The Federal Gas Tax Fund 2019-2023 Allocations – City of Hamilton

Appendix “D” to Report FCS20040(a) – Human Resources Strategy During COVID-19

KW/DR/dt