C5
COMMUNICATION
RRR - June 23, 2020
ITEM # 4

COVID-19 Pandemic - Financial Update

June 23, 2020

Agenda

WHERE WE'VE COME FROM

- Overall financial health of the City – strong financial foundation

WHERE WE ARE

- Financial measures implemented to support residents, businesses and community organizations
- Estimated financial impact of COVID (2 scenarios)
    1. September 30th - 6 months down, 6 months up
    2. December 31st - 9 months down, 12 months up
- Mitigation actions taken

WHERE WE GO FROM HERE

- Context and guiding principles for 2021 budget and 2022 financial plan
- Support being requested from senior levels of government

Disclaimer

- The *forward-looking projections* presented herein are based on reasonable assumptions and best available information at this time. These estimates are subject to inherent risks and uncertainties and actual financial impact may differ materially.

- The recovery period post-pandemic is unknown. Service levels and financial impacts are unlikely to recover immediately after public health measures are lifted. There are likely lingering impacts and ramp-up costs as the City transitions back to “normal” or “new normal” business operations.

- The current full-year 2020 and 2021 financial projections were run under 2 scenarios: that the COVID-19 conditions and restrictions will persist through **September 30, 2020** and **December 31, 2020**, with assumed recovery periods thereafter.

Strong Financial Health

Good governance remains a key strategic priority. Fiscal responsibility is rooted in transparency, accountability, and commitment to financial stewardship

As a result of responsible financial management and growth over many years, the City's financial position prior to COVID-19 was very healthy, as demonstrated by the following indicators:

1. Strong Cashflow / Liquidity

- Strong operating cash balance as of April 30, 2020 - $200 million
- Historically sufficient operating cash flow to fund delivery of services without use of short-term borrowing

2. Healthy Reserve Balances (as at December 31, 2019)

- Uncommitted total reserves of $640 million
- Uncommitted discretionary reserves of $241 million – greater than 50% of own source revenues

3. Low Debt

- Vaughan's debt service ratio (debt charges as percentage of own source revenue) is 3.2%, well below the Ontario average of 5.3% (2018)*

4. Healthy Balance Sheet

- Vaughan's net financial position per capita (financial assets less financial liabilities) is the highest in the GTA and 7th in Ontario (2018)*

* Source –BMA Management Consulting, 2019 Municipal Study

COVID-19 – Key Events and City Response (as of Jun 9th)

Vaughan has taken extraordinary measures to support residents, businesses and community organizations

Key Events

March 13th – 31st

- City of Vaughan activates Emergency Plan
- City of Vaughan closes all Community Centres & Libraries
- March Break camps and daycare programming cancelled
- City of Vaughan declares State of Emergency
- All City staff to work from home where operationally feasible
- All City Facilities closed to the public (until further notice)
- Vaughan Business Action Plan announced
- Spring recreation programs and swim lessons cancelled

April

- Indoor facility & outdoor field permits cancelled
- Vaughan Public Libraries launches new on-line services

May

- On-line Permit portal is launched
- Vaughan Public Libraries is first in Province to offer curbside pick-up
- On-line Summer Camps & Programs announced (starting July 6th)
- Established new Ready, Resilient, Resourceful (RRR) Committee

Financial Measures

- **City Programs** - refunds issued without penalty for all cancelled camps, programs and permits
- **Property Tax** – waiver of penalty on the Interim tax bills to July 1st
- **Municipal Accommodation Tax** – suspended collection until September 1st
- **Business Licenses** – deferred renewals for existing businesses by up to 90 days
- **Elderly Home-Owners** - extended tax assistance program from Mar 31st to May 15th
- **Stormwater Charge** – deferred billings for 60 days
- **Water/Wastewater Rates** – cancelled the planned 2020 rate increase.
- **Rent at City-owned Facilities** – deferred rent by 90 days for non-for-profit tenants

COVID-19 – Financial Impact to Operating Budget (as of Jun 9th)

VAUGHAN

SCENARIO 1: assumes COVID-19 conditions persist until September 30th (with a 6 month recovery period)

$ Millions	2020	2021
TAX SUPPORTED IMPACT:		
REVENUES		
Recreation programs & rentals (cancelled)	(13.7)	(7.8)
Development application fees (market slow-down)	(3.2)	(0.6)
Municipal Acommodation Tax (market slow-down + suspension)	(2.9)	(0.5)
Investment income (interest rate reductions)	(1.3)	(0.4)
Property Tax - foregone interest & penalties	(0.7)	0.0
Parking, permits, licensing fees (reduced/deferred collections)	(1.5)	0.4
Various other impacts	(1.0)	0.0
TOTAL REVENUE IMPACT	**(24.3)**	**(8.9)**
EXPENDITURES		
Workforce Re-Balancing	(6.6)	(4.1)
Labour - COVID-19 related overtime (non-salaried staff)	0.6	0.1
Incremental COVID-19 related spend (PPE, cleaning, signage, tech)	1.3	0.2
Reduced facility operating costs (Utilities, VPL)	(1.1)	(0.1)
Deferred/cancelled discretionary spend (education, conferences)	(0.5)	(0.0)
Various other impacts	(0.2)	0.1
TOTAL EXPENDITURE IMPACT	**(6.4)**	**(4.0)**
NET OPERATING IMPACT - TAX SUPPORTED	**(17.9)**	**(4.9)**
Water / Wastewater - cancellation of the planned 2020 rate increase	(1.5)	0.0
TOTAL NET OPERATING IMPACT - TAX & RATE SUPPORTED	**(19.4)**	**(4.9)**

Anticipate negative net operating impact of $19M in 2020 and $5M in 2021

- Revenue shortfall of approximately $24M in 2020 and $9M in 2021; driven primarily by cancelled spring & summer recreation programs, softening development related fees, foregone MAT revenues and lower investment income
- Offset partially by workforce re-balancing, reduced facility operating costs, and on-going spending restrictions
- Cancellation of the planned 2020 water/wastewater rate increase is driving approximately $1.5M decrease to related reserve contributions

COVID-19 – Financial Impact to Operating Budget (as of Jun 9th)

SCENARIO 2: assumes COVID-19 conditions persist until December 31st (with a 12 month recovery period)

$ Millions	2020	2021
TAX SUPPORTED IMPACT:		
REVENUES		
Recreation programs & rentals (cancelled)	(14.4)	(11.5)
Development application fees (market slow-down)	(3.8)	(3.9)
Permit fees (market slow-down)	0.0	(3.1)
Municipal Acommodation Tax (market slow-down + suspension)	(3.1)	(1.7)
Investment income (interest rate reductions)	(1.3)	(1.9)
Property Tax - foregone interest & penalties	(0.7)	0.0
Parking, permits, licensing fees (reduced/deferred collections)	(2.9)	(1.9)
Various other impacts	(1.5)	(1.0)
TOTAL REVENUE IMPACT	**(27.7)**	**(25.0)**
EXPENDITURES		
Workforce Re-Balancing	(8.1)	(6.4)
Labour - COVID-19 related overtime (non-salaried staff)	0.7	0.5
Incremental COVID-19 related spend (PPE, cleaning, signage, tech)	1.3	0.9
Reduced facility operating costs (Utilities, VPL)	(1.3)	(0.9)
Deferred/cancelled discretionary spend (education, conferences)	(0.6)	(0.4)
Various other impacts	(0.2)	(0.0)
TOTAL EXPENDITURE IMPACT	**(8.1)**	**(6.3)**
NET OPERATING IMPACT - TAX SUPPORTED	**(19.6)**	**(18.6)**
Water / Wastewater - cancellation of the planned 2020 rate increase	(1.5)	0.0
TOTAL NET OPERATING IMPACT - TAX & RATE SUPPORTED	**(21.1)**	**(18.6)**

Anticipate negative net operating impact of $21M in 2020 and $19M in 2021

- Revenue shortfall of approximately $28M in 2020 and $25M in 2021; driven primarily by cancelled spring & summer recreation programs, softening development related fees, foregone MAT revenues and lower investment income
- Offset partially by workforce re-balancing, reduced facility operating costs, and on-going spending restrictions
- Cancellation of the planned 2020 water/wastewater rate increase is driving approximately $1.5M decrease to related reserve contributions

Mitigating the Financial Pressures

The City has various financial tools at its disposal to mitigate the current financial pressures

Financial Mitigation Measures & Tools

- Workforce re-balancing - temporary layoffs, re-deployments, organization re-alignments
- Spending restrictions – hiring, discretionary spend, non-essential expenditures
- Manage timing of non-essential capital project delivery
- Operating budget contingency
- Strong operating cash balance
- Discretionary reserve balances
- Access to temporary borrowing
- Funding support from senior levels of Government

Cash flow & Liquidity

- Preliminary cash flow projections indicate sufficient cash balances to sustain the projected financial impact of COVID-19 over the forecasted time horizon (to be re-assessed regularly)
- Property tax collections to date have been stable and ongoing
- Levy payments to the Region and Education payments to the Province have been granted deferrals of up to 90 days which is alleviating some cash flow pressure.

2021 Budget - Context

The full extent of COVID-19 remains unknown. The 2021 budget will need to factor this heightened level of uncertainty.

Many uncertainties remain….

- Duration and extent of COVID-19 pandemic and recovery phase
- Potential for secondary waves
- Degree of "permanent" change to industry economics & value chains
- Impact on societal norms, consumer confidence and spending patterns
- Changes to work patterns….how and where people work

Which can impact City's finances…

- Revenue risks….User fees, Tax & Utility collection
- Funding/support from Senior levels of Government
- Sustained COVID-19 incremental spending
- Impact to capital delivery plans
- Service levels & delivery models
- Cash flow & liquidity
- Financial sustainability

2021 Budget – Guiding Principles

Must approach the 2021 budget with a mindset geared towards conservatism, flexibility and sustainability

- Low and affordable property tax rate increase
- Water/rate increases will continue to be informed by the Region wholesale rates & City asset management plans
- Stormwater rates will be guided by the stormwater rate study that was used to develop the stormwater program
- Factor impacts of COVID-19 – lower own-sourced revenues, new spending needs
- Conservative reserve contributions
- Continue to deliver key infrastructure projects – support economic recovery
- Modest and realistic capital programs
- Leaner operating budgets - no Additional Resource Requests (ARRs) unless essential and urgent
- Prudent prioritization with focus on legislated deliverables, business continuity and service-level recovery
- Manage short-term liquidity / Maintain long-term fiscal sustainability

Support Requested from Senior levels of Government

Financial aid is being sought to help prepare for recovery and ensure financial sustainability

- Continue to work with partner municipalities across York Region and GTHA, FCM, LUMCO, AMO and MFOA to access funding support for lower tier municipalities, including the following:
  - Operating grant to compensate municipalities for lost revenues and increased costs
  - Forgivable interest-free loans to address revenue shortfalls of a temporal nature
  - Maintain committed transfer payments under existing programs, as planned for 2020-2022
  - Extend statutory and non-statutory reporting deadlines:
    - 1-year deferrals for new requirements and 6-month deferrals for existing reporting deadlines
    - Timelines should be reviewed in tandem with the easing of restrictions
  - Enabling of new revenue tools by the Province (eg. Non-Resident Speculation Tax)