

To: Council in Committee of the Whole

From: Stephanie Sinnott, Commissioner,  
Finance Services

Report Number: CNCL-20-161

Date of Report: September 23, 2020

Date of Meeting: September 28, 2020

Subject: Financial Impacts of COVID-19 Update

File: C-1000

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## **1.0 Purpose**

On May 25, 2020, through Report CNCL-20-50, Attachment 1, City Council received a preliminary estimate of the financial impacts of COVID-19.

The purpose of this report is to provide City Council with an update on the estimated financial impacts resulting from the City's response to COVID-19.

## **2.0 Recommendation**

It is recommended to City Council:

That Report CNCL-20-161, dated September 23, 2020 concerning the estimated financial impacts update to the City of Oshawa due to the COVID-19 pandemic, be received for information.

## **3.0 Executive Summary**

The COVID-19 global pandemic has created significant impacts to the City of Oshawa ("City") both operationally and financially.

Since the conditions of the pandemic and recovery process are continuously changing, the financial information presented in this report is a point in time snap-shot based on July 31, 2020 results.

While the City has experienced both lost revenues and incremental expenses, the cost containment measures that have been taken to date have partially mitigated the impact.

Staff are reviewing the impact on the City's financial position as a result of the COVID-19 crisis on a daily basis. This includes refining expenditure and revenue forecasts identifying mitigating actions such as adjusting service levels, determining how various funding

sources can be used to offset the pressures, identifying any issues with respect to property tax collection and confirming the City's cash position.

The funding received under the Federal-Provincial Safe Restart Agreement will mitigate the budget shortfall in 2020.

#### **4.0 Input From Other Sources**

Corporate Leadership Team (C.L.T.)

#### **5.0 Analysis**

##### **5.1 Background**

On March 11, 2020 the World Health Organization declared COVID-19 a global pandemic. Since that time the City's operations have changed significantly in response to the crisis. This includes facility closures, program cancellations, and various service reductions. The City also introduced interim measures to provide some financial relief to taxpayers by waiving penalties and interest charges on overdue tax payments. All of the measures currently in place to respond to the COVID-19 crisis have resulted in both lost revenue and incremental expenses; however the cost containment measures that have been taken to date have partially mitigated the impact.

##### **5.2 Cash Flow**

The City has a stable cash balance which has been set aside in various reserves and capital programs; however, the interest earned on the City's cash account is estimated to decline by approximately \$500,000 by year end. This pressure can be partially mitigated through a revision to the interest allocations to the City's Reserves and Reserve Funds.

A number of factors have contributed to the stability of the City's cash flow:

- Currently, 2020 property tax collections are approximately 80%.
- The Province has deferred the education installments due in June and September 2020 by 60 days. Each remittance for the School Board installments is approximately \$15 million. However, the final installment in December will be approximately \$30 million.
- There are a reduced number of Accounts Payable invoices requiring payment due to the service delivery modifications made by the City resulting from the pandemic.
- Maintenance of Accounts Receivable collections remains stable although the City is not aggressively pursuing or charging interest on overdue accounts.
- Investing activity decisions are based upon liquidity requirements versus investment interest revenue and alignment with the cash flow budget and City requirements. The strategy has been focusing more on shorter term investments and liquidity

while fiscal policies begin to correct the markets. This will ensure the City has available liquid assets when necessary.

The City currently has an unutilized line of credit with its bank, the Royal Bank of Canada, in the amount of \$2 million as authorized through the City's Borrowing By-law (By-law 5-2020). There is an ability to draw on the line of credit to borrow any sums as may be necessary to meet the current expenditures of the corporation.

Staff will continue to closely monitor cash flow to ensure that appropriate mitigation strategies are utilized to protect the City's liquid assets.

### 5.3 COVID-19 Specific Expenses

The City has incurred some incremental costs that are a direct result of the COVID-19 crisis. The costs include the purchase of Personal Protective Equipment including masks sanitizers and gloves. It also includes additional leased laptops and other technology needed to support more employees to work from home and maintain social distancing in the office. The total cost as of July 31, 2020 is approximately \$604,300 as outlined in Table 1.

**Table 1**

<b>Description</b>	<b>Amount</b>
Hand-Sanitizer & Personal Protective Equipment	\$117,300
Technology Equipment & Software	\$97,300
Waste Contractors (staff shortages)	\$90,300
Additional Overtime in Fire Services	\$116,100
Contribution to Canadian Mental Health for Mission United	\$12,500
Advertising	\$31,200
Miscellaneous Operating Expenses	\$139,600
Total (as at July 31, 2020)	\$604,300

A significant amount of staff time has been redirected from core job responsibilities and dedicated to COVID-19 related activities. Since this time was already incorporated into the City's 2020 Operating Budget it is not captured in this analysis as an additional expense.

### 5.4 COVID-19 Lost Revenues

As a result of facility closures, programming cancellations and initiatives taken to financially assist residents the City has lost significant revenues. Table 2 outlines the lost revenue to July 31, 2020.

**Table 2**

<b>Description</b>	<b>Amount</b>
Recreation Revenues	\$3,324,200
Parking Revenues	\$673,800
Tribute Communities Centre	\$2,222,200
Service Oshawa Fees	\$17,300
Oshawa Executive Airport	\$182,000
Penalties and Interest & Tax Fees Waivers	\$263,000
Other Miscellaneous Revenue Lost	\$442,600
Total (as at July 31, 2020)	\$7,125,100

The City will continue to experience additional revenue losses, including the potential of the following estimates:

- Recreation revenues until year end, approximately \$5,980,100 (full impact if programming is cancelled and/or the capacity for on-site programming is reduced).
- Parking Revenues to year end, approximately \$1,083,700.
- Other revenue losses from Service Oshawa, Licensing Services and other City revenue generating services.

**5.5 Cost Containment/Mitigation Strategies**

Finance Services, in conjunction with C.L.T., has been working on the identification of budget risk mitigation strategies to help offset the financial impacts of the COVID-19 crisis.

Staff have implemented a cost containment plan to control costs to the greatest extent possible and to offset lost revenue to ensure the long-term financial sustainability of the City. The outcomes of cost control, through the management of discretionary spending items, will minimize the potential deficit in the City’s operating budget at year end and mitigate the impact on City Reserves.

All discretionary staff training, conferences, professional development and travel have been suspended. A temporary hiring freeze has resulted in the delayed hiring of approximately 36 full-time positions, 4 regular part-time positions and 5 temporary positions. Temporary layoff notices were delivered to regular part-time and temporary part-time staff primarily in Recreation Services and Crossing Guards, a total of 438 individuals were impacted. These affected staff have been recalled to work as City facilities and Schools have re-opened.

A summary of the cost containment savings is outlined in Table 3.

**Table 3**

<b>Description</b>	<b>Amount</b>
Salary Savings	\$3,078,500
Seminars and Training	\$451,400
Contracted Services (i.e. Recreation Instructors)	\$649,700
Furniture Fixtures & Equipment	\$177,600
Tribute Communities Centre	\$245,600
Other Operating Savings	\$1,162,100
Total (as at July 31, 2020)	\$5,764,900

City staff will continue to closely monitor the budget and continue to implement cost containment measures as opportunities are identified.

### 5.6 Financial Position Operating Budget as at July 31, 2020

The financial position as at July 31, 2020 is unfavourable by \$1,827,000. A breakdown of the variances by department is shown in Table 4.

**Table 4**

	<b><u>Budget Variance</u></b> <b><u>(in 000's)</u></b>
Corporate Revenue	(914)
Executive and Legislative	0
Office of the Chief Administrative Officer	331
Corporate Services	(164)
Finance Services	157
Community Services	87
Development Services	525
Municipal Parking	(787)
Oshawa Executive Airport	30
Tribute Communities Centre	(1,930)
Corporate Expenditures	838
Total (as at July 31, 2020)	(1,827)

#### Variance Explanations:

Corporate Revenue is tracking unfavourable to budget as at July 31, 2020, this section of the budget does not include operational revenue streams such as Recreation, Parking, etc. It is expected that this section of the budget will continue to track as unfavourable through the end of the year due to the impacts of waiving the penalties and interest on property taxes and other revenue impacts.

The variances in the Office of the Chief Administrative Officer, Finance Services and Development Services departments are predominantly due to salary savings and cost containment measures.

The Corporate Services Department is tracking approximately \$164,000 unfavourable to budget due to the cost of Technology Equipment and Software and lost revenues in Licensing Services and Municipal Law Enforcement, partially offset by salary savings and cost containment measures.

The Community Services Department is tracking approximately \$87,000 favourable to budget as a result of significant salary savings and cost containment measures mitigating a portion of the lost recreation revenues.

Municipal Parking is tracking unfavourable to budget by approximately \$787,000 due to revenue losses.

Corporate Expenditures is tracking favourable to budget by approximately \$838,000 due to the temporary suspension of the internal audit program following the expiration of KPMG's contract on March 31, 2020. The corporate litigation account is estimated to be \$200,000 favourable to budget. Also, the Corporate Expenditure budget included approximately \$100,000 for public relations activities that will not take place in 2020 and \$100,000 as a provision for contingencies, these amounts will be realized as savings.

It is important to note the known financial impacts related to the COVID-19 crisis are reflected in the July 31<sup>st</sup> financial position. The conditions related to recovery and reopening are changing on a continuous basis therefore the estimates for future forecasts will be based on high-level assumptions, at this time.

## **5.7 Forecast to Year End**

As the City re-opens facilities, it will be a gradual transition to resume operations to full capacity. The full financial impacts of the pandemic are unknown at this time.

The financial results at July 31, 2020 show the City is currently tracking behind the approved operating budget as outlined in Section 5.6 of this report.

In May, through an analysis of potential phased revenue recovery scenarios, some high-level assumptions were developed to forecast the financial position of the City to year end. The forecasted financial position of the City to December 31, 2020 is unfavourable to budget by approximately \$2.6M. Currently the City's financial position is tracking towards the initial estimate.

## **5.8 Federal-Provincial Financial Assistance**

Both the Provincial and Federal governments have implemented a number of programs offering financial assistance to individuals, small businesses and landlords to partially relieve the financial challenges they are currently experiencing.

On August 12, 2020, the City received correspondence from the Minister of Municipal Affairs and Housing regarding the Federal-Provincial Safe Restart agreement and municipal funding allocations, Attachment 2.

Under Phase 1 of this funding the City of Oshawa will receive a payment of \$4,012,300 to support COVID-19 operating costs and pressures.

The investment of \$1.39 billion in the municipal operating stream, provides support to municipalities to help them address financial pressures related to COVID-19 and maintain critical services. Any excess funding must be put into reserves to be accessed to support COVID-19 operating costs and pressures that may continue in 2021.

The funding under the Federal-Provincial Safe Restart is allocated in two phases: 50% allocated in Phase 1 for all municipalities, and 50% allocated in Phase 2 for municipalities that require additional funding.

The second phase of funding is available to those municipalities that can demonstrate that 2020 COVID-19 operating costs and pressures exceed their Phase 1 allocation.

## **6.0 Financial Implications**

As at July 31, 2020, the City's financial position is a \$1.8 million unfavourable variance to budget and is expected to increase to approximately \$2.6 million by December 31, 2020.

Staff are reviewing the impact on the City's financial position as a result of the COVID-19 crisis on a daily basis. This includes refining expenditure and revenue forecasts identifying mitigating actions such as adjusting service levels, determining how various funding sources can be used to offset the pressures, identifying any issues with respect to property tax collection and confirming the City's cash position.

The funding received under the Federal-Provincial Safe Restart Agreement will mitigate the budget shortfall in 2020.

## **7.0 Relationship to the Oshawa Strategic Plan**

The preparation and adoption of the annual budget supports the Oshawa Strategic Plan goals of Economic Prosperity & Financial Stewardship and Accountable Leadership by providing proactive and responsible financial management while ensuring respect and transparency.



Stephanie Sinnott, Commissioner,  
Finance Services



## Public Report

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To: Council in Committee of the Whole

From: Stephanie Sinnott, Commissioner,  
Finance Services

Report Number: CNCL-20-50

Date of Report: May 20, 2020

Date of Meeting: May 25, 2020

Subject: Preliminary Financial Impacts of COVID-19

File: C-1000

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### **1.0 Purpose**

The purpose of this report is to provide City Council with a preliminary estimate of the financial impacts resulting from the City's response to COVID-19.

### **2.0 Recommendation**

It is recommended to City Council:

That Report CNCL-20-50, dated May 20, 2020 concerning the preliminary financial impact to the City of Oshawa due to the COVID-19 pandemic, be received for information.

### **3.0 Executive Summary**

The COVID-19 global pandemic has created significant impacts to the City of Oshawa ("City") both operationally and financially.

Since the conditions of the pandemic and recovery process are continuously changing, the financial information presented in this report is a point in time snap-shot based on April 30, 2020 results.

While the City has experienced both lost revenues and incremental expenses, the cost containment measures that have been taken to date have partially mitigated the impact.

The COVID-19 Pandemic Response Update, Report CNCL-20-24, outlined the financial impact at \$1.939 million unfavourable as at April 20, 2020. Through a series of cost containment measures and the refinement of estimates the City is tracking marginally behind the approved operating budget at April 30, 2020 showing an overall unfavourable variance of \$0.269 million. However, the City should be prepared for more significant impacts to the bottom line over the next few months due to the impacts of property tax relief initiatives and other lost revenues.



With the information available on April 30, 2020, it is forecasted that the City's financial position could be unfavourable by \$0.932 million at June 30<sup>th</sup> and \$2.561 million at December 31, 2020.

Staff are reviewing the impact on the City's financial position as a result of the COVID-19 crisis on a daily basis. This includes refining expenditure and revenue forecasts identifying mitigating actions such as adjusting service levels, determining how reserves can be used to offset the pressures, identifying any issues with respect to property tax collection and confirming the City's cash position.

Updates on the City's financial impacts and forecasted financial position related to COVID-19 will be presented to Council once more information is available.

## **4.0 Input From Other Sources**

Corporate Leadership Team (C.L.T.)

## **5.0 Analysis**

### **5.1 Background**

On March 11, 2020 the World Health Organization declared COVID-19 a global pandemic. Since that time the City's operations have changed significantly in response to the crisis. This includes facility closures, program cancellations, and various service reductions. The City also introduced interim measures to provide some financial relief to taxpayers by waiving penalties and interest charges on overdue tax payments. All of the measures currently in place to respond to the COVID-19 crisis have resulted in both lost revenue and incremental expenses; however the cost containment measures that have been taken to date have partially mitigated the impact.

### **5.2 Financial Stewardship**

Through this crisis, a strategic context of financial stewardship, one of the foundational guiding principles of the Oshawa Strategic Plan, has been used to address the numerous issues which are impacting the community and to ensure the long-term financial sustainability of the City.

The City is ensuring responsible taxation to preserve the long-term strength of the property tax base, as property taxes represent the most significant share of municipal revenues required to fund City services. Tax deferral and cancellation of fees provides short-term relief to taxpayers while ensuring essential funding to maintain services. Significant losses in taxation revenue could require a reduction of services or a disproportionate increase in property taxes in the future.

The City is ensuring that it remains in compliance with Legislation. The City needs to be aware of the bonusing provisions of the *Municipal Act, 2001*, S.O. 2001, c. 25 ("*Municipal Act, 2001*") and ensure the equality of treatment for any programs it provides to its residents and businesses.

The City needs to use its Reserves and Reserve Funds appropriately to manage financial challenges. The City has limited Reserves to manage some of the financial unpredictability resulting from the COVID-19 crisis. These Reserves should be used for the purpose for which they were set aside.

The update to the City's Financial Strategy scheduled later in 2020 will be critical to manage the short and medium term financial effects of the pandemic.

### **5.3 Senior levels of government assistance programs**

Both the Provincial and Federal governments have implemented a number of programs offering financial assistance to individuals, small businesses and landlords to partially relieve the financial challenges they are currently experiencing.

Municipalities across Canada have identified similar financial challenges as a result of COVID-19 and are joining together through the Federation of Canadian Municipalities (FCM), the Association of Municipalities of Ontario (AMO) and the Large Urban Mayors Caucus of Ontario (LUMCO) to bring the fiscal challenges to the attention of Federal and Provincial governments. A Federal and Provincial response to this issue will be critical to assist municipalities in closing their funding gaps in order to maintain balanced budgets and avoid burdening municipal property tax payers.

Given the significant impact on taxpayers and the City budget, it is important to advocate for Federal and Provincial funding to offset the City's additional costs and lost revenues as a result of the COVID-19 pandemic. As such the Mayor of the City of Oshawa, based on direction from Council, has written to the Premier (Attachment 1) and Prime Minister (Attachment 2) to request the establishment of a straight forward, direct and flexible municipal financial assistance program.

### **5.4 Property Tax Support**

#### **5.4.1 Current Tax Relief Measures**

To assist our community financially in this time of uncertainty, in consultation with the other Region of Durham Area Treasurers, the City has provided the following property tax relief measures:

- A two month grace period on the April installment such that no penalties and interest will be charged until after June 30, 2020.
- The first installment of the final residential billing, slated for June 26, 2020, will be delayed by one month to July 24, 2020.
- That dishonored cheque fees and pre-authorized payment related fees will be waived.
- Tax collection activities have been suspended.

- The City is not initiating any new tax sale registrations and current tax sale registration files have been placed on hold.

The measures implemented by the City are consistent with those of the other municipalities in the Region of Durham. These property tax relief efforts will remain in effect until the State of Emergency declared by the Province of Ontario has been lifted.

#### **5.4.2 Postponement of the Planned Property Tax Reassessment for 2021**

The Provincial government is postponing the planned property tax reassessment for 2021. Postponing the reassessment will provide stability for Ontario property taxpayers and municipalities.

Property taxation is based on the assessed value of properties and are updated every four years. The next property reassessment had been scheduled to be completed by the Municipal Property Assessment Corporation (“MPAC”) in 2020 for the 2021 taxation year. The assessments for the 2021 taxation year will continue to be based on the same valuation that was in effect for the 2020 taxation year.

This measure will not have a financial impact on municipalities because MPAC will continue to maintain the assessment role and ensure that it is updated to reflect changes such as new construction.

### **5.5 Investments and Cash Flow**

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 (i.e. through lowering of interest rates) and fiscal policy (i.e. by introducing spending and tax relief measures for residents and businesses.)

On April 15, the Bank of Canada released the April 2020 monetary policy report which includes projections on economic growth. The report estimates significant economic contraction as compared to 2019 and is estimating close to zero percent inflation over the second quarter of 2020. The Bank of Canada held its regularly scheduled interest rate announcement on April 15, 2020 which confirmed that the key overnight interest rate will remain at 0.25 percent.

Currently, the City's investment portfolio is well-positioned. In fiscal 2020 the City has \$19.5 million in long term investments maturing. One investment of \$2.5 million maturing in July 2020 could be affected by the decline in interest rates as a result of COVID-19. There is only one investment valued at \$5.0 million that is directly impacted by the decline in interest rates as it is a floating rate investment. Other long-term investments totaling \$20.5 million have uncertain interest rate risk related to Step-up Notes that have callable features with maturities post 2020. All other investments are positioned well in fixed GIC's and are not affected by the current monetary policy until maturity. Shorter term investments that mature and liquid assets are monitored closely.

The City has a stable cash balance which has been set aside in various reserves and capital programs; however, the interest earned on the City's cash account is estimated to

decline by approximately \$500,000 by year end. This pressure can be mitigated through a revision to the interest allocations to the City's Reserves and Reserve Funds.

A number of factors have contributed to the stability of the City's cash flow:

- As of the installment due date on April 27, 2020 property tax collections were approximately 85%.
- Remittances to the Region of Durham have been modified for the April installment to reflect actual collections with amounts due on May 4, 2020 (approximately \$29.7 million) and the remainder of the installment due on July 7, 2020 (approximately \$6.3 million).
- The Province has deferred the education installments due in June and September 2020 by 60 days. Each remittance for the School Board installments is approximately \$15 million. However, the final installment in December will be approximately \$30 million.
- There are a reduced number of Accounts Payable invoices requiring payment due to the service delivery modifications made by the City resulting from the pandemic.
- Maintenance of Accounts Receivable collections remains stable although the City is not aggressively pursuing or charging interest on overdue accounts.
- Investing activity decisions are based upon liquidity requirements versus investment interest revenue and alignment with the cash flow budget and City requirements. The strategy has been focusing more on shorter term investments and liquidity while fiscal policies begin to correct the markets. This will ensure the City has available liquid assets when necessary.

A graph showing the City's budgeted cash flow, actual cash flow (to April 30, 2020) and projected cash flow with COVID impacts can be found in Attachment 3.

Future cash flows are somewhat unpredictable if taxes are uncollected, the City experiences a significant amount of property tax write offs, if there are diminished returns on the dividends received from the Oshawa Power & Utilities Corporation, reduced User Fees revenues and any other residual impacts during the economic recovery period.

The City currently has an unutilized line of credit with its bank, the Royal Bank of Canada, in the amount of \$2 million as authorized through the City's Borrowing By-law (By-law 5-2020). There is an ability to draw on the line of credit to borrow any sums as may be necessary to meet the current expenditures of the corporation.

Staff will continue to closely monitor cash flow to ensure that appropriate mitigation strategies are utilized to protect the City's liquid assets.

### 5.6 COVID-19 Specific Expenses

The City has incurred some incremental costs that are a direct result of the COVID-19 crisis. The costs include the purchase of Personal Protective Equipment including masks sanitizers and gloves, it also includes additional leased laptops and other technology needed to support more employees to work from home and maintain social distancing in the office. The total cost as of April 30, 2020 is approximately \$405,700 as outlined in Table 1.

**Table 1**

<b>Description</b>	<b>Amount</b>
Hand-Sanitizer & Personal Protective Equipment	\$90,000
Technology Equipment & Software	\$91,200
Waste Contractors (staff shortages)	\$35,900
Additional Overtime in Fire Services	\$107,800
Contribution to Canadian Mental Health for Mission United	\$12,500
Miscellaneous Operating Expenses	\$68,300
Total (as at April 30, 2020)	\$405,700

A significant amount of staff time has been redirected from core job responsibilities and dedicated to COVID-19 related activities. Since this time was already incorporated into the City's 2020 Operating Budget it is not captured in this analysis as an additional expense.

### 5.7 Lost Revenues

As a result of facility closures, programming cancellations and initiatives taken to financially assist residents the City has lost significant revenues. Table 2 outlines the lost revenue to April 30, 2020.

**Table 2**

<b>Description</b>	<b>Amount</b>
Recreation Revenues	\$2,265,300
Parking Revenues	\$293,500
Tribute Communities Centre	\$519,900
Service Oshawa Fees	\$13,500
Total (as at April 30, 2020)	\$3,092,200

The City will continue to experience additional revenue losses, including the potential of the following estimates:

- Recreation revenues until year end, approximately \$3,325,000 (full impact if programming is cancelled and facilities remain closed).
- Lost penalties and interest on property taxes, approximately \$675,000 (assuming no additional property tax relief initiatives are approved in 2020).

- Tribute Communities Centre, approximately \$1,000,000 (assuming remaining events do not take place in 2020).
- Parking Revenues, approximately \$492,400 (for the months of May and June only).
- Lost revenues at the Oshawa Executive Airport, approximately \$182,000 to year end.
- Other revenue losses from Service Oshawa, Licensing Services and other City revenue generating services.

**5.8 Cost Containment/Mitigation Strategies**

Finance Services, in conjunction with C.L.T., has been working on the identification of budget risk mitigation strategies to help offset the financial impacts of the COVID-19 crisis.

Staff have implemented a cost containment plan to control costs to the greatest extent possible and to offset lost revenue to ensure the long-term financial sustainability of the City. The outcomes of control cost, through the management of discretionary spending items, will minimize the potential deficit in the City’s operating budget at year end and mitigate the impact on City Reserves.

All discretionary staff training, conferences, professional development and travel have been suspended. A temporary hiring freeze has resulted in the delayed hiring of approximately 35 full-time positions. Temporary layoff notices have been delivered to regular part-time and temporary part-time staff primarily in Recreation Services and Crossing Guards, a total of 417 individuals were impacted.

A summary of the cost containment savings is outlined in Table 3.

**Table 3**

<b>Description</b>	<b>Amount</b>
Salary Savings	\$1,044,700
Seminars and Training	\$390,800
Contracted Services (i.e. Recreation Instructors)	\$649,700
Furniture Fixtures & Equipment	\$170,800
Tribute Communities Centre	\$139,900
Other Operating Savings	\$1,264,400
Total (as at April 30, 2020)	\$3,660,300

City staff will continue to closely monitor the budget and continue to implement cost containment measures as required.

### 5.9 Financial Position Operating Budget as at April 30, 2020

The financial position as at April 30, 2020 is unfavourable by \$269,000. A breakdown of the variances by department is shown in Table 4.

**Table 4**

	<b><u>Budget Variance</u></b> <b><u>(in 000's)</u></b>
Corporate Revenue	0
Executive and Legislative	0
Office of the Chief Administrative Officer	197
Corporate Services	(144)
Finance Services	49
Community Services	(353)
Development Services	109
Municipal Parking	(85)
Tribute Communities Centre	(380)
Corporate Expenditures	338
Total (as at April 30, 2020)	(269)

Variance Explanations:

Corporate Revenue is tracking to budget as at April 30, 2020, this section of the budget does not include operational revenue streams such as Recreation, Parking, etc. It is expected that this section of the budget will start to track as unfavourable through the months of May and June due to the impacts of waiving the penalties and interest on property taxes and other revenue impacts.

The variances in the Office of the Chief Administrative Officer, Finance Services and Development Services departments are predominantly due to salary savings and cost containment measures.

The Corporate Services Department is tracking approximately \$144,000 unfavourable to budget due to the cost of Technology Equipment and Software and lost revenues in Clerk Services, Service Oshawa and Licensing Services, partially offset by salary savings and cost containment measures.

The Community Services Department is tracking approximately \$353,000 unfavourable to budget as a result of lost recreation revenues, partially offset by salary savings for employees who were laid off because of facility closures.

Municipal Parking is tracking unfavourable to budget by approximately \$85,000 due to revenue losses.

Corporate Expenditures is tracking favourable to budget by approximately \$338,000 due to the temporary suspension of the internal audit program following the expiration of KPMG's contract on March 31, 2020. KPMG is currently wrapping up the remainder of the audits outstanding from the internal audit plan. Also, the Corporate Expenditure budget included

approximately \$100,000 for public relations activities that will not take place in 2020 and \$100,000 as a provision for contingencies, these amounts will be realized as savings.

It is important to note the known financial impacts related to the COVID-19 crisis are reflected in the April 30<sup>th</sup> financial position. The conditions related to recovery and reopening are changing on a continuous basis therefore the estimates for future forecasts will be based on high-level assumptions, at this time.

### **5.10 Capital Budget**

A review of the City's capital program was conducted to determine if any projects could be paused or deferred to 2021.

A few capital projects have been deferred to 2021, however, the majority are scheduled to be completed in this fiscal year.

There were two projects included in the 2020 capital budget that were proposed candidates for the Investing in Canada Infrastructure Program ("ICIP") totaling \$15.535 million. These projects are the redevelopment of Rotary Park and Splash Pad redevelopment and expansion program. The status of the ICIP grant applications are unknown at this time. Funding award announcements were originally expected in the early summer of 2020. If the City is unsuccessful in obtaining grant funding, these projects will not proceed until an alternate financing strategy is developed.

The City's Capital Budget for 2020 included \$44.699 million of projects. The portion of the total funding envelope contributed through the operating budget is \$1.090 million.

Approximately fifty percent of the operating contribution is a product of the Development Charge leveraging program that was introduced in the 2015 budget, which staff started a gradual phase out of the funding in the 2020 budget to mitigate the full impact in 2024. The funds from this program are redirected to the debenture payments on the Delpark Homes Centre.

Two capital projects were eliminated from the 2020 budget, for technical resources related to the Workforce Management Software implementation and Horizontal Control Monuments, resulting in \$200,000 being returned to the operating budget.

The remainder of the projects funded through the operating budget are planned to proceed as they primarily relate to critical projects designed to address health & safety concerns, risk mitigation for facility protection and accessibility improvements. Proceeding with these projects will be instrumental in creating employment in the community.

### **5.11 Reserves**

Reserves are a critical component of a municipality's long term financial strategy and are integral to fiscal sustainability. They help to respond to year-end deficits, funding of extraordinary expenses, buffer a municipality from major swings in tax levy requirements and funding of infrastructure requirements. The City currently maintains operating reserves, capital reserves and development charge reserves.



As stated in the Financial Stewardship strategic context in section 5.2 of this report, Reserves should be used for the purpose in which they were set aside.

### Operating Reserves

There are several Operating Reserves that the City could consider using to offset some of the financial impacts of the pandemic.

The Tax Rate Stabilization Reserve was established to provide funding to minimize the adverse effect of any shortfalls in annual revenues, or unforeseen increases in annual expenditures, and to help offset increases in taxes.

The Tax Appeal Reserve Fund was established to respond to major property tax appeals.

The Operations Reserve is maintained to minimize the adverse effects of major weather-related storms and unforeseen events.

The Remuneration Reserve is a combination of the Workplace Safety and Insurance Board (W.S.I.B.) reserve, the Sick leave reserve, the 27th pay reserve and additional contributions related to other unforeseen employment related expenditures.

It is extremely important to note that although there are uncommitted balances in these reserves in 2020, it does not take into account the 10-year planning horizon for the future requirements of these reserves.

### Development Charge Reserves

The use of Development Charge Reserves must be in accordance with the *Development Charges Act, 1997*, S.O. 1997, c. 27. These Reserves are more prescript as the collection rates for the revenue deposited into and the capital expenditures are defined in the most recent iteration of the Development Charge Background Study (“DCBS”). The City is not able to draw upon these Reserves outside of the requirements defined in the DCBS.

### Capital Reserves

The single most significant pressure on the City’s Reserves is the level of funding available for the future rehabilitation and replacement of major infrastructure. In the 2020 capital budget, the infrastructure deficit shown through the forecast period to 2029 was an estimated \$530.8 million.

It is not recommended that the City draw on its capital reserves to respond to the financial pressures of the pandemic.

## **5.12 Forecast to Year End**

As the City embarks on the process of re-opening, it will be a gradual transition to resume operations to full capacity. The full financial impacts of the pandemic are unknown at this time.

The financial results at April 30, 2020 show the City is currently tracking marginally behind the approved operating budget as outlined in Section 5.9 of this report.

Through an analysis of potential phased revenue recovery scenarios, some high-level assumptions were developed to forecast the financial position of the City at June 30 and to year end. These estimates are based on information as available at April 30, 2020 and does not include potential lost revenue amounts outlined by the bulleted items in Section 5.7 of this report.

The forecasted financial position of the City to June 30, 2020 is unfavourable to budget by approximately \$932,000 and to December 31, 2020 is approximately \$2,560,600.

Under Section 290 of the *Municipal Act, 2001*, a municipality cannot budget for a deficit in any given year. The *Municipal Act, 2001* specifies that municipality can run a deficit in a given year, but any such deficit must be funded through the use of Reserves or the deficit must be provided for in the following year's budget by increasing taxes or revenues or reducing expenditures. The Act states that the municipality cannot borrow to fund a deficit unlike the Federal and Provincial governments.

The COVID-19 crisis has the potential to create a significant burden on the taxpayers of the City therefore financial assistance will be required from Provincial and Federal governments.

## **6.0 Financial Implications**

The COVID-19 Pandemic Response Update, Report CNCL-20-24, outlined the financial impact at \$1.939 million unfavourable as at April 20, 2020. Through a series of cost containment measures and the refinement of estimates the City is tracking marginally behind the approved operating budget at April 30, 2020 showing an overall unfavourable variance of \$0.269 million, primarily as a result of lost revenues on tax-supported operations.

The unfavourable variance is expected to increase to approximately \$0.932 million to the end of June and potentially increase to approximately \$2.561 million by December 31, 2020.

Staff are reviewing the impact on the City's financial position as a result of the COVID-19 crisis on a daily basis. This includes refining expenditure and revenue forecasts identifying mitigating actions such as adjusting service levels, determining how reserves can be used to offset the pressures, identifying any issues with respect to property tax collection and confirming the City's cash position.

## 7.0 Relationship to the Oshawa Strategic Plan

The preparation and adoption of the annual budget supports the Oshawa Strategic Plan goals of Economic Prosperity & Financial Stewardship and Accountable Leadership by providing proactive and responsible financial management while ensuring respect and transparency.

A handwritten signature in black ink, appearing to read 'S. Sinnott', written in a cursive style.

Stephanie Sinnott, Commissioner,  
Finance Services

**Ministry of  
Municipal Affairs  
and Housing**

Office of the Minister  
777 Bay Street, 17<sup>th</sup> Floor  
Toronto ON M7A 2J3  
Tel.: 416 585-7000

**Ministère des  
Affaires municipales  
et du Logement**

Bureau du ministre  
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Toronto ON M7A 2J3  
Tél. : 416 585-7000



234-2020-3359

August 12, 2020

Mayor Dan Carter  
City of Oshawa  
50 Centre Street S.  
Oshawa ON L1H 3Z7

Dear Mayor Carter:

On July 27, 2020, as part of the federal-provincial Safe Restart Agreement, the Ontario government announced that it had secured up to \$4 billion in emergency assistance to provide Ontario's 444 municipalities with the support they need to respond to COVID-19. I am writing to you today to provide further details on this funding investment.

Municipalities play a key role in delivering critical services that Ontarians rely on and are at the frontlines of a safe reopening of the economy. This investment will provide support to municipalities and public transit operators to help them address financial pressures related to COVID-19, maintain critical services and protect vulnerable people as the province safely and gradually opens. It includes:

- Up to \$2 billion to support municipal operating pressures, and
- Up to \$2 billion to support municipal transit systems.

The Honourable Caroline Mulroney, Minister of Transportation, will provide more information on the transit stream of this funding.

I would also like to acknowledge the Federal government in their role in this historic agreement. As Premier Ford has indicated, "by working together, we have united the country in the face of the immense challenges brought on by COVID-19 and secured a historic deal with the federal government to ensure a strong recovery for Ontario and for Canada".

Under the municipal operating stream, \$1.39 billion will be available to Ontario's municipalities to address operating pressures and local needs. This funding will be allocated in two phases: 50% allocated in Phase 1 for all municipalities, and 50% allocated in Phase 2 for municipalities that require additional funding.

The Safe Restart Agreement also includes a second phase of Social Services Relief Funding (SSRF) totalling \$362 million. This is in addition to significant investments made earlier to the SSRF and in support of public health. Details will be outlined in a letter to Service Managers in the coming days.

#### Municipal Operating Funding Phase 1: Immediate Funding for Municipal Pressures

Phase 1 of this funding will be allocated on a per household basis and I am pleased to share that the **City of Oshawa will receive a payment of \$4,012,300** to support your COVID-19 operating costs and pressures.

Please note that your municipality is accountable for using this funding for the purpose of addressing your priority COVID-19 operating costs and pressures. If the amount of the funding exceeds your municipality's 2020 COVID-19 operating costs and pressures, the province's expectation is that your municipality will place the excess funding into reserves to be accessed to support COVID-19 operating costs and pressures that you may continue to incur in 2021. Your municipality will be expected to report back to the province in March 2021 with details on your 2020 COVID-19 operating costs and pressures, your overall 2020 financial position, and the use of the provincial funds in a template to be provided by the ministry. More details on this reporting will be shared in the coming weeks.

**In the meantime, I am requesting that your municipal treasurer sign the acknowledgement below and return the signed copy to the ministry by email by September 11, 2020 to [Municipal.Programs@ontario.ca](mailto:Municipal.Programs@ontario.ca).** Please note that we must receive this acknowledgement before making a payment to your municipality. We intend to make payments to municipalities in September, subject to finalizing details.

#### Phase 2: Funding for Additional Municipal Pressures

I anticipate that the funding our government is providing through Phase 1 of the municipal operating stream will be sufficient to address COVID-19 costs and pressures for most municipalities. However, we recognize that some municipalities have experienced greater financial impacts arising from COVID-19 than others. As a result, we are offering a second phase of funding to those municipalities that can demonstrate that 2020 COVID-19 operating costs and pressures exceed their Phase 1 per household allocation.

To be considered for this Phase 2 funding, municipalities will be required to submit reports outlining their COVID-19 operating costs and pressures in a template to be provided by the ministry. **These reports will be due by October 30, 2020.** Municipalities that require additional time to submit their report are asked to reach out to their Municipal Services Office contact by October 30, 2020 to request an extension to November 6, 2020. **Please note that the ministry is unable to consider municipal requests for Phase 2 funding if the municipality has not submitted its report by November 6, 2020.**

A template for this municipal report and request for consideration for Phase 2 funding will be provided shortly and will require:

1. Information about measures the municipality has undertaken to reduce financial pressures (e.g. use of reserves, cost saving measures);
2. Explanation of how the municipality applied or plans to spend Phase 1 funding towards COVID-19 operating costs and pressures;
3. A year-end forecast of COVID-19 operating costs and pressures;
4. Actual COVID-related impacts as of the end of Q3 of the municipal fiscal year (September 30, 2020);
5. Treasurer's statement as to accuracy of reporting;
6. Resolution of Council seeking additional funding.

Municipalities who are eligible and approved to receive funding under Phase 2 will be informed before the end of the calendar year and can expect to receive a payment in early 2021.

Our government will continue to be a champion for communities as we chart a path to a strong economic recovery. We thank all 444 Ontario municipal heads of council for their support through our negotiations with the federal government. Working together, we will ensure Ontario gets back on track.

Sincerely,



Steve Clark  
Minister of Municipal Affairs and Housing

c. Municipal Treasurer and Municipal CAO

By signing below, I acknowledge that the per household allocation of \$4,012,300 is provided to the City of Oshawa for the purpose of assisting with COVID-19 costs and pressures and that the province expects any funds not required for this purpose in 2020 will be put into reserves to support potential COVID-19 costs and pressures in 2021. I further acknowledge that the City of Oshawa is expected to report back to the province on 2020 COVID-19 costs and pressures and the use of this funding.

Name:

Title:

Signature:

Date: