

Financial and Operational Implications of COVID-19

ISSUE

The COVID-19 pandemic has presented an unprecedented challenge for the entire globe, including causing financial impacts for citizens, businesses and governments including the City of Saskatoon.

RECOMMENDATION

That the Administration be directed to proceed with the recommended service levels as outlined in the report of the Chief Financial Officer dated April 27, 2020.

BACKGROUND

The purpose of this report is to provide a high-level estimate of the potential financial impact from the COVID-19 pandemic to the corporation of the City of Saskatoon (City) based on assumptions and using the most current information available. However, as the situation is fluid, the assumptions and forecasts included in this report could significantly change as time passes. In addition, continued refining of the operational plans may be required as the situation changes, and City Council input and direction on operating programs is required.

DISCUSSION/ANALYSIS

City Council approved the City's first two-year multi-year Operating and Capital Budgets for 2020 and 2021 in December 2019. The estimates in this report for operating year 2020 are a significant departure from those in the budget as a result of the pandemic. The duration of the pandemic is uncertain and while this report focuses on the 2020 financial and operating impacts, it is very likely that there will be longer lasting impacts that go beyond the current year. The Administration will be bringing these further impacts in preparation for the review and formalization of the 2021 budgets later this year.

The Administration developed a series of key planning principles to guide the strategy presented in this report. These principles are largely reflective of those the Administration used to make urgent decisions in the earlier days of the pandemic. As the City tackles the many issues facing the organization and the community, principles will provide guidance in making decisions in a time where there is little or no precedence. For example, physical distancing and stay-at-home orders have significantly altered the way the workforce provides services which impacts service levels and delivery methods which could result in the loss of revenue and/or increased costs.

Closures of all public facilities and venues have also resulted in loss of revenue and impacted the employment of many civic staff. And at the same time, businesses have closed affecting the economy and employment of many in the community. These new realities underlie the rationale for the establishment of a principled approach. Any

redirection on these principles from City Council would be welcomed by the Administration.

1. *Public Health and Safety*
To help stop the spread of the coronavirus and to keep citizens and staff safe, the delivery of services must be adjusted to ensure citizen and employee health and safety is top of mind. Creating the conditions for safety of all is critical and the City plays a leadership role in Saskatoon and in the province.
2. *Continued Compliance with Legislation, Health Orders, and Union Agreements*
The City continues to follow the rules that are in place. *The Cities Act* provides the framework in which the City operates. In addition, during this State of Emergency declared by the provincial government, there are health orders in which all citizens and organizations must follow. The City also has a number of negotiated Collective Bargaining Agreements (CBAs) with its employee unions that provide the rules with respect to the terms and conditions of its employees which are followed.
3. *Collaboration with Other Levels of Government*
As each level of government has different areas of responsibility, the actions of the City must be in collaboration with provincial and federal governments to ensure cost effective programs and supports can be implemented while avoiding duplication. Working together to ensure no one is left behind is a key focus.
4. *Consideration of Community Financial Stress*
The citizens of Saskatoon are facing financial challenges with respect to the closures of many businesses and organizations during the pandemic. Providing temporary relief without placing citizens in a longer term negative financial situation while at the same time balancing decisions against the City's long-term financial situation is important.
5. *Divergence from City's Financial Plan is Temporary*
The pandemic is having a major financial impact on the City's operating budget. However, any deviation from the City's financial plan needs to be temporary and any assistance to the public and businesses should be considered as one-time or have a defined end date. In assessing the actions for recovery from this crisis, a longer term strategy would need to be developed.
6. *The Need to Preserve the City's Assets*
Decisions regarding service level adjustments and reallocating resources during the pandemic need to be made such that the condition of the City's assets is not negatively impacted that would require replacement or significant reinvestment to bring the asset back to pre-pandemic condition.
7. *Maintain Quality of Life*
As much as possible during times of uncertainty and disruption, the delivery of services must continue in a way that maintains the quality of life Saskatoon citizens deserve and expect.

8. *Monitoring the City's Liquidity Position*
The City has the benefit of having a strong liquidity position with healthy cash balances to endure a temporary disruption to operations. The actions and decisions by the City consider the impact to these balances to ensuring ongoing operation.
9. *Consideration of the Economy of the Community*
Keeping as much of the economy going as possible, while keeping people safe. With much of the economy being shut down at this time, the City needs to consider the continued investment in the community.
10. *Focus on Corporate Values*
In dealing with employees and other actions taken by the civic Administration, adherence to the City's corporate values is important.
11. *Use Data and Evidence to Make Decisions*
Emotions can affect decision making. In order to be strategic and effective in the actions taken it is important to review and analyze data and evidence to guide the decision-making process.

While each of these principles can stand alone in guiding decision-making, it is the entire set that brings forward a number of competing priorities. There are many possible solutions and options available with varying impacts that may be positive for some and negative for others. The complicated task is finding a reasonable balance of actions to address these, at times, competing priorities.

Responding to the Pandemic

There have been a number of actions taken by the City in addition to other levels of government in response to the pandemic. The most significant has been the declaration of the State of Emergency by the provincial government on March 18, 2020. On March 16 the City closed its leisure centres to the public followed by the closure of all other civic facilities on March 19.

The City quickly implemented a property tax and utility payment deferral program on March 19 where late payment fees on overdue property taxes and utility bills are waived until September 30, 2020. In addition, all utility disconnections have been suspended until September 30, 2020 resulting from overdue accounts. The estimated impact of these measures is about \$620,000 plus lost investment income from the deferred revenue stream.

In late March, to reduce the risk of transmission of the virus to riders and drivers, Transit altered its operations by implementing a rear-door entry and exit and having riders remain 2 metres between each other and from the bus operators. As a result, transit fare collection was suspended due to the inability to collect. Fare losses are approximately \$35,000 per day.

On the same day, payments for all designated pay parking zones were suspended. Parking meter revenue losses are about \$21,000 per fare day.

With these key decisions, all aimed to curtail the spread of the virus or provide temporary relief for citizens, there is a corresponding financial impact to the City.

Preliminary Financial Projections Due to COVID-19 Impacts

In assessing the financial impacts to the City's 2020 year-end financials, three scenarios were developed in conjunction with the Federation of Canadian Municipalities (FCM) to allow for standardized reporting amongst Canada's larger Cities:

Assumption	Scenario 1	Scenario 2	Scenario 3
Physical distancing restrictions lifted and services reopen	June 30, 2020	Sept. 30, 2020	Dec. 31, 2020

The assumptions in the financial forecast considers the response phase such as the length and extent of restrictions/closures followed by a recovery phase that considers the rate of recovery after the restrictions are lifted and the potential date of return to normal operations and service levels.

As an example, Transit under Scenario 1, would return to normal service July 1 and would resume collecting fares. However, ridership is assumed to not be at the same level as it was pre-pandemic, and therefore, the year-end forecast takes into consideration the lost revenue up to the scenario date plus any reduced revenues to December 31 even though fares have been reinstated July 1. In some cases such as Transit, there is the likelihood that the impact will extend into 2021 and potentially beyond. This report only addresses the 2020 impact.

Table 1 provides a summary of the estimates of the impact to the 2020 financial results for each of the three scenarios. Discussion of each of the items identified in Table 1 is provided below the table. The categories in Table 1 identify the key areas affected and follow the standardized FCM reporting. This table represents the items in which the Administration believes the City has little or no ability to control.

Table 1 – Summary of Estimated Impact to 2020 Financial Results

2020 YEAR-END PROJECTIONS RELATED TO COVID IMPACTS (000's)				
		Physical Distancing Ends:		
		June 30	Sept 30	Dec 31
IMPACTS DUE TO COVID - PROJECTIONS				
#	By Major Revenue / Expenditure Category	Surplus / (Deficit)	Surplus / (Deficit)	Surplus / (Deficit)
REVENUES:				
1	Transit / Access Transit Revenue	(7,213)	(9,159)	(10,492)
2	Parking Meter Revenues	(2,200)	(3,854)	(5,160)
3	Parking and Traffic Fines	(2,949)	(5,167)	(7,310)
4	Leisure Centre Closures - Revenue	(2,325)	(3,741)	(5,992)
5	Property Tax Penalty/ Utility Late Payment Fees	(664)	(664)	(664)
6	Investment Income	(1,828)	(1,948)	(1,995)
7	Landfill Revenue	(701)	(1,129)	(1,408)
8	Utility Revenue	(6,596)	(13,165)	(18,082)
9	Franchise Fee Revenue	(1,590)	(2,700)	(3,900)
10	Recreation Closures (Golf, Pools, Fields, Rinks, etc.)	(4,740)	(8,023)	(9,081)
11	Other Revenue	(1,547)	(3,130)	(4,511)
REVENUE SURPLUS / (DEFICIT) COVID RELATED		(32,353)	(52,680)	(68,595)
EXPENDITURES:				
12	Fuel Savings (Reduced volume and price)	1,526	1,940	2,358
13	Reduced Operating Expenditures from Closures	7,207	13,077	16,482
14	Reduced bulk power charges	2,000	2,300	2,400
15	Utility Stabilization Reserves	1,993	4,065	5,296
16	Increased costs due to COVID	(600)	(750)	(900)
EXPENDITURE SURPLUS / (DEFICIT) COVID RELATED		12,126	20,632	25,636
NET SURPLUS / (DEFICIT) PROJECTED TO YEAR-END		(20,227)	(32,048)	(42,959)
Percentage of Total Operating Budget 2020		3.8%	6.0%	8.1%
Equivalent to Property Tax %		8.25%	13.08%	17.53%

1. Transit altered its operations by implementing a rear-door entry and exit and having riders remain 2 metres between each other and from the bus operators. As a result, transit fare collection was suspended due to the inability to collect. It is estimated that after restrictions are lifted that ridership will continue to be negatively affected well into 2021 and could be longer and therefore the recovery of revenue will be slow.
2. In part to reduce the potential transmission of the virus from the parking meter stations, paid parking was suspended. Revenue is estimated to return to normal fairly quickly during recovery.
3. With paid parking suspended, the number of parking tickets being issued impacted revenue from violations. In addition, police has drastically reduced the number of traffic tickets being issued which also impacts fine revenues.

4. With the closure of the leisure centres the admissions revenue and programs revenue were lost. The rate of revenue recovery will likely be slow and could also impact 2021 revenues.
5. A property tax and utility payment deferral program was implemented whereby late payment fees on overdue property taxes and utility bills are waived until September 30. The estimated impact of these measures was estimated around \$620,000 plus lost investment income from the deferred revenue stream regardless of which scenario.
6. The deferral of property tax payment for three months before penalty is assessed in addition to the loss of many of the revenue streams identified in this report, means less cash to invest in addition to lower interest rates. While the majority of the impact will be felt in 2020, this will also impact the 2021 revenues. Since the announcement of the tax deferral program, the TIPPS monthly payments have dropped 18% which has compounded the cash flow reductions.
7. Due to the shutdown of most commercial business, the tonnage of waste being collected from these enterprises is less which translates into less landfill revenue. On recovery it is estimated that the revenue will quickly return to expected levels and may even exceed should there be a catch-up of renovation projects that were deferred during the restriction period.
8. With the closure of many commercial businesses utility revenues from this sector are negatively impacted especially on the water and electrical demand charges. As restrictions are lifted, the return to operations for these businesses could be affected depending on the length of the restriction period. An offsetting impact from reduced electrical usage is the amount of bulk power purchased from SaskPower which has been factored in the estimate.
9. With less electric usage it is expected that the franchise fees from the provincial utilities will also be less.
10. As restrictions go beyond June 30, the negative impact to recreation revenues dramatically increases with closures to pools, golf courses, Forestry Farm and Zoo, Gordon Howe Campground, Nutrien Playland, rinks and sports fields. With the recent announcement regarding golf course openings the impact is slightly overstated on the revenue side for the September and December scenarios. However, the additional costs of opening the golf courses is similarly understated, so the net change for the purpose of this report is negligible. Further reporting on this impact will be forthcoming once the Administration has finalized a detailed operational plan for golf courses considering the province's recently-announced requirements.
11. Other Revenue: Impacts will also affect many other programs such as grants-in-lieu of taxation from own utilities, cemeteries, planning and development fees, and animal and business licensing to mention a few.

12. Fuel prices per litre are lower resulting from many factors and will benefit the City. In addition there will be a decrease in volumes consumed due to reduced transit service in particular.
13. As facilities are closed and other potential closures such as pools, and the like, operational expenditures are reduced as much as possible that have positive expenditure impacts.
14. Reduced bulk power purchases from SaskPower due to reduced electric consumption.
15. Knowing that the City's utilities will be in deficit positions, the use of its stabilization reserves will be applied against these losses.
16. Increased costs related to COVID-19 include emergency measures planning, increased cleaning costs at facilities and at Transit, increased need for Personal Protective Equipment (PPE), staffing for playgrounds additional monitoring, etc.

Other impacts to note:

- The impact to the City's controlled corporations (TCU Place, SaskTel Centre, Remail Modern Art Gallery) as well as the Saskatoon Police Service and the Saskatoon Public Library are not included in this report. Revenue losses for the entertainment centres are significant but also have many expenditures that are variable and tied to these events that can be avoided. However, there are number of fixed costs that cannot be covered by profit margins that have been lost due to the closures. Sponsorship revenues could also be affected at these facilities.
- The Municipal Revenue Sharing Grant received each year from the provincial government is based on a formula tied to the Provincial Sales Tax base from the preceding year. For example the City's 2021 grant is based on the actual sales taxes figures ending March 31, 2020. While the 2021 grant will be only slightly impacted due to COVID-19-related closures and restrictions, it will be the 2022 grant that will have a significant impact for the City's budget in that year.

Based on these assumptions, the total estimated deficits for the three scenarios are as follows:

- Scenario 1 – Restrictions end June 30 – approximately \$20.2 million
- Scenario 2 – Restrictions end September 30 – approximately \$32.0 million
- Scenario 3 – Restrictions end December 31 – approximately \$42.9 million

Options for Consideration to Offset the Deficit

Due to the significant size of these projected deficits, the options to try to balance the budget by year-end would need to be drastic. Through the FCM the federal government

is being asked to consider a relief program for the municipal sector in which all Cities across Canada are suffering, especially those with Transit systems, however, the outcome of this request is uncertain.

The Administration has identified a number of options for City Council's consideration to address this deficit. While the deficit projections above result from primarily non-controllable impacts, there are controllable actions that could be undertaken to reduce the deficit. Some of these include service adjustments in a number of programs. Detailed service level discussions are appended to this report, and direction on these operating programs from City Council is required.

Table 2 summarizes the recommended actions the Administration proposes to implement.

Table 2 – Proposed Actions for Implementation

Item	Estimated Impact in \$000's
Discretionary Hiring (General Manager approval required for all vacancies)	\$1,200
Non-Essential Spending Freeze	\$ 750
Travel and Training Reductions	\$1,200
Partial Use of Fiscal Stabilization Reserve in 2020 (\$2.8 million) and Holding the remaining \$2 million for 2021	\$2,800
Partial Use of Existing Reserves	\$2,000
Service Adjustment – Street Cleaning and Sweeping (Appendix 1)	\$ 0
Service Adjustment – Road Maintenance (Appendix 2)	\$ 250
Service Adjustment – Fleet Services (Appendix 3)	\$ 0
Service Adjustment – Transportation Services (Appendix 4)	\$ 0
Service Adjustment – Waste Stream (Appendix 5)	\$ 109
Service Adjustment – Recreation and Community Development – Community Development (Appendix 6)	\$ 60
Service Adjustment – Recreation and Community Development – Recreation Facilities and Programs (Appendix 7) <i>Note: Recommended option is already included in forecasts</i>	\$ 0
Service Adjustment – Recreation and Community Development – Special Use Facilities (Appendix 8) <i>Note: Recommended option is already included in forecasts</i>	\$ 0
Service Adjustment – Parks Operations – Cemeteries (Appendix 9)	\$ 35
Service Adjustment – Parks Operations – Urban Forestry – Urban Biological Services (Appendix 10)	\$ 92
Service Adjustment – Parks Operations – Parks Maintenance and Design (Appendix 11)	\$1,018
TOTAL ESTIMATED IMPACT	\$9,514

With these actions, Table 3 summarizes the revised projected deficits under the three scenarios.

Table 3 – Summary of Revised Projected Deficits

(in 000's)	June 30	Sept. 30	Dec. 31
Projected Deficit	(\$32,353)	(\$52,680)	(\$68,595)
Actions Undertaken to Date and Other Adjustments	\$12,226	\$20,632	\$25,636
Recommended Options (Table 2)	\$ 9,514	\$ 9,514	\$ 9,514
Remaining Deficit	(\$10,093)	(\$22,014)	(\$32,925)

Relief from the federal and/or provincial governments could assist in filling the gap. If relief is not provided, the City must find a way to balance the budget at year-end. As per *The Cities Act*, any unfunded deficit at year-end must be added onto the following year's budget and that budget must be balanced in most cases through property taxes.

The Administration proposes a strategy to deal with the year-end deficit in 2020 whereby any remaining deficit is carried over to 2021. Should there be a remaining deficit that is not offset by relief packages, the Administration recommends that City Council consider making adjustments to the 2021 operating and capital budgets. This will allow the City to play an economic stimulus role in 2020 with already budgeted capital works, and continue to work with the other orders of government on relief solutions. Any unresolved deficit not covered by the City's own actions combined with relief packages would be dealt with in the 2021 budget. If no other options are available, the City could consider a reduction in capital transfers to reserves as one of the major actions to offset this amount so not to add to the property tax levy. It is still the Administration's view that capital investments are key to the maintenance of the City's assets that are used to meet the core needs of citizens, and as such, careful consideration of the implementation of this approach would be undertaken to limit the negative impact to these assets.

For example, while it is in conflict with the principle of preserving the City's assets, one option could be a one-time reduction in the contribution to the roadways preservation program in 2021. In the 2020 budget, \$36.2 million is a transfer to the Roadways maintenance reserve to meet the requirement to increase road conditions slowly over time with a target of an average 20-year return cycle (surface treat 5% of network each year). For example, a one-time reduction in the transfer to the reserve of 20% would save approximately \$7.2 million in the operating budget. While the Administration would normally not recommend this type of drastic action, it is an option that could be considered.

There may be other options for future consideration as well. For example, the Administration could review and report back on an option to reduce the overall planned transfer to the reserves tied to the Parking Revenue allocations, and thus mitigating some or all of the anticipated impact on the parking revenue deficit.

As the situation and financial picture is fluid and not knowing what, if any, federal or provincial relief programs will be available, the City will have much clearer picture to

determine the most optimal course of action to address this issue as the weeks progress.

Additional Requests from the Community

As the pandemic continues and restrictions remain in place, a number of requests for financial relief from organizations in the community have been received. These include:

- Request from the Chamber of Commerce to extend property tax and utility payment deferral to the end of the year (December 31, 2020) without penalty. In addition, a request to have repayment of the deferral over a 2 to 3 year period without penalty. This would have an impact of about \$1.4 million consisting of lost penalty and late payment charge revenue, as well as investment income due to reduced cash flows.
- Request from the Saskatoon Airport Authority (SAA) for relief from the taxes payable under the Tax Abatement Agreement with the City for 2020. This would have an impact of \$1,055,800 in 2020.
- Request from Tourism Saskatoon for a one-time grant to fill the gap due to the loss of hotel revenue that funds the Destination Marketing Fund to enable bids and solicitation for future events to the city.
- Administration recently received a request to consider reducing or eliminating the fees being charged for the temporary reserve parking program for primarily construction projects that are occupying the public right of way and parking spaces within the commercial areas. The fees for this program are set such that they recover the additional administration costs to offer this program and give due consideration to foregone parking revenue.
- A number of third-party clients have requested deferral of lease rents on civic space, including those that are commercial and community based.

The Administration is reviewing these requests and will report in the near future on these with recommended actions. Other than the deferral of lease rents, there are already temporary relief measures in place or in the case of the Tourism Saskatoon request, it is a request for future assistance.

FINANCIAL IMPLICATIONS

The financial implications are outlined in this report and its appendices.

OTHER IMPLICATIONS

There are no privacy or legal implications. Social and environmental implications were considered during the development of each operating program.

NEXT STEPS

The Administration will implement any service level adjustments as approved in this report as soon as appropriate.

A further report regarding the additional requests from the community is expected to be submitted to City Council as soon as feasible with possible options for consideration.

The Administration continues to monitor the situation and will bring forward updates and recommendations for actions as necessary.

APPENDICES

1. Street Cleaning and Sweeping – Spring/Summer 2020 Service Levels
2. Road Maintenance – Spring/Summer 2020 Service Levels
3. Fleet Services – Spring/Summer 2020 Service Levels
4. Transportation – Spring/Summer 2020 Service Levels
5. Waste Stream – Spring/Summer 2020 Service Levels
6. Recreation and Community Development – Community Development – Spring/Summer 2020 Service Levels
7. Recreation and Community Development – Recreation Facilities and Programs – Spring/Summer 2020 Service Levels
8. Recreation and Community Development – Special Use Facilities – Spring/Summer 2020 Service Levels
9. Parks Operations – Cemeteries – Spring/Summer 2020 Service Levels
10. Parks Operations – Urban Forestry – Urban Biological Services – Spring/Summer 2020 Service Levels
11. Parks Operations – Parks Maintenance and Design – Spring/Summer 2020 Service Levels

REPORT APPROVAL

Written by: Kerry Tarasoff, Chief Financial Officer
Approved by: Jeff Jorgenson, City Manager