INFORMATION REPORT

Revised Financial Forecast

ISSUE

The COVID-19 pandemic has presented significant challenges for the City of Saskatoon (City) and the services it provides, which has resulted in a forecasted operating deficit for 2020. This report provides an updated high-level estimate of the potential financial impact due to the COVID-19 pandemic and the strategy to address this deficit.

BACKGROUND

At its meeting on April 27, 2020, City Council considered a report of the Chief Financial Officer regarding the financial implications of COVID-19, which included service adjustments as recommended by the Administration.

CURRENT STATUS

The Administration prepares regular financial forecasts and in light of the COVID-19 pandemic has prepared a revised forecast that focuses on impacts from the pandemic, including lost revenues due to facility closures and service adjustments. Included in the forecast are adjustments that were approved by City Council at its meeting on April 27, 2020. This includes discretionary hiring and spending freezes and service level savings.

The forecast is based on the most current information known to the Administration at the time of preparing this report, but as reopening plans change, so do the City's adjusted services and service levels to implement these plans.

DISCUSSION/ANALYSIS

Forecasted Financial Impact

As previously presented, the COVID-19 pandemic has forced the Administration to make numerous strategic decisions and service level adjustments to many amenities and services provided by the City. Table 1 provides an updated estimate of the potential financial impact that the City may be facing.

Each of the major affected areas identified in the table are based on assumptions that may change over the course of the fiscal year. These assumptions are stated in the details following Table 1, and as the situation changes, these assumptions will likely change as well. Therefore, the forecast has a higher degree of volatility as these assumptions can be difficult to link to any previous experience.

The estimated year-end forecast is a deficit just slightly under $14 million. City Council approved adjustments at its April 27, 2020 meeting to mitigate a portion of the deficit with expenditure controls and service level adjustments which have been incorporated into the forecast. As part of the strategy to offset the remaining deficit, a recommended contingency of $15 million is being held from reallocated City reserves from the Paved Roadways Preservation capital project to offset the potential capital reductions in 2021 that would be required to balance the 2020 year-end results.

Table 1 – 2020 Projected Year-End Operating Variances (000's)

#	By Major Revenue/Expenditure Category	Surplus/ (Deficit)
	REVENUES ADJUSTMENTS DUE TO COVID:	
1	Transit/Access Transit Revenue	($9,657)
2	Parking Meter Revenues	($3,647)
3	Parking and Traffic Fines	($4,518)
4	Leisure Centre Closures - Revenue	($4,056)
5	Property Tax Penalty/Utility Late Payment Fees	($640)
6	Investment Income	($1,806)
7	Landfill Revenue	($99)
8	Utility Revenue	($6,828)
9	Franchise Fee Revenue	($2,700)
10	Recreation Closures (Golf, Pools, Fields, Rinks, etc.)	($3,793)
11	Other Revenue	($1,664)
	REVENUE SURPLUS/(DEFICIT) COVID RELATED	**($39,407)**
	EXPENDITURES ADJUSTMENTS DUE TO COVID:	
12	Fuel Savings (Reduced Volume and Price)	$1,189
13	Reduced Operating Expenditures	$12,681
14	Reduced Bulk Power Charges	$2,000
15	Utility Stabilization Reserves	$3,915
16	Streetscape Reserve	$1,021
17	Increased Costs Due to COVID	($600)
	EXPENDITURES SURPLUS / (DEFICIT) COVID RELATED	**$20,206**
	OTHER FORECASTED VARIANCES (NET):	
18	Parking and Traffic Fines	($570)
19	Landfill	($852)
20	Utilities	($2,079)
21	Other	($695)
	OTHER FORECASTED VARIANCES SURPLUS/(DEFICIT)	**($4,196)**
	ADDITIONAL SAVINGS:	
22	Discretionary Hiring / Spending / Travel & Training Reductions	$3,150
23	Partial Use of Fiscal Stabilization Reserve	$2,800
24	Partial Use of Existing Reserves	$2,000
25	Service Adjustments	$1,565
	SERVICE LEVEL SAVINGS	**$9,515**
	PROJECTED YEAREND NET SURPLUS / (DEFICIT)	**($13,882)**
	Percent of 2020 Operating Budget	2.61%
	Percent of Property Tax Increase	5.66%

Table 1 – Itemized Details:

1. Transit resumed regular service and front door loading that enabled the ability to reinitiate transit fares on June 8, 2020. Transit is forecasting reduced revenues for 2020 assumed at a 15% uptake of the pre-pandemic levels. Full ridership will likely not be seen until late 2021 and is dependent on restrictions for riders.

2. Similar to transit fares, parking meter fees were waived until May 25, 2020. While parking meter fees are now being accepted, utilization of paid parking meters continues to be lower than originally budgeted. Revenue assumptions are 35% of pre-pandemic levels for June, 50% for July and August, and 65% for the remainder of 2020.

3. With paid parking suspended, the number of parking tickets being issued and corresponding revenues are impacted. The assumption is that June and July are estimated at 35% of previous years' actuals and then at 50% for the remainder of 2020. In addition, Saskatoon Police Service has drastically reduced the number of traffic tickets being issued. For impacted months, traffic fine revenue is estimated at 40% of normal.

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. Revenues are assumed at 50% of normal for the months of July to September and 75% thereafter. Registered programs are assumed to start in September 1, however, are expected to have lower class sizes and reduced number of classes. Admissions are estimated at 51% of budget, while registration is at 39% of budget.

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.

6. With lower than anticipated cash balances, there will be reductions in funds that can be assigned to investments, and therefore less interest income that the City will earn throughout 2020.

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. Utility revenues continue to exhibit negative pressure, especially on the water and electrical demand charges. Electrical revenues are estimated at a 5% reduction while water and wastewater are reduced in the range of 5% to 6%.

9. With less electric usage it is expected that the franchise fees from the provincial utilities will also be reduced. This is based on an assumption of 75% of normal revenue for the

impacted months.

10. While some portions of recreational activities have been reopened, many will not be reopened until later stages of the Re-Open Saskatchewan Plan. Forestry Farm and Zoo revenues are estimated at 50% of budget; golf course revenues at 70% of budget; campgrounds at 50% capacity; arenas based on a mid-July opening and at 80% of budget; and outdoor pools at 60% of normal due to capacity restrictions.

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. With facilities and other programs closed, divisions have updated their budgets to reflect the reduction in expenses. As well, all divisions have been reviewing their budgets for other operational savings.

14. Reduced bulk power purchases from SaskPower due to reduced electric consumption.

15. The City's utilities are projected to be in a year-end deficit, where the use of the stabilization reserve will be required to cover any deficits.

16. Reduced parking revenues have had a downstream affect that cause a reduction of the contributions to the Streetscape Reserve of just over $1 million.

17. Increased costs related to COVID-19 include emergency measures planning, increased cleaning costs at civic facilities and at Transit locations, increased need for personal protective equipment (PPE), staffing for playground monitoring, etc.

18. Parking and Traffic Fines that are non-pandemic related are expected to be under-budget by approximately $500,000.

19. Waste Handling is anticipated to be unfavourable by approximately $852,160 compared to budget as expected due to base budget discrepancy.

20. Utilities were trending to have unfavourable variances unrelated to COVID-19 of approximately $2 million from reduced consumption.

21. All other areas are contributing to an unfavourable variance of $695,000.

22-25. Based on the decisions at the April 27, 2020 City Council meeting, a number of service level adjustments, operational savings, and allocation of reserves were approved to help reduce the projected COVID-19 related deficit.

Forecasted Financial Impact – Controlled Corporations
The financial forecasts of the controlled corporations (Remai Modern, TCU Place, and SaskTel Centre) are not included in the City's forecast in Table 1. However, these organizations are also expected to be significantly impacted.

All three corporations have indicated that their shortfalls will be offset by using their stabilization reserves and capital reserves so not to impact the mill rate.

SaskTel Centre is currently projecting a deficit of approximately $4.3 million due to revenue losses from cancelled events, but is partially offset by savings from layoffs, a reduction in hours to all remaining employees, and significant cuts to other budgeted expenditures. The current deficit for SaskTel Centre will be covered by its Stabilization Reserve, as well as transfers from its Capital Reserve fund subject to Board approval.

Assuming no events are scheduled for the balance of 2020, TCU Place is projecting a deficit of approximately $3.077 million. If events are able to be held at TCU Place later in 2020, this overall deficit will be reduced from its current projection. Any deficit for TCU Place will be covered by its Stabilization Reserve and/or transfers from its Capital Reserve.

2021 Budget Process
While the Administration has implemented a two-year operating budget for 2020/21, there is an opportunity between years for major adjustments based on the criteria contained in Council Policy No. C03-036 - Multi-Year Business Plan and Budget Policy. As a result of the COVID-19 pandemic and the impact to revenues, there will be a need to consider major adjustments to the 2021 budget and also plan for any carry-over of impacts from the 2020 year-end.

City Council approved the 2021 operating budget plan and property tax increase of 3.87%. The Administration is planning is to wait as close to the end of the year as feasible to allow for as much of the impact to be understood before making major adjustments to the 2021 budget.

The 2021 Business Plan and Budget review is scheduled for November 28, 2020, at which time these adjustments will be discussed and the 2021 budget finalized.

FINANCIAL IMPLICATIONS
The financial implications are outlined in this report.

OTHER IMPLICATIONS
There are no privacy, legal, social, or environmental implications identified.

NEXT STEPS

The Administration plans to bring forward a report in mid-November with a summary of the anticipated adjustments and recommendations for City Council to consider before finalizing the 2021 Budget. In addition, the Administration will continue to present forecast updates to City Council throughout the year.

REPORT APPROVAL

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