Financial Forecast Update

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 and the strategy to address the 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.

At its meeting on June 29, 2020, City Council received an updated financial forecast report from the Chief Financial Officer. This report projected a deficit of approximately $13.9 million.

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 on April 27, 2020, which includes discretionary hiring, 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, using the July 2020 general ledger actual revenues and expenditures to date, but as reopening plans change, so do the City's adjusted services and service levels to implement these plans. These impacts are factored into the year-end forecast estimates.

DISCUSSION/ANALYSIS
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. Appendices 1 and 2 provide an updated estimate of the potential financial impact that the City may be facing. Appendix 1 is focused on the business line view of the forecast and current results, while Appendix 2 is focused on the impacts from the COVID-19 pandemic.

Each of the major affected areas identified in the appendices are based on assumptions that may change over the course of the fiscal year. 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 of approximately $14.6 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 $15.0 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. In addition, the Government of Canada is providing financial support to municipalities through the Safe Restart Agreement it has entered into with the provinces. As a result of this agreement, the City will receive approximately $19 million in unconditional funding to help it address the fiscal challenges resulting from the COVID-19 pandemic. Further reporting on the use of these funds and the MEEP Reallocation funds will be provided once the City's financial situation for 2020 and 2021 are more certain. The Administration anticipates bringing this information forward at the 2021 Business Plan and Budget Review meeting in early December 2020.

<u>Forecasted Financial Impact – Controlled Corporations</u>
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 of Appendix 2. However, SaskTel Centre and TCU Place are expected to be significantly impacted.

Both SaskTel Centre and TCU Place have indicated that their shortfalls will be offset by using their stabilization reserves and capital reserves so as not to impact the mill rate.

SaskTel Centre is currently projecting a deficit of approximately $3.8 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.

TCU Place is projecting a deficit of approximately $3.1 million due to revenue losses from cancelled events. Management is working to offset this deficit with cost reductions in the form of layoffs, reduction in hours, and elimination of all discretionary expenditures. TCU Place will also be able to mitigate losses by earning revenue through small, socially distanced events in 2020 that will adhere to all government mandated gathering restrictions and guidelines. Any small events will reduce the deficit from its current projection. The deficit for TCU Place will be covered by its Stabilization Reserve and/or transfers from its Capital Reserve.

The Remai Modern Art Gallery is currently projecting to break even for 2020.

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 will report on the use of the MEEP Reallocation funds of $15 million held in contingency, as well as the Federal Safe Restart funds during the 2021 Budget Deliberations in early December 2020.

APPENDICES
1. Year-End Projection for Period Ending July 31, 2020 – Business Lines
2. Year-End Projection for Period Ending July 31, 2020 – COVID-19 Impacts

REPORT APPROVAL
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