



MEMORANDUM

To: Regional Chair Emmerson and Members of Regional Council

From: Laura Mirabella, FCPA, FCA
Commissioner of Finance and Regional Treasurer

Date: July 17, 2020

Re: Financial Impacts of COVID-19

This Memorandum provides an update to the June 10, 2020 Memorandum to Committee of the Whole summarizing financial impacts of COVID-19 on the Region. The information includes a summary of operating expenditures and revenues up to June 30, 2020 and a summary of impacts associated with the COVID-19 emergency.

Impacts of COVID-19 total \$63 million to date and could reach \$173 million in 2020 and \$98 million in 2021

As of June 30, 2020, net expenditures for Regional programs were 97.9% of the budgeted amount for the period. Total costs and reduced revenues associated with COVID-19 totalled \$62.64 million, or approximately \$4.17 million per week, on average.

The previous memo provided an estimated total impact of \$129 million in 2020 based on a weekly impact of approximately \$4.29 million, on average. The forecast assumed that the emergency would last until the end of June and the recovery period would continue for another six months, until the end of the year.

A second wave of infections is a potential risk in the Fall of 2020 as the economy is gradually reopened and travel restrictions are eased, which may require continued response beyond previous assumptions. If the current emergency lasts until the end of 2020 and the recovery period lasts through 2021, given a weekly burn rate of \$4.17 million, the total impact is estimated to be \$173 million in 2020 and \$98 million in 2021. The figures reflect Public Health resource needs discussed in a June 25 report to Council and other expected grant revenues.

On July 9, Council endorsed the Medical Officer of Health issuing an instruction requiring mandatory face coverings in York Region as an additional measure to reduce the spread of COVID-19. Council also discussed purchasing masks to help the most vulnerable population with the transition and for Regional staff. Staff recently finalized a commitment to purchase

315,000 multi-use masks at a cost of \$3.33 per mask, or approximately \$1 million, which is reflected in the projected costs in 2020. The figures also reflect a communication and education campaign, expected to cost between \$323,000 and \$428,000, as reported to Council on July 9. As more information becomes available about the potential staffing required to implement and enforce the mandatory face coverings policy, the expected total cost will be reflected in the forecasted financial impact.

While mitigation strategies have been identified, ongoing uncertainty may impact 2020 and 2021

Although current estimates are based on the best information available, there is ongoing uncertainty about 2020 impacts to the Region. The duration of the emergency and recovery phases, and further actions to address COVID-19 could impact the projected cost profile. The extent of Provincial funding for York Region's public health response and other Regional allocations of announced funding to COVID-19 are also unknown at this time.

Departments are continuing to track how impacts compare to 2020 budgeted amounts. This will help inform expectations on whether impacts can be managed through the use of existing resources and through other savings, such as hiring deferrals, reduced spending in non-essential areas, and other mitigation strategies.

Similar to previous expectations, key risk areas with the potential to create year-end pressures in 2020 include transit services, York Regional Police revenues, Public Health, homelessness support programs, potential service delivery adjustments to long-term care, potential pressures in Paramedic Services related to supporting the Public Health response, and social assistance.

The Operating and Capital Mid-Year Progress report planned for September will reflect an updated year-end forecast, including expected impacts of COVID-19 and any other anticipated variances in spending and revenue for each department. The report will include mitigation strategies to help accommodate any pressures within department budgets.

This information is helping to support engagement with other municipalities and other orders of government, including discussions by mayors and chairs representing large urban areas in the GTHA on economic recovery efforts. Similar to York Region, other municipalities that administer public health and transit are experiencing a significant financial burden with the COVID-19 pandemic.

Table 1
Estimated Impacts of COVID-19 as at June 30

Area	Description	Cost (\$ Millions)	
		Year to Date	Weekly Impact
Payroll costs	Staff-related costs resulting from COVID-19 (e.g., staff time, overtime, and additional staff). Excludes banked overtime. Includes YRP staff-related costs.	31.06	1.9
Non-payroll costs	Includes non-staff expenditures (e.g., health-related materials, IT costs), program costs incurred by Public Health, Long-term Care, social assistance and others, and unspent purchase orders, net of COVID-19 related grant funding	12.42	0.99
Sub-Total Direct Costs		43.52	2.93
Waste management	Increased processing costs resulting from higher tonnage of residential waste collection and blue box contamination	0.70	0.04
Transit	Net impact of lower revenues from reduced ridership and service reductions as of April 5 (excludes additional facility and bus cleaning costs)	7.29	0.36
Water and Wastewater	Reduced revenues from deferral of the April 1 planned rate increase	7.56	0.63
Court Services	Estimated reduction in revenues from Provincial Offences fines during Courts closure, net of staff-related savings. Amounts to be recovered will be determined once Courts re-open.	1.77	0.08
York Regional Police	Fee revenue loss from closure of Customer Resource Center, net of reduced spending on training, fleet fuel and maintenance, and other savings	1.41	0.09
Community Investment Fund	Providing funding to extend seasonal shelters to sustain shelter capacity	0.29	0.03
Other	Includes information technology capital costs and program savings identified to date	0.10	-
Sub-Total Indirect Costs		19.11	1.24
Total		62.64	4.17

Updated financial impacts primarily reflect ongoing efforts of staff to help manage the emergency

Table 1 includes financial impacts identified to date associated with the COVID-19 emergency. It accounts for unexpected costs and grant revenues received to date. Mitigation impacts are excluded, unless noted in the description.

The updates to figures in the table reflect the longer reporting period since the June 10 Memorandum. Since May 31, staff-related costs increased by \$7.8 million, including \$0.9 million in overtime costs. This is driven by ongoing staff efforts to manage the impacts of COVID-19 across the organization. Just under half of the increase relates to the ongoing Public Health response, including case and contact management, outbreak management, infection prevention and other initiatives described in a report to Council dated June 22 2020.

Total non-payroll net expenditures increased by approximately \$0.6 million since May 31. This reflects ongoing costs for health-related materials such as PPE, computer and telecommunications costs, and homelessness and children's services program costs. Non-payroll costs related to COVID-19 incurred in June continue to be recorded. As a result, finalized figures will be reflected as part of the 2020 Operating and Capital Budget Mid-year Progress Report planned in September and may be higher than the non-payroll costs reflected in this Memorandum.

Increases in year-to-date indirect impacts reflect the longer reporting period compared to the June 10 Memorandum, with the exception of impacts to Provincial Offences revenues. Impacts to this area are lower due to additional savings in costs to operate the courts, including translation, judicial, and witness fees, and other charges, which continue to be closed. In addition, at the time of reporting, actual revenue receipts in May were not available and were estimated to arrive at the year-to-date impact. Actual revenues received in May were higher than estimated. The table above reflects this adjustment.

Some impacts may be managed within the Region's 2020 budget, but significant risks remain

As mentioned in the June 10 memo, a number of impacts are in excess of year-to-date budget amounts for individual program areas, but some of the impacts are expected to be accommodated within department budgets by year-end by reallocating the use of budgeted resources and savings due to hiring deferrals and reduced spending in other areas. Other impacts may be accommodated through dedicated reserves including revenue impacts associated with reduced water/wastewater and court revenues, and higher waste management processing costs. The Region also maintains Tax and Fiscal Stabilization reserves to help address unexpected changes to expenditures and revenues. These reserves have a current total balance of approximately \$110 million. In addition, a further \$55 million is available from the 2019 year-end surplus. This amount was contributed to the Debt Reduction Reserve as part of the Region's Surplus Management policy.

A number of key risk areas have been identified as having the potential to create year-end pressures. These include the ongoing impacts of reduced transit ridership, the potential ongoing reduction in revenues for York Regional Police from fee-based activities, Public Health, potential service delivery adjustments to long-term care, potential pressures in Paramedic Services related to supporting the Public Health response, homelessness support programs, and social assistance.

The June 10 Memorandum highlighted a potential budget pressure of approximately \$3.0 million as some Public Health staff that were redeployed to the pandemic response return to their home areas as those activities resume essential operations. A June 25 report to Council outlined total additional staffing requirements for Public Health, including 172 temporary and 8 permanent full-time positions. This staff is expected to have a total impact of \$8.8 million in 2020 and \$20.4 million in 2021. Although Provincial funding for these positions may be available as part of previously announced commitments to support extraordinary costs in Public Health, ongoing Provincial funding after the pandemic response is not yet clear.

Based on current Provincial direction, Courts will not resume in person hearings before September 11, 2020 and are expected to require technology solutions that will support a reduction of in-person traffic. These solutions could include online booking options, document management systems, electronic filing of Provincial Offences Act (POA) applications and remote audio/video hearing technology, including expanded use of the existing video facilities. A working group is continuing to review technology solutions and resource needs, associated information and potential financial impacts to support these planning efforts. Courts continue to provide limited online services to the public and in the short term will focus on leveraging existing capabilities to increase services and gradually resume to full service. Year-end impacts to POA revenue are being assessed based on the resumption of in-person hearings in September rather than July.

Departments are tracking the impacts and assessing the ability to mitigate the pressures within their budgets. While each department's share of the tax levy budget would be a factor in determining whether and how significant pressures can be managed across the Region's overall budget, most of the tax levy budget is concentrated in three areas (York Regional Police (30%), Transportation Services (28%) and Community and Health Services (19%)).

More detailed information on potential pressures in 2020 is expected to be included in the 2020 Operating and Capital Budget Mid-year Progress Report expected to be brought forward in September. The Mid-year Progress Report will also reflect the net impact of potential pressures expected by year-end and will include additional mitigation options to help manage expected net pressures within department budgets.

Year-to-date figures exclude initiatives where cost and revenue impacts have not yet started

Year-to-date and weekly figures will continue to be updated as initiatives are implemented and cost and revenue impacts are recorded.

On April 30, Council directed that a tax relief program be implemented to support our local municipalities in their efforts to provide tax payment flexibility to residents and businesses. Previous estimates suggested costs associated with the potential delayed receipt of all four property tax instalments to the Region could be up to \$2.69 million. To date, the Region has collected 97% of the first two installments; the delayed portion will cost the Region approximately \$177,000.

On June 11, Committee of the Whole received the Fiscal Sustainability 2020 Update report highlighting a number of fiscal challenges arising at the Region due to COVID-19, including potentially lower than forecasted levels of Development Charges (DC) collections. As of June 30, the Region has collected \$102.4 million in development charges. While 2020 DC collections to date have exceeded the levels in 2019, they are not on track to meet levels projected in the 2020 budget. The preliminary DC collections forecast included in the Fiscal Sustainability Update report anticipates \$241 million in collections in 2020, or approximately \$121 million lower than what was assumed in the 2020 budget (\$362 million). The forecast of \$241 million is \$11M below the principal and interest payment for development charges related debt for 2020. However, as the economy gradually recovers, development charge collections in 2021 and beyond are expected to be above the annual principal and interest payments. Staff will continue to monitor development activity in the Region as part of the 2021 budget process.

The June 10 Memorandum highlighted additional revenue impacts that are not yet reflected in the figures. These included the remaining \$2.49 million of the \$4.98 million in provincial funding to support social service programs, potential funding through the Province's previously announced commitment to assist with extraordinary costs in public health and a recent funding commitment of \$60,500 through the Federation of Canadian Municipalities which will be used for technology, access and support for vulnerable seniors. These continue to be expected and have not yet been reflected in year-to-date impacts.

In addition to these, the following revenue impacts are also anticipated:

- On April 24, 2020 an additional \$157.5 million for Reaching Home was announced to provide support to the homeless-serving sector as a part of COVID-19 social services response. The Region's Homelessness Prevention Program will receive \$0.5 million in federal Reaching Home funding to address financial pressures as a result of the COVID-19 pandemic. In addition, the Region will receive \$0.3 million in federal Reaching Home funding to support Emergency Housing needs.
- On June 29, 2020, the Region received a letter from the Ministry of Transportation announcing an investment of \$15 million province-wide to fund enhanced cleaning of public transit systems. The Region is eligible to receive up to approximately \$0.7 million of this funding based on expenses claimed.
- On July 2, 2020, the Provincial government announced a new \$150 million investment to support the social services response to COVID-19, in addition to the \$4.98 million allocation initially received as part of the Social Services Relief Fund. Details about the Region's allocation are not yet available.

- On July 16, 2020, the Federal government announced that \$19 billion would be provided to provinces and territories to support the safe restart of the Canadian economy, including contact tracing, PPE for frontline workers and child care. While program details, including municipal allocation formulas, are not yet available, initial reports indicate that Ontario's share is expected to be \$7 billion.

Additional cost and revenue changes not yet quantified could affect the Region's financial impacts

A number of other cost and revenue impacts associated with COVID-19 may be identified as additional information becomes available. For example, the recent decline in economic activity may result in reduced assessment growth revenues. Potential delays to capital projects could also impact the Region's capital plan and are being closely monitored.

Overall department net spending is 98% of budget as of June 30

Figures 1 to 4 below compare actual to budgeted gross expenditures, revenues and net expenditures, and figures 2 to 4 illustrate this information by department. The expenditures reported below reflect all expenditures for Regional departments, including COVID-19 related amounts.

Figure 1
Actuals vs. Budget %
June 30 YTD



Figure 2
June 30 YTD Gross Operating Expenditures vs Budget (\$M)

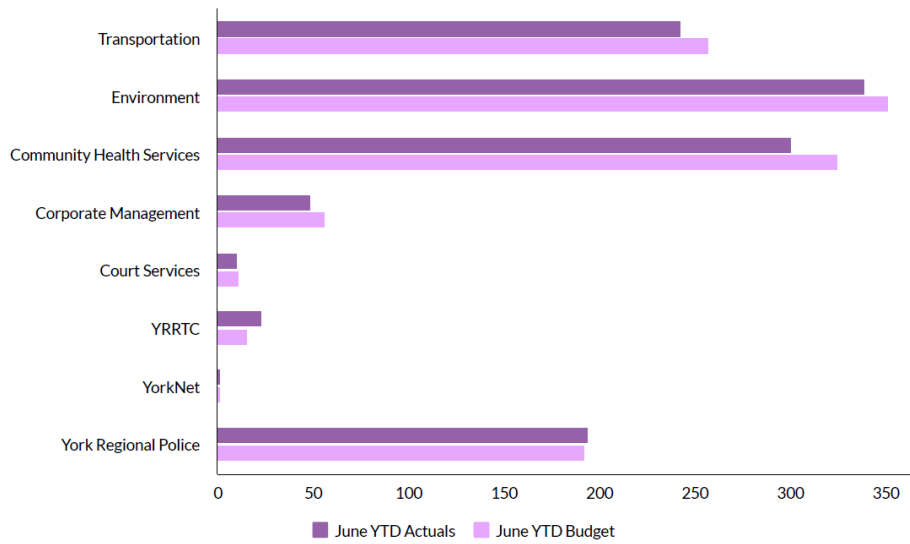


Figure 3
June 30 YTD Revenues vs Budget (\$M)

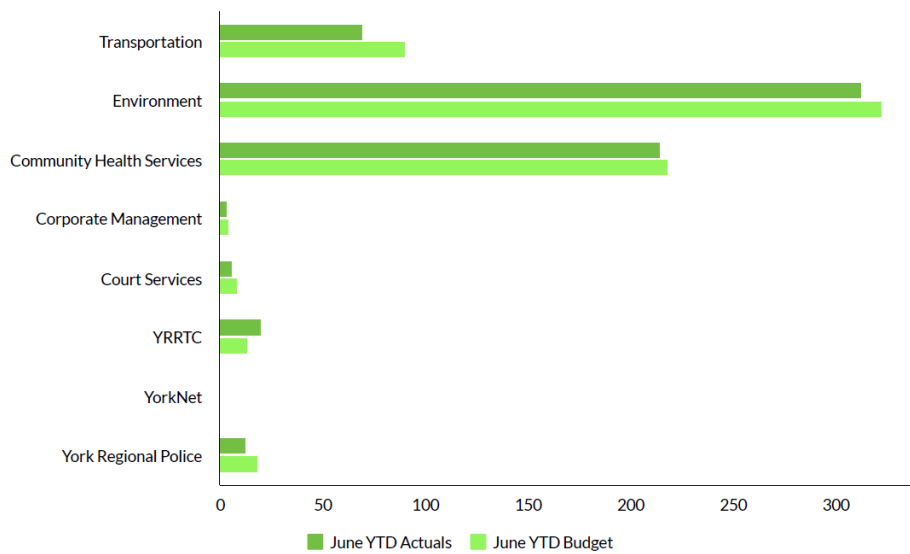
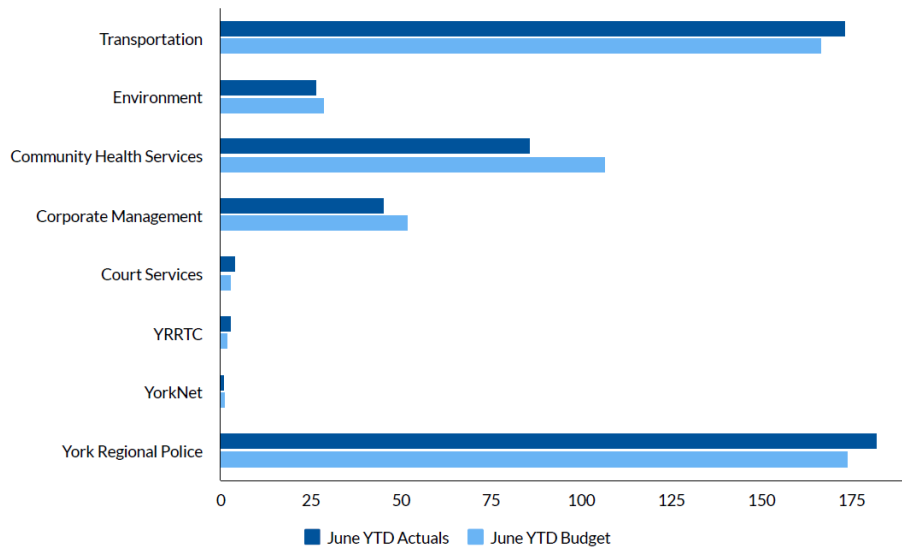


Figure 4
June 30 YTD Net Expenditures vs Budget (\$M)



As of June 30, 2020, net expenditures were 97.9% for Regional departments. This is slightly below year-to-date budget performance in June 2019, when net spending was 99% of budget. Differences are due to factors driving year-to-date performance as well as the timing of reporting.

As of June 30, 2020, gross expenditures were below budgeted amounts for most departments, similar to June 2019. This year, lower expenditures in Transportation Services were primarily linked to lower costs due to reduced transit services. Lower than budget gross expenditures in Community and Health Services were driven by timing of spending in the non-profit housing program and payments to children’s services operators. York Regional Police gross spending was higher than budget due to the timing of federal Canada Pension Plan and Employment Insurance payments compared to budget.

York Region Rapid Transit reflects higher than budget gross expenditures and revenues related to the timing of debt related payments and reserve draws for the Toronto-York Spadina Subway Extension. Although these result in higher than budget net spending to date, this variance is expected to be resolved by year-end.

Other department revenues were below budgeted amounts and reflect the impacts reported by departments in Table 1. Lower than budget revenues for Transportation Services reflect lower transit ridership during the emergency and from ensuing service reductions. York Regional Police revenues are below budget, reflecting impacts of the Community Resource Center closure. Court Services net expenditures are higher than budget due to reduced revenues related to the courts closure.

Continued updates will be provided on the financial impacts of COVID-19

Financial impacts of the COVID-19 pandemic on the Region will continue to be monitored and an update to Council will be provided with the 2020 Operating and Capital Budget Mid-year Progress Report planned in September. The Mid-year Progress Report will also reflect a year-end forecast. If a net deficit compared to budget is expected and additional support from the Provincial or Federal orders of government is not available to mitigate this pressure, Council decisions regarding alternate mitigation options will be required to manage the Region's fiscal sustainability.

Key financial information related to the COVID-19 emergency is reviewed and reported to senior management on a weekly basis. The information will also help inform projections for full-year impacts, the development of strategies to help manage impacts, and development of the 2021 budget.

Laura Mirabella, FCPA, FCA
Commissioner of Finance and Regional Treasurer

Bruce Macgregor
Chief Administrative Officer

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