

The Regional Municipality of York

Regional Council
Finance and Administration
December 10, 2020

Report of the Commissioner of Finance

Establishment of Pandemic Management Reserve Fund

1. Recommendations

1. Council establish a Pandemic Management Reserve Fund to help fund any future tax-supported expenditure or revenue shortfall that may arise due to COVID-19.
2. Council approve the temporary suspension of the Surplus Management Policy and authorize the contribution of any future tax-supported operating surpluses to the Pandemic Management Reserve Fund.
3. Council approve the contribution of any unrestricted COVID-19 related funding from other levels of government, including the Municipal funding under the Safe Restart Agreement, to the Pandemic Management Reserve Fund.
4. The Regional Solicitor be authorized to prepare the necessary bylaw.

2. Summary

This report seeks Council approval to establish a new Pandemic Management Reserve Fund where any tax-supported operating surpluses as well as any unrestricted COVID-19 related funding from other levels of government could be contributed to help offset unexpected pandemic-related expenditures or revenue shortfalls.

Key Points:

- Through a combination of costs containment, late year provincial COVID-19 related funding confirmations, and lower than projected pandemic related costs in 2020, the Region may avoid a deficit or realize a surplus for 2020
- COVID-19 related pressures are expected to continue in 2021 and 2022
- The proposed Pandemic Management Reserve Fund could be drawn on to address any 2021 and 2022 COVID-19 related pressures that are above the endorsed outlook, before drawing on other Regional stabilization reserves
- In the event that COVID-19 related costs for 2021 and future years exceed the projected balance of the Pandemic Management Reserve, the approximately \$110 million currently held in the Tax and Fiscal Stabilization reserves, could also be

available to ensure that the 2021-2022 Budget can be tabled consistent with the endorsed outlook

3. Background

COVID-19 related pressures are expected to continue into 2021 and 2022

The development of the Region's 2021 budget is underway, with preliminary identification of pressures relative to the endorsed outlook of \$69.5 million in 2021 and \$45.6 million in 2022. These pressures are largely attributed to Public Health and Transit.

Community and Health Services pressures reflect ongoing costs associated with resourcing needs in Public Health, Long Term Care and Paramedics, immunization clinics, and costs related to temporary resourcing.

Transit pressures largely reflect a loss of fare revenue and lower expected ridership levels in 2021 and 2022, in addition to lower than expected bus advertising revenue.

Other levels of government have yet to announce additional funding for municipalities for COVID-19 related costs for 2021 and 2022.

However, in addition to these known pressures, there is an extraordinary level of uncertainty throughout the multi-year budget due to the pandemic.

Establishment of the Pandemic Management Reserve Fund would support the Region's fiscal stability

Establishing the Pandemic Management Reserve Fund would help to address COVID-19 related financial pressures beyond 2020.

Funding from other levels of government through COVID-19 related relief programs could be contributed to the Pandemic Management Reserve Fund and used to alleviate future COVID-19 pressures.

While the Region has existing reserves, such as the Tax and Fiscal Stabilization reserves that may be used to mitigate unexpected revenue and cost pressures, there are no reserves specifically purposed to receive third-party funding to offset ongoing pandemic related pressures.

A dedicated reserve is consistent with the requirement for municipalities to hold any excess 2020 funding from the Phase 1 Safe Restart Agreement to offset pressures in later years.

Despite pandemic-related costs and reduced revenues, the Region may be successful in avoiding a deficit for 2020.

On November 19, 2020, the [Financial Impacts of COVID-19](#) memo was presented to Council which detailed the impact of higher costs and reduced revenue resulting from COVID-19.

This report indicated that the Region's mitigation efforts such as staffing redeployments and

deferral of non-essential activities are helping to offset the financial impacts of COVID-19, projected to be \$160 million in 2020. Through a combination of costs containment, provincial funding, and lower than projected pandemic related costs, the Region may avoid a deficit or realize a surplus for 2020.

Anticipated funding from other levels of government total \$93 million, including \$62.9 million that could help offset future COVID-19 related pressures

Other levels of government have announced a series of funding programs, including the \$19 billion Safe Restart Agreement that was announced by the federal government. With provincial partnership, \$4 billion is being made available to Ontario municipalities to alleviate COVID-19 impacts.

To date, funding from other levels of government to assist with operating costs related to COVID-19 total \$93 million.

As part of the 2020 provincial budget announced on November 5, significant investment will be made to provide dedicated support in protecting health and fighting the pandemic. The funding to cover expected pressures in Public Health will be refined when the provincial budget bill is tabled and program details are released. No other pandemic specific additional funding was announced. It is expected that the municipalities will continue to advocate for Provincial assistance to address extraordinary pandemic related costs for the duration of the pandemic.

Provincial funding for specific programs would accrue to those Regional programs to offset their incremental pandemic related costs while the general municipal Safe Restart funding is available to the whole corporation. As noted above, updated forecasts indicate that the Region could avoid a deficit, which is an improvement from the mid-year forecast that forecast a \$20.3 million deficit. Any provincial funding received or accrued prior to December 31, 2020 may result in a 2020 surplus that could be used to address pandemic pressures in 2021 and possibly 2022.

4. Analysis

Annual operating surpluses could be contributed to the new Pandemic Management Reserve Fund

The Council approved Surplus Management Policy allocates any annual operating surpluses to the Region's reserve funds that are below target in the following order:

- First to the Working Capital Reserve
- Then to any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, Workers' Compensation Reserve, Group Benefits and the Insurance Reserve
- Then to the General Capital Reserve

- Then to the Fuel Cost Stabilization Reserve, if there is a loss incurred during the year from hedging transactions
- Then any remaining funds to the Debt Reduction Reserve.

In the event of a surplus in 2020 due to the receipt or accrual of provincial funding, it would be beneficial to create a special purpose reserve. This dedicated reserve, outside of the current Surplus Management Policy, provides a transparent way of showing the available offsets for 2021, and 2022, outside of accessing the Region's sustainability reserves or having to rebalance discretionary reserves.

Council approval is required to temporarily suspend the Region's Surplus Management Policy and authorize any potential surplus contributions to the new Pandemic Management Reserve Fund. The temporary suspension of the policy will be reviewed as part of future Fiscal Strategy Reports.

The new Pandemic Management Reserve Fund would help relieve COVID-19 financial impacts beyond 2020

The Pandemic Management Reserve Fund would hold COVID-19 related funding from other levels of government as well as potential future operating surpluses. As seen in Table 1 below, the expected contribution to the reserve in 2020 is approximately \$63 million based on year-end results.

Table 1
Potential Contributions to the Pandemic Management Reserve Fund in 2020

Funding Program	Amount (\$M)
Total Committed Funding	(93)
Less: Dedicated Funding	
Safe Restart – Child Care and EarlyON	14.2
Social Services Relief Fund – Phases 1 & 2	11.2
Other Funding	<u>4.7</u>
Sub-Total	(62.9)
Expected 2020 Year-End (Surplus)/Deficit*	–
Potential 2020 Contribution to Pandemic Reserve	(62.9)

*Year-end forecast excludes impact of Public Health and Transit Safe Restart funding.

Funding from other levels of government will be needed to keep to the 2021 and 2022 Outlook

As seen in Table 2 below, the Region is expecting known COVID-19 related pressures of approximately \$70 million in 2021 and \$46 million in 2022. Depending on the extent of the pandemic, there could be additional potential budget risks in 2021 and 2022. After adjusting for potential Public Health-related funding, staff forecast that approximately \$32 million could be drawn from the Pandemic Management Reserve Fund to keep within the 2021 Outlook. The reserve could also be used to partially mitigate known pressures of \$46 million in 2022, which may require further mitigation of approximately \$9 million.

Additional mitigation, if required, in 2022 would be addressed through any new potential funding commitments from other levels of government or through the use of Regional stabilization reserves. Further analysis and recommendations on addressing potential pressures in 2022 would also be brought forward as part next year's budget process.

Table 2
Pandemic Reserve draws and additional funding to keep to the outlook

	2021		2022	
	Net (\$M)	(%)	Net (\$M)	(%)
2020 Budget Outlook*	1,224	2.96%	1,277	2.96%
Total Known Pressures	70		46	
<i>Potential Budget Risks (0-\$50M)</i>				
Less: Estimated funding for Public Health	(38)		(6)	
Less: Pandemic Reserve draw	(32)		(31)	
Potential Additional Mitigation**	—		(9)	
Forecasted Outlook*	1,224	2.96%	1,277	2.96%

Figures are rounded

* After assessment growth

** May include senior government funding or draws from Regional stabilization reserves

Establishment of the Pandemic Management Reserve Fund would further support the Region's fiscal stability, a priority of the 2019 to 2023 Strategic Plan

Establishment of the Pandemic Management Reserve Fund would further support the Region's fiscal stability in 2020 and the future. This dedicated reserve will help fund operating expenditures and any shortfall in revenue related to COVID-19.

It supports the 2019 to 2023 Strategic Plan by practicing good government to ensure the Region provides reliable, responsive, effective, efficient and fiscally responsible service delivery to residents.

5. Financial

The new Pandemic Management Reserve Fund ending balance is estimated to be approximately \$62.9 million, after accounting for all the offsets to mitigate the financial impacts of COVID-19 in 2020. This balance will be used to offset financial pressures that may continue in 2021 and future years.

The reserve would also hold any potential additional funding committed by other levels of government to assist with COVID-19 impacts and would be used to help offset costs incurred by the Region.

In the event the Pandemic Management Reserve Fund becomes fully depleted, the Tax Stabilization and Fiscal Stabilization reserves could also be available to help offset any further impact.

6. Local Impact

The Region's ability to maintain delivery of essential and efficient services will benefit all local municipal residents.

7. Conclusion

This report recommends the establishment of a Pandemic Management Reserve Fund, to be funded through the use of the Region's operating surpluses and contributions from other levels of government, to help fund the financial impact of COVID-19 in 2021 and beyond.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.

Recommended by:

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

Approved for Submission:

Bruce Macgregor
Chief Administrative Officer

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