

## MEMORANDUM

To: Regional Chair Emmerson and Members of Regional Council

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

Date: September 22, 2020

Re: Financial Impacts of COVID-19

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This Memorandum provides an update to the July 17, 2020 Memorandum to the Special Council meeting on July 30, 2020, summarizing the financial impacts of COVID-19 on the Region. The information includes a summary of operating expenditures and revenues up to August 31, 2020, and a summary of impacts associated with the COVID-19 emergency. Key points include:

- As of August 30, weekly financial impacts of COVID-19 were \$3.37 million, down from \$4.17 million, as of June 30
- The potential risk of a second wave of COVID-19 in the coming months could result in an increase in the weekly impact figures
- As a result of the potential risk, total estimated impacts of COVID-19 in 2020 are unchanged from the previous \$173 million reported in the July 17 Memorandum
- Preliminary estimates of 2021 impacts are \$99 million, which is in line with the estimate reported in the July 17 Memorandum. However, there is a risk this figure could change depending on the occurrence and severity of a second wave
- While overall Regional program net spending to date of almost 96% is similar to last year, the 2020 results reflect the significant impacts of COVID-19 and a number of mitigation actions taken by the Region to offset the impacts
- Impacts will continue to be monitored to help inform and update expectations for 2021 and beyond, which will be considered through the 2021 budget process

### **Impacts of COVID-19 total \$88 million to date and could reach \$173 million in 2020 and \$99 million in 2021**

As of August 31, 2020, net expenditures for Regional programs were 95.9% of the budgeted amount for the period. Total costs and reduced revenues associated with COVID-19 totalled \$88 million, or approximately \$3.37 million per week, on average. The weekly amount is lower than the mid-year impacts of approximately \$4.17 million per week, as reported in the July 17

Memorandum. The recent reduction is primarily due to slower growth in staff and non-staff spending in July and August as compared to prior months.

The 2020 year-end impacts are currently estimated to be the same as the projection included in the July 17 Memorandum, approximately \$173 million. This is due to the risk of increased costs associated with a potential second wave of COVID-19. However, if the average weekly financial impacts remain at the levels reported as of August 31, the year-end impacts would be \$147 million.

The 2020 Operating and Capital Mid-Year Progress report indicated a projected 2020 operating deficit of \$20.3 million due to the impacts of COVID-19, particularly staffing needs for the Public Health response and shortfalls in transit and other revenues. The Region's proactive management and mitigation strategies helped avoid a larger potential shortfall. The report also summarized Federal and Provincial Safe Restart commitments of up to \$63.2 million to help offset the financial impacts of COVID-19. While full details are not yet available, this funding commitment is expected to address the projected \$20.3 million shortfall in 2020.

For 2021, COVID-19 financial impacts are currently estimated to be approximately \$99 million. This estimate is based on the experience to date and expected impacts in 2021, including the ongoing cost of the response and recovery, such as Public Health resourcing needs, personal protective equipment (PPE), and cost impacts of enhanced infection protection measures in long-term care homes. Updates to expected impacts in 2021, including potential revisions based on the severity of a second wave of infections, as well as options for mitigating potential pressures, will be brought forward through the budget process.

The projected impacts for 2020 and for 2021 reflect recently updated funding allocations for Public Health included in a September 10, 2020 letter from the Province. The letter committed additional funding of \$5 million in 2020-21, including \$3.4 million to support the Public Health COVID-19 response, including the school-focused nursing initiative, and a further \$1.65 million for costs such as case management and contact tracing.

### **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, including a potential second wave 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 is also unknown at this time. Earlier this year, the Province announced a \$100 million investment to support extraordinary costs incurred by Public Health units across the Province. Costs incurred to date and through the end of the year are being collected and reported to the Ministry of Health in September to support the reimbursement process. Final reimbursement amounts will be based on actual costs related to the Public Health response reported at year-end.

The \$5 million Provincial funding commitment in the September 10 letter indicated the additional funding would be provided to support the cost of 50 public health school-focused nurses in 2020 and 2021, and to address other COVID-19 costs, such as case management and contact tracing. This funding is not expected to be sufficient to offset total expected costs in 2021, including ongoing costs of Public Health resourcing needs, as outlined in a June 22 report to Council, and potential impacts of immunization clinics.

The Operating and Capital Mid-Year Progress report indicated that recently announced Provincial and Federal funding commitments are expected to help address the expected \$20.3 million deficit in 2020. Key areas expected to contribute to this deficit include staffing and other resourcing needs related to the Public Health response, as well as lower revenues through transit fares and Provincial Offences Act fines.

Updates to information regarding eligible expenses, how much funding may be carried forward to address COVID-19 related impacts in 2021, and the potential to receive further allocations through Phase 2 of the Safe Restart funding described in the Operating and Capital Mid-Year Progress report will be incorporated the 2021 budget process.

**Table 1**  
**Estimated Impacts of COVID-19 as at August 31**

<b>Area</b>	<b>Description</b>	<b>Cost (\$ Millions)</b>	
		<b>Year to Date</b>	<b>Weekly Impact</b>
Payroll costs	Staff-related costs resulting from COVID-19 (e.g., staff time, overtime, pandemic pay and additional staff). Excludes banked overtime. Includes YRP staff-related costs.	44.02	1.76
Non-payroll costs	Includes non-staff expenditures (e.g., health-related materials, IT operating costs), program costs of the COVID-19 response and unspent purchase orders, net of COVID-19 related grant funding, including pandemic pay	14.39	0.58
<b><i>Sub-Total Direct Costs</i></b>		<b>58.41</b>	<b>2.34</b>
Waste management	Increased processing costs resulting from higher tonnage of residential waste collection and blue box contamination	1.03	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)	9.32	0.14
Water and Wastewater	Reduced revenues from deferral of the April 1 planned rate increase	13.86	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.	3.91	0.16
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	1.21	0.05
Other	Includes information technology capital costs and program savings identified to date	0.24	0.01
<b><i>Sub-Total Indirect Costs</i></b>		<b>29.58</b>	<b>1.03</b>
<b>Total</b>		<b>87.99</b>	<b>3.37</b>

## **Additional Provincial revenues, slowed growth in costs and reduced net Transit pressures experienced through August resulted in a lower weekly impact**

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.

Updates to figures in the table reflect the longer reporting period since the July 17 Memorandum. Since June 30, staff-related costs increased by \$12.9 million, including \$2.1 million in new spending related to pandemic pay premiums for frontline staff Public Health, Paramedic Services and Seniors Services (funded by Provincial grant revenues), and \$1.2 million in additional overtime costs across the organization. The remainder of the increase is driven by ongoing staff efforts to manage the impacts of COVID-19 across the organization. Excluding the impacts of pandemic pay premiums, approximately half of the remaining increase relates to the ongoing COVID-19 response in Public Health, Paramedic Services and Long-Term Care.

Estimated total non-payroll net costs increased by approximately \$3 million since June. This primarily reflects the impact of unspent purchase orders (reflecting opened purchase orders that will be spent, but have not yet been recorded as expenses). While ongoing costs for health-related materials such as PPE, computer and telecommunications costs, cleaning, and homelessness and children's services program costs increased by approximately \$4.9 million, this is offset by an increase in grant revenues of approximately \$4.5 million over the same period. The increased revenues include:

- New Provincial funding of \$2.2 million for costs of the pandemic pay premium. On April 25, 2020, the Province announced it would provide an additional four dollars per hour for frontline staff, as well as lump sum payments of \$250 per month from April to August for employees working more than 100 hours per month.
- Additional funding through the Social Services Relief Fund Phase 1 allocation of \$1.24 million, for a total of \$3.74 million received to date, representing approximately three quarters of the total Phase 1 allocation of \$4.98 million for 2020/21. This does not include up to \$8.4 million in additional Social Services Relief funding announced as part of Safe Restart funding in September 2020.
- Provincial funding recorded for enhanced cleaning of Transit fleet and facilities of \$0.7 million, as introduced in the July 17 Memorandum.
- New Reaching Home funding for homelessness and emergency housing support of \$0.5 million. This reflects a portion of the total \$0.8 million in Reaching Home funding introduced in the July 17 Memorandum.
- Additional support for Long-Term Care homes of \$70,400, bringing the total to \$0.3 million to date.

Increases in year-to-date indirect impacts reflect the longer reporting period compared to the July 17 Memorandum, but with growth in payroll and non-payroll costs slowing, resulting in a

reduced weekly impact. Since June, net impacts of transit pressures have also increased more slowly than in prior months.

### **Year-to-date and weekly figures will continue to be updated as initiatives are implemented and cost and revenue impacts of COVID-19 are recorded**

On June 11, 2020, Committee of the Whole received the Fiscal Sustainability 2020 Update Report highlighting fiscal challenges associated with COVID-19, including potentially lower than forecasted levels of Development Charges (DC) collections. As of August 31, the Region collected \$152.5 million in development charges. Similar to results reported in the July 17 Memorandum, DC collections, while higher than 2019, 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 recovers, development charge collections in 2021 and beyond are expected to be above the annual principal and interest payments.

On April 30, 2020, Council directed that a tax relief program be implemented to support York Region's local municipalities in their efforts to provide tax payment flexibility to residents and businesses. To date, the Region collected 97% of the first two installments; the delayed portion will cost the Region approximately \$177,000. Updates to tax collections and estimated costs related to delayed portions will be made following the third tax installment due on September 30.

### **The decline in development activity may result in assessment growth pressure in 2021**

Information provided by the Municipal Property Assessment Corporation (MPAC) indicates as of June 30, projected total assessment growth in 2020 is expected to be between 1.06% and 1.24%, compared to growth of 1.48% included in the 2020 budget. This could result in a significant pressure in 2021. These figures are early estimates and are expected to be updated by MPAC in November. The updated amounts will be brought forward as part of the 2021 budget process.

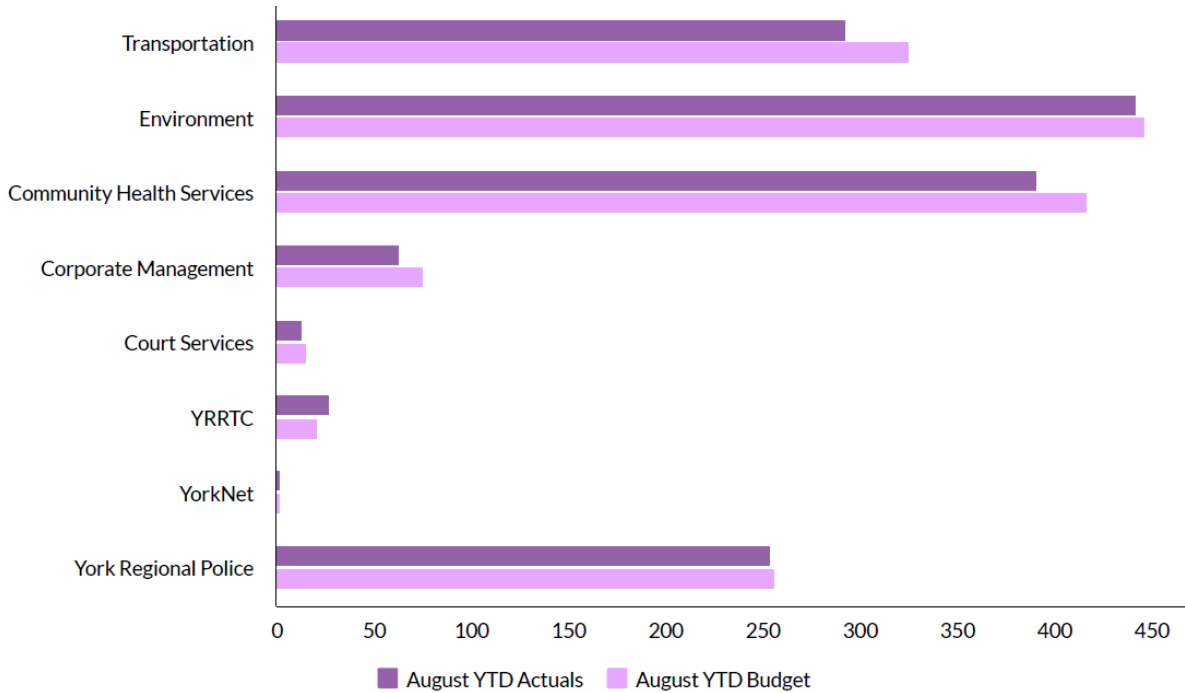
### **Overall department net spending is 96% of budget as of August 31**

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.

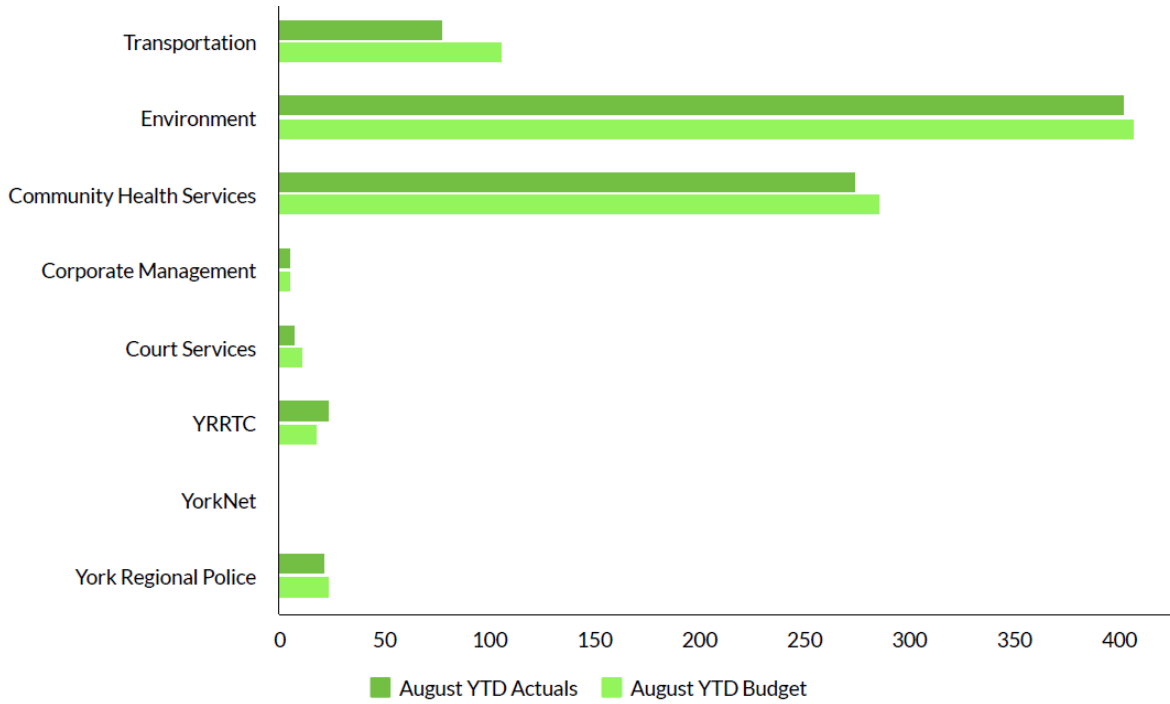
**Figure 1**  
**August 31 YTD Actuals vs. Budget %**



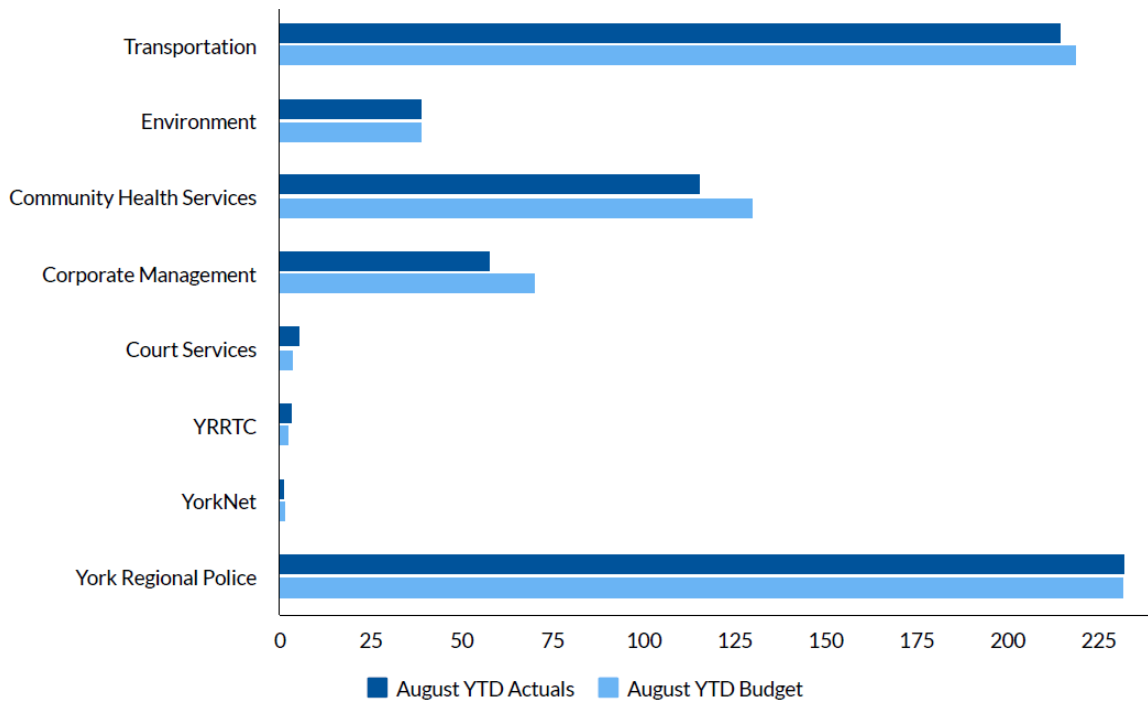
**Figure 2**  
**August 31 YTD Gross Operating Expenditures vs Budget (\$M)**



**Figure 3**  
**August 31 YTD Revenues vs Budget (\$M)**



**Figure 4**  
**August 31 YTD Net Expenditures vs Budget (\$M)**





As of August 31, 2020, net expenditures for Regional departments were 95.9% of the budgeted amount. This is in line with year-to-date performance in August 2019, when net spending was 95.5% of budget. Drivers of the net variance were similar to those reported in the July 17 Memorandum and are outlined below.

As of August 31, 2020, gross expenditures were below budgeted amounts for most departments. As reported in the July 17 Memorandum, 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 lower payments to children's services operators resulting from the closure of childcare centers. As childcare centers re-open, payments are expected to resume.

As in prior results, 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. Court Services net expenditures are higher than budget due to reduced revenues related to the courts closure; however the variance in POA fine revenues is not expected to increase significantly as Court Services have resumed some services and more remote hearings are expected to be accommodated through expanded audio and video technology. Community and Health Services revenues are lower than budget primarily as a result of reduced grant revenues that would be flowed to childcare operators, partially offset by higher revenues for social assistance reflecting a greater caseload and funding related to COVID-19.

### **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. Ongoing impacts to 2020, updates to the expected deficit position based and use of funding including any potential use of the funds to mitigate pressures beyond 2020, will be reported as more information becomes available.

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

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Commissioner of Finance and Regional Treasurer

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