

Financial Update

Date	December 9, 2020
To	Executive Committee
From	Financial Strategy & Sustainability
Service Area	Financial Services
Item No.	EX20-36

RECOMMENDATION

The Executive Committee recommends that City Council:

1. Approve the use of up to \$2,000,000 of the federal Safe Re-Start Program funding to fund the cost of the City of Regina's previously approved Regina Economic Recovery Grant Program.
2. Approve the establishment of a new COVID-19 Recovery Reserve.
3. Approve a transfer \$14,289,000 of the federal Safe Re-Start Program funding received in 2020 to the COVID-19 Recovery Reserve.
4. Instruct the City Solicitor to amend Schedule A of *The Regina Administration Bylaw*, No. 2003-69 to establish the new COVID-19 Recovery Reserve.
5. Approve these recommendations at its December 16, 2020 meeting.

ISSUE

The pandemic affects our local and global economy. It has created financial impacts on the City as well as our community including residents and businesses.

This report provides a third quarter financial update on the General and Utility Fund forecasted operating results and related recommendations. The report also provides an update on the status of projected property tax and utility collections for the year.

IMPACTS

Financial Impact

On April 15, 2020, Administration provided Council a report (CM20-8) identifying the projected 2020 financial impact of COVID-19 on the City. Based on a number of assumptions, two scenarios were projected that estimated the negative financial impact of the pandemic on the General Fund operating budget to be between \$11.7 million and \$20.3 million.

The April 15th report outlined the proactive actions Administration was taking to reduce the projected impact of COVID-19 such as suspending the filling of vacant position unless they were essential/critical to City operations, reducing consulting, contracting and use of other purchased services, education, travel, etc. As well, a number of actions were approved by Council to respond to the pandemic and reduce the negative financial impact of the pandemic on City finances. These decisions and actions were taken on the assumption federal and/or provincial funding to help mitigate the financial impacts were not a given, and if provided would provide additional flexibility to the City to manage the impacts of COVID-19.

The third quarter forecast (September 30th) projects the financial impact of COVID-19 on General Fund operating results to be a negative \$15.5 million dollars. Savings due to actions taken to reduce the COVID-19 financial impact and other non-COVID-19 related variances projected at \$18.2 million are expected to offset the financial impact of COVID-19, resulting in a net General Fund operating surplus of \$2.8 million for the 2020 fiscal year. In accordance with the City's Administration Bylaw 2003-69, any operating surplus at year-end will be allocated to the General Fund Reserve.

In April 2020, Council approved the deferral of \$7.2 million in 2020 capital programs and projects with the funding to be redirected to offset, as necessary, operating cost impacts created by the pandemic. The majority of projects impacted by this deferral, were later approved to be funded from the provincial Municipal Economic Enhancement Program (MEEP), keeping the impacted capital programs and projects whole (no funding impact). As the affected capital programs and projects are now funded by MEPP and the \$7.2 million capital carry forward is projected not to be required to offset COVID-19 costs in 2020, the funds will carry-forward into 2021 as capital carry-forward funding. As these funds were originally intended for capital projects, Administration will bring forward recommendations as part of the 2021 budget process to reallocate these funds to priority projects, with two funding priorities being recreational infrastructure and the housing incentive program.

In September 2020, the City received just under \$16.3 million from the federal Safe-Restart Canada Plan. Of that amount, approximately \$3.5 million was for transit and approximately \$12.8 million for general operations. Administration is recommending the \$2 million Regina Economic Recovery Grant Program approved by Council on July 29, 2020 be funded from the Safe-Restart Plan funding instead of the General Fund Reserve as originally planned, as the grant program is closely aligned with the intent of the Safe-Restart Plan. As well, the

uncommitted balance of the General Fund Reserve is currently below its recommended minimum level of \$23 million.

If the reallocation of the funding source for the \$2 million Regina Economic Recovery Grant Program is approved by Council and the projected year-end General Fund operating surplus of \$2.8 million is achieved, the General Fund Reserve uncommitted balance at year end is forecast to be approximately \$23 million, its minimum recommended balance.

Administration is recommending the remaining \$14.3 million from the federal Safe-Restart Plan be transferred to a newly established "COVID-19 Recovery" Reserve. It is projected that COVID-19 will continue to negatively impact the City's operations by between \$8-12 million in 2021. The purpose of the reserve would be to offset any one-time COVID-19 operating costs impacting the City in 2021 allowing the continued provision of services to the community, as well as, fund any additional business or community initiatives Council may approve that are focused on a safe recovery from the pandemic.

With respect to the Utility Fund operating results, the third quarter forecast projects an operating surplus of \$4.6 million.

Financial projections reflect a point in time estimate and can change as conditions change, when new information becomes available, and as additional actions are taken to respond to the public health emergency and public health orders. Appendix A provides a high-level summary of the forecasted COVID-19 impacts on the City's operating results, and the forecasted operating results for the General and Utility Funds.

There are no other implications or considerations.

OTHER OPTIONS

Safe Re-Start Plan Funding

Administration is recommending the establishment of a new COVID-19 Recovery Reserve and the transfer of \$14.3 million of the federal Safe Re-Start Program funding into the reserve to be accessed in 2021 and future years to address one-time pandemic costs and related initiatives.

Alternatively, City Council could apply the entire federal Safe Re-Start Plan funding against 2020 COVID-19 related financial impacts. However, as the City has already taken action to address these impacts, the result of this action would be an increase in the year-end surplus of \$14.3 million, with the \$14.3 million ultimately being transferred to the General Fund Reserve (GFR) as part of the year-end surplus. While the GFR gives Council the most flexibility in addressing issues that arise these funds would no longer be solely reserved to address future COVID-19 costs or support initiatives. As well, the allocation of these funds in this manner may not be viewed as being consistent with the spirit and intent of the Plan.

\$7.2 Million Capital Carry-forward

Administration is recommending these capital funds carry-forward to 2021, with the reallocation of those funds considered as part of the 2021 budget process.

Alternatively, Council could transfer the funds to a reserve, with the Asset Revitalization Reserve being the reserve mostly directly tied to the original intent of how these funds were to be used.

COMMUNICATIONS

Information on the City's Budget is found on Regina.ca.

DISCUSSION

Forecast Update

Administration took a focused and proactive approach to managing the estimated financial impact of COVID-19 early in the pandemic. The organization established concrete and specific actions aimed at reducing the impact in the uncertainty of the costs as well as the uncertainty of support from other levels of government. Administration's approach was to ensure that in the current 2020 year, the need to draw from reserves to address the financial impact of COVID-19 on City operations was minimized because the reserves that provide Council with the most flexibility were below or near their minimum balance. The actions approved by City Council in CM20-8 (April 15, 2020) to offset the projected costs were strategic and proactive. The savings in all areas of the organization were successful in offsetting the impacts beyond the projected 2020 COVID-19 costs, providing Council with flexibility to prepare for ongoing financial impacts projected in 2021 and 2022.

The September forecast reflects a General Fund surplus of \$2.8 million (0.6% from budget). This is a \$7.8 million (1.7%) change from the June forecast presented in the mid-year financial report (FA20-13). The change in the third quarter forecast from the second quarter forecast was primarily due to having better information as to the impact the pandemic was having on the financial results of the City (e.g., impact on transit ridership) enabling a refined projection of results to year end, and a revision to the amount of savings the City is projected to realize from actions to reduce costs to offset the financial impacts of the pandemic. As noted in Appendix A, the net estimated COVID-19 financial impact was revised from \$19.4 million in the mid-year forecast to \$15.5 million in the third quarter forecast. Further, savings due to action taken to reduce the financial impact of the pandemic and other non-pandemic related variances increased from \$14.3 million to \$18.3 million. The combination of the two results in a net improvement in the third quarter forecasted operating results of \$7.8 million compared to the mid-year forecast.

The third quarter forecast projects the \$7.2 million in funding related to 2020 deferred capital projects will not be required to offset the negative impact of the pandemic on operating results in 2020, as approved by Council in April 2020. As the majority of these deferred capital projects were latter approved to be funded from the provincial Municipal

Economic Enhancement Program (MEEP), keeping the impacted capital programs and projects whole (no funding impact). As the affected capital programs and projects are now funded by MEEP and the \$7.2 million capital carry forward is projected not to be required to offset COVID-19 costs in 2020, the funds will carry-forward into 2021 as capital carry-forward funding. As these funds were originally intended for capital projects, Administration will bring forward recommendations as part of the 2021 budget process to reallocate these funds to priority projects, with two funding priorities being recreational infrastructure and the housing incentive program.

The third quarter forecast reflects a Utility Fund surplus of \$4.6 million (3.2% from budget). This represents a \$1.4 million (0.9%) reduction in the projected surplus compared to the June forecast presented in the mid-year financial report (FA20-13).

The third quarter forecast is an unaudited point in time projection of year-end results. There continues to be several variables, such as unfavorable weather conditions and changes to public health orders due to the pandemic that are unknown at the time of the establishment of the September forecast that could influence the year-end results. Administration has used the best information available to predict the outcomes to the end of the year. Administration will continue to monitor and manage the financial needs in the current year and look for opportunities to meet the challenges over the long term.

Safe Re-Start Plan Funding and Creation of a Covid-19 Recovery Reserve

In 2020, the City of Regina received a total of \$16.289 million from the federal government under two allocations of the Safe Economic Re-Start Plan: (1) \$12.832 million for general operations and (2) \$3.457 million for transit operations.

The economic impact of the pandemic is anticipated to continue until there is an effective vaccine available, with the full impact of COVID-19 currently unknown. It is expected fiscal pressures will continue into 2021, putting more pressure on the City's ability to generate revenue to fund current programs and services. To create future flexibility to meet needs in 2021, it is recommended that:

1. \$2.0 million of the Safe-Restart Plan funding be used to fund the Regina Economic Recovery Program instead of being funded from the General Fund Reserve providing future flexibility in the General Fund Reserve.
2. Administration be directed to establish a new reserve to deal with expected COVID-19 financial impacts in 2021 and future years with the balance of the federal funding (\$14.289 million).

Reserves are governed through stipulations in Schedule A of *The Regina Administration Bylaw*, No. 2003-69 (the "Bylaw") and the *Reserve Policy*. Establishment of a new reserve requires City Council approval under the Bylaw. It is recommended that the balance of the unused federal Safe Economic Re-Start Program funding be transferred to a newly established COVID-19 Reserve.

The purpose of the COVID-19 Recovery Reserve will be to provide financial stability over

the next two to three years to address the cost and implications of the pandemic. The COVID-19 Recovery Reserve is intended to be a short-term operating reserve specifically established to fund unplanned costs without having to impact property taxation, fees or accessing other existing reserves. As it is not intended to be an ongoing reserve, establishment of minimum and maximum targets is not recommended.

Administration is currently projecting that COVID-19 will continue to negatively impact the City's operations by between \$8-12 million in 2021. The impact includes:

- continued transit and recreation losses through reduced revenues and increased expenses;
- continued reduction of traffic and parking fine revenue;
- lower than budgeted amusement tax revenue because of low attendance at cinemas; and
- continued costs associated with the purchase of personal protective equipment and cleaning supplies.

Having a dedicated reserve to address these costs will enable Administration to reduce the impact on taxpayers. A dedicated reserve will also provide City Council with the flexibility to address immediate needs in the community.

On or before September 30 of each year, Administration brings a report to the Executive Committee that provides a description of the purpose of each reserve, the balance of each reserve from the previous year in comparison to the reserve limits, as well as recommended transfers to or from the reserves that will ensure reserves are within their minimum and maximum targets. Establishing a new reserve at this time will allow an accurate reflection of the allocated federal funds to future years in the financial statements.

Expenditures from this reserve will be considered in the 2021 Budget and subsequent budgets while pandemic impacts persist. Administration presents the financial impacts of COVID-19 to Council throughout the year and further expenditures will be recommended through these or other Council reports.

Status of Property Tax and Utility Collections

Taxation revenue accounts for approximately 57% of the total revenue for the City of Regina. Current property tax collections are comparable to previous years with approximately 93% of the current revenue collected. Nearly 50% of property tax accounts are registered in the Tax Installment Payment Plan Service (TIPPS). Considering that those accounts will be paid in full at the start of December, we expect to collect 98% of the current levy by year-end. This is on par with property tax collections for 2019.

Year to date utility collections are approximately 3% less than at this time last year. While collection activities for both property tax and utilities resumed at the start of November, Administration continues to be sympathetic to the needs of customers and is working with residents to establish payment plans for accounts that are unpaid. As an example, similar to the Province's Crown corporations who provide utility services, water utility customers

have the ability to set up payment plans for deferred amounts over 12 months without penalty.

Stadium Reserve

The pandemic has resulted in emergency measures that have included the cancellation of large public events that would typically have been held at Mosaic Stadium. While it is not possible to reliably estimate the length and severity of the pandemic and the impact on the future financial result of the stadium, it is reasonable to assume that, at a minimum, there will be a negative effect to the operating results of Mosaic Stadium in 2020 and possibly beyond. Some of the impacts include, but are not limited to, a substantial reduction to the facility fee revenue collected on tickets sold to Saskatchewan Roughrider Football Club (SRFC) games due to the cancellation of the Canadian Football League (CFL) 2020 season. The number of people allowed to attend large events in 2021 remains uncertain. Even if large crowds are allowed, the public's level of comfort in attending events with large crowds, at least in the short term, is also an unknown.

The estimated financial impact of COVID-19 in 2020 is estimated to be \$4-5 million. It is anticipated this will affect the City's ability to achieve a net zero to positive balance in the Regina Revitalization Initiative (RRI) Stadium Reserve under the current 30- year funding model. Pursuant to the 30-year funding model, the reserve is intended to be in a net \$0 to positive balance at the end of 30 years. Administration continues to assess opportunities and options to ensure the long-term financial sustainability of Mosaic Stadium.

City Controlled Entities

The City of Regina's consolidated financial statements include organizations that are controlled, wholly or in part by the City. These organizations include The Regina Exhibition Association Limited (REAL), Regina Downtown Business Improvement District, Regina's Warehouse Business Improvement District, Economic Development Regina Inc. (EDR), Regina Public Library and the Buffalo Pound Water Treatment Corporation.

This report does not include the projected forecast of these organizations. While these organizations have also been impacted by the pandemic, most are continuing to manage within their 2020 budgets and reserves. REAL has been impacted more severely than the other organizations given the impact public health orders have had on its business operations. A separate report is being brought forward to address REAL's cashflow challenges.

DECISION HISTORY

On April 15, 2020, City Council considered CM20-8 COVID-19 Financial Update.

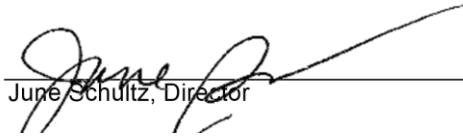
On July 29, 2020, City Council considered CR20-68 COVID-19 Response – Property Tax Relief which resulted in the establishment of the Regina Economic Recovery Grant Program.

On September 16, 2020 City Council Considered IR20-8 2020 Mid-Year Financial Report.

The recommendations contained within this report require City Council approval.

Respectfully Submitted,

Respectfully Submitted,


June Schultz, Director

12/3/2020


Barry Lacey, Exec. Director, Financial Strategy & Sustainability

12/4/2020

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ATTACHMENTS

Appendix A - Financial Update Report (Dec 9-2020)