
REPORT TITLE: Update and Management of the Financial Impacts of COVID-19

FROM: Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That the Regional Chair, on behalf of Regional Council, advocate to the federal and provincial government for additional funding to offset the substantial incremental costs and loss of revenue associated with the COVID-19 pandemic;

And further, that the Region of Peel's advocacy efforts include a request that the federal and provincial governments provide increased infrastructure funding to stimulate Peel's economic recovery and that an allocation model be implemented to distribute funds expeditiously.

REPORT HIGHLIGHTS

- The COVID-19 pandemic has had a significant economic impact on all residents and businesses including those in Peel.
- To ensure public safety, measures have been implemented by the federal and provincial governments including the shutdown of non-essential services and restrictions to certain types of capital construction.
- The Region of Peel, in conjunction with the three local municipalities, has also implemented several measures to support local residents and businesses including property tax and water bill relief.
- The COVID-19 pandemic along with the responses from the various levels of government have significantly impacted the services and finances of the Region of Peel.
- The impacts can be categorized in the following major areas:
 - Economic – Start of a Recession
 - 2020 Fiscal Year – \$36.0 million forecasted deficit for Region Controlled services
 - Increased Costs
 - Costs Avoided
 - Decreased Revenue
 - External Funding
 - Cash Flow – estimated loss of \$400 million in Development Charges over next 2 years.
- Staff have implemented a number of measures to help mitigate the financial impact, but net tax and utility rate deficits are still forecasted for year end.
- Additional funding is required from upper levels of government to fund the incremental costs related to COVID-19 and to stimulate the economy.
- The overall financial impacts of COVID-19 are difficult to assess as the extent and duration of the pandemic and resulting required self-isolation are unknown at this time.

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- Council's oversight of Peel's long-term sustainability provides the Region with some flexibility to manage the current financial impacts.
 - Staff will provide monthly updates on the key financial areas to keep Council informed on the financial impact of COVID-19 on Peel.
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DISCUSSION

1. Background

Over the past two months, the COVID-19 pandemic has had a significant impact on the broader economy and on the finances of all municipalities. Requirements for self-isolation and physical distancing as well as temporary closures of non-essential services have contributed to the end of the longest economic expansion in history and likely triggered the start of a recession.

The Region of Peel, in conjunction with the three local municipalities, has implemented several broad and specific measures to support local residents and businesses including the deferral of property tax collection, deferral of the utility rate increase and the waiving of interest and penalties.

The purpose of this report is to provide Council with an understanding of the economic and financial impact of COVID-19 through a detailed view of critical financial areas.

2. Discussion

Staff have been monitoring and assessing the potential financial impacts to the Region since the onset of the pandemic. The pandemic along with the responses from the various levels of government has significant financial impacts to the Region of Peel. These impacts can be categorized into three major areas; Economic, 2020 Fiscal Year and Cash Flow.

a) Economic – Start of a Recession

The longest economic expansion phase of a business cycle on record ended in the first quarter of 2020 with the onset of the COVID-19 pandemic. Although economic forecasts remain fluid, there is consensus among leading economists that the economic impacts of the pandemic will be severe and will affect changes at the global, national, provincial, regional and local levels. Changes in overall economic activity are expected to be negative, unemployment rates are expected to climb, and government debt levels are expected to rise to multi-decade highs. These changes are already evident:

- The Canadian economy is estimated to be already in recession, registering the largest one month decline in March 2020 and contributing to the first quarterly economic decline in Canada in four years;
- The national unemployment rate recorded its largest monthly jump on record to reach 7.8 per cent in March 2020 and forecasted to increase above 10 per cent in the second quarter of 2020;
- Government's debt is expected to rise significantly as a result of measures put in place to support Canadian individuals and businesses; and,
- Historically low interest rates will contain debt payments to more manageable levels.

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In Peel, the local economy is facing similar challenges to the national economy, highlighted by rising job losses.

Labour market conditions in Peel are expected to deteriorate in the upcoming months as more residents lose jobs and some businesses close. An associated increase in demand for Regional services may likely be delayed in the short term given the temporary federal and provincial governments' financial support to individuals and businesses. Peel's economy should improve over the medium term as the shutdown associated with the pandemic is gradually eased.

Staff recommend that Regional Council advocate to the federal and provincial government for infrastructure funding to stimulate an economic recovery.

b) 2020 Fiscal Year – A Year End Deficit is Forecast

Table 1: Forecasted 2020 Year End Position for Region Controlled Services

	Increased Costs	Decreased Revenue	Costs Avoided	External Funding	Total Net Impact
Tax Supported	(\$45.25M)	(\$10.6M)	\$12.1M	\$12.0M	(\$31.6M)
Utility Rate Supported	-	(\$5.3M)	\$0.9M	-	(\$4.4M)
Total	(\$45.25M)	(\$15.9M)	\$13.0M	\$12.0M	(\$36.0M)

*Staff have assumed that operations would begin to normalize starting September 1, 2020

As seen in the Table 1 above, there are significant variances forecast relative to the 2020 Budget from increased costs, decreased revenues, costs avoided and new external funding. Currently an overall deficit of \$36.0 million is forecast. Additional details for the above categories are provided below and in the attached appendices.

i) Increased Costs – \$45.25 million

Since the outbreak of COVID-19, the Region of Peel has experienced increased costs that can be classified into two general categories; Direct and Indirect. Most of the direct costs are being seen in the critical frontline services such as Housing, Paramedic Services, Long Term Care, Public Health and in Homelessness Support. Indirect costs have been incurred by support services such as Digital and Information Services to enable employee remote working.

Based on current projections, incremental costs of \$45.25 million are expected to be incurred. Table 2 below provides highlights of the areas impacted.

Table 2: Highlights of Increased Costs by Service

Programs	Increased Costs (millions)
Housing Support	\$10.0
Long Term Care	\$8.3

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Child Care	\$6.8
Homelessness Support	\$6.0
Paramedic Services	\$4.8
Public Health	\$4.2
Waste Management	\$4.0
Community Investment Program	\$1.1
Digital & Information Services	\$0.05

Appendix I provides additional details on the additional costs incurred by program/service.

To help offset these costs, staff recommend that Council advocate to the provincial and federal governments for incremental COVID-19 funding.

ii) Decreased Revenue – \$15.9 million

The Region of Peel's revenue profile consists largely of stable revenue sources such as property tax, external funding from other levels of government and utility rate revenue. Only a small portion (6%) of the Peel's revenue comes from user fees. As such, the Region is experiencing less of an impact relative to the local municipalities where a significant amount of revenue comes from transit and parks and recreation. Table 3 below provides a breakdown of the areas where decreased revenue is projected.

Table 3: Highlights of Projected Revenue Decreases

Revenue	Revenue Loss (millions)
Deferred 2020 Utility Rate Increase	\$5.3
Deferred Property Tax	\$3.4
User Fees	\$5.2
External Funding	\$2.0

Overall, the Region of Peel is forecast to experience decreased revenue of \$15.9 million. A little over half of the revenue loss is due to Council's decision to provide both property tax and water bill relief to the residents and businesses in Peel. Appendix II provides additional details on the decreased revenue.

iii) Costs Avoided – \$13.05 million

While many of the Region of Peel's frontline services have experienced increased costs, there are some services where costs have been avoided as a result of decreased activity or management actions. Table 4 below provides highlights of services have managed to avoid costs of \$13.05 million.

Table 4: Highlights of Service Costs Avoided

Services	Costs Avoided (millions)
TransHelp	\$4.5
Public Health	\$1.9

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Adult Day Services	\$1.7
Lower Dental Benefits Costs	\$1.7
Affordable Transit	\$0.8
Water and Wastewater	\$0.7
Employment Support Programs	\$0.7
Lower Commodity prices	\$0.6
Paramedic Services	\$0.3
Training and Summer Interns	\$0.1
Peel Art Gallery and Museum	\$0.05

To comply with the Province's directions for physical distancing and non-essential services, the operations of services such as Adult Day Services, Affordable Transit, PAMA and TransHelp are experiencing less activity and, as a result, are incurring fewer costs. Appendix III provides additional details of the costs avoided.

In addition, as a result of the COVID-19 a number of Employment Support programs have had to be put on hold including the Summer Job Challenge and the Families First program (see Appendix IV for more details on all programs put on hold).

iv) External Revenue – \$12.0 million

In addition to the broader funding announcements to support the incomes of residents and businesses, there have been a number of specific program funding announcements made that will offset some the impacts to Peel's expenditures and revenues due to COVID-19. To date, the Region of Peel has been allocated \$12.0 million in total funding from the provincial and federal governments (see Table 5 below) with most of the funding supporting the vulnerable population of Peel. The Province has provided some funding for Long Term Care and has indicated that there will be funding to help offset COVID related costs for Paramedic Services and Public Health, but no details are currently available. In addition, there is still \$89 million in provincial funding for Long Term Care that has yet to be allocated.

Table 5: External Funding for Peel Services

Funding	Amount (millions)
Reaching Home Program	\$5.8
Social Services Relief Fund	\$6.0
Long Term Care	\$0.2

c) Cash Flow – Decreased

During a financial crisis, it is critical to ensure there is sufficient cash for essential services. The risk associated with the cash flow can generally be divided into two categories; risk for operations and risk for the capital program.

Risk to Operations – Low

As mentioned earlier in the report, the Region of Peel's revenue profile consists largely of stable revenue sources such as property tax, external funding from other levels of government and utility rate revenue with a relatively small amount from user fees. The

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collection of two key revenues, property tax and water bills including penalties and interest were deferred by Council to support residents and businesses. However, except for the penalties and interest, these revenues are assumed to be collected by 2020 year-end. And while COVID related expenditures have increased significantly, it is expected, based on past emergencies, such as SARS, that funding will be provided by upper levels of government to either partially or wholly offset these additional costs. Based on current forecasts, the Region has enough stabilization reserves to manage any remaining deficit if required. Therefore, the overall risk to operations due to cash flow is currently assessed as low.

Risk to the Capital Program – Medium

The Region's capital program is funded through four main sources of funding; internal development charges, capital reserves, external funding and debt. In addition, debt has largely been used as a mechanism to manage the timing of the cash flows for growth related development charge (DC) eligible capital expenditures with only a relatively minor amount of debt used to directly finance capital projects.

Development Charges

The full impact of COVID-19 on development activity in the Region and the development charge revenues will depend on the duration of the pandemic and related service disruptions both of which are unknown at this point in time.

The 2015 DC Background study forecast for DC revenue in 2020 to be approximately \$360 million. As identified through the Growth Management program, DC revenues have not matched DC Background study forecasts which are based on Provincial population and employment forecasts. The Region of Peel collected \$51 million during the first three months of 2020 prior to the start of COVID-19

Based on past recessions, staff are modelling the expected shortfall in DC revenues over the next two to three years. Staff estimate the total impact to be up to \$400 million over the next two years. As many of Peel's services are infrastructure intensive, the temporary loss in DC revenue will have a significant impact on the growth-related capital program and or debt issuance.

Debt

The Region of Peel's current outstanding debt is \$1.29 billion with most of the debt issued to cash flow the timing difference between the collection of DCs and the expenditures required to support the growth in the community. Through the 2020 Budget, the Region planned to issue up to \$200 million in debt in 2020 to support investments in growth infrastructure. The Region's credit rating is dependent on its overall liquidity so additional debt issuance coupled with lower revenues would increase the risk to its credit rating.

Investment Earnings

With the economic impact on the market, we will experience decreased investment income due to lower interest earnings. It is currently estimated that the loss in earnings will range from \$6.3 million to \$10.6 million. The lower earnings will impact Capital Reserve adequacy.

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Capital Reserve Adequacy

As presented through the 2020 Budget, when looking through a 20-year lens, Peel currently has a \$1.8 billion capital reserve shortfall for tax supported services and a \$1.4 billion capital reserve shortfall for utility rate supported services. Most of Peel's capital reserves is used to fund the state of good repair of Peel's assets with a portion used to fund service enhancements such as development of new affordable housing and the re-development of Peel Manor. As capital reserves are supported by the collection of property taxes and utility rate fees, the cash flow risk associated with the state of good repair expenditures is relatively low.

To close the capital reserve gaps, staff had calculated that a 1 per cent infrastructure levy would be required or another 6 years for tax supported programs and a 5 per cent infrastructure levy would be needed for another 2 years for utility rate supported programs. A contributing factor in the infrastructure increases required is the investment earnings on the reserve balances. With the expected lower investment earnings, there will be increased pressure on the capital reserves.

Overall, the risk to cash flows from the capital program is assessed as "Medium" largely due to the forecasted lower DC revenues of up to \$400 million over the next two years.

3. Management of Financial Impacts

Peel's Health Services have been responding to COVID as early as December 2019/ January 2020 depending on the service. Over the past few months, other services have also become increasingly involved such as Housing Support, Homelessness Support and Community Investment. Most emergency responses usually last days to weeks but the COVID crisis is different as the crisis is lasting much longer than the typical emergency. To manage the financial impacts resulting from the COVID-19 pandemic, several actions have been implemented. Table 6 below provides some highlights:

Table 6: Highlights of Actions to Manage Financial Risks

Management Action	Description
Financial Taskforce	Provide financial support on specific COVID related issues
Capital/Construction Taskforce	Review, prioritize and make recommendations on the deferral or slower implementation of some capital projects
Staff Redeployment	Over 125 staff across the corporation have been moved to roles to support the COVID response, primarily to LTC
Non-essential Vacancies	Over 100+ positions, recruitment deferred
Summer Students	Summer student program cancelled (186 students)
Non-essential service layoffs	Staff in non-essential services were offered options which included lay-off or unpaid leave of absence.
Discretionary Spending	Limit discretionary spending, e.g. travel, conferences
External Funding	Staff are tracking incremental costs to ensure that eligible external funding will be leveraged
Financial Reporting	Monthly Council financial updates
Managing COVID Deficit	Balancing need for Federal & Provincial funding with Peel's existing financial flexibility

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The actions listed above have been put in place to help manage the fiscal impact to 2020 and to manage Peel's overall cash flows. However, given the extent and duration of the COVID-19 pandemic is unknown, actions to manage financial impacts will continue to evolve.

4. Proposed Direction

The response to the COVID-19 pandemic is expected to last into summer of 2020 and possibly beyond and will, therefore, continue to impact Peel's overall financial state. Staff will continue to monitor, assess and report on the following areas:

- Impact to the economy;
- Forecasted 2020 year-end position (for Regionally Controlled services);
- Costs avoided;
- External funding; and,
- Impacts to overall cash flow.



Going forward, staff will provide a monthly update to Council on these key financial areas to ensure Council is kept up to date on the financial impacts of the COVID-19 pandemic.

RISK CONSIDERATIONS

The COVID-19 pandemic and the resulting changes in legislation and business practices required to help flatten the curve of the demand for hospital care have also resulted in significant financial risks to Peel with respect to its operating budget and to its overall cash flows. As the extent and duration of the pandemic are unknown and evolving daily, the financial risk is challenging to assess. However, based on what is known today, the greater risk is in managing overall cash flows.

The impact of the overall cash flow reduction from development charges over the next two years will increase the risk to Peel's capital program. However, the Capital/Construction Taskforce are working to help mitigate the risk with its review and analysis of the capital program.

CONCLUSION

The COVID-19 pandemic has had a significant financial impact on the Region of Peel. The overall financial impacts of the pandemic are difficult to assess as its extent and duration as well as the resulting required self-isolation are unknown at this point and will continue to evolve. Council's oversight of Peel's long-term sustainability provides the Region with some flexibility to manage the current financial impacts. However, advocacy to upper levels of government for incremental funding to offset COVID related costs is required to minimize the financial impact to Peel.

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APPENDICES

Appendix I - Increased Costs

Appendix II - Decreased Revenue

Appendix III - Costs Avoided

Appendix IV - Employment Programs on hold due to COVID-19

For further information regarding this report, please contact Norman Lum, Director, Business and Financial Planning, Ext. 3567, norman.lum@peelregion.ca.

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Reviewed and/or approved in workflow by:

Department Commissioner and Division Director.

Final approval is by the Chief Administrative Officer.



N. Polsinelli, Interim Chief Administrative Officer

Appendix I
Updates and Management of the Financial Impacts of COVID-19

Key Highlights of Increased Costs for Programs - \$42.5 million

Program	Impact (millions)	Additional Details of Costs
Housing Support	\$10.0	The economic downturn has impacted the incomes of many residents of the affordable housing providers in Peel. This will result in overall lower rental revenue for the housing providers. The impact of the lower rental revenue is expected to have an estimated increased subsidy requirement of \$10 million.
Long Term Care	\$8.3	Additional costs of \$7.2 million are forecast for PPE (including gowns and masks), additional cleaning, over-time, meals, quarantine and relocation costs for self-isolation. Staff have also been re-deployed from the Adult Day Services (temporarily closed) at an additional cost of \$1.2 million. Overall, Long Term Care will incur additional costs of \$8.3 million. However, there is still \$89 million in provincial funding that has yet to be allocated.
Child Care	\$6.8	To enable the frontline health care workers with children to continue serving the public, day care will be provided at no cost to the employee. The estimated cost for the is \$6.8 million and at the time of the writing of this report, 190 children now have spots in childcare with the majority coming from health care workers.
Homelessness Support	\$6.0	Additional costs of \$6.0 million are forecast to be incurred through the establishment of isolation and recovery centres to support homelessness. These costs include the cost of rent, cleaning, PPE, meals, temporary shower stalls, and transportation. The federal government has allocated funding through the Reaching Home program which may offset some of these additional costs.
Paramedic Services	\$4.8	Additional costs of \$4.8 million are forecast for Personal Protective Equipment (PPE), additional cleaning, over-time, meals, quarantine and self-isolation. In addition, a special team (High Risk Response Team) has been established to be the first response to COVID-19 calls. This team has been specially trained and will utilize four paramedic vehicles that will each have a new chest compression machine. The estimated cost of this response team will be \$890 thousand. Funding may be available from the Province to offset these costs.

Appendix I
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Public Health	\$4.2	While additional costs of \$4.2 million have been incurred for PPE and over-time, offsetting savings have been achieved by redeploying staff in non-critical roles, pauses in hiring and the deferral of training and conferences. Public Health is currently forecast to complete the year with a deficit of \$2.3 million.
Waste Management	\$4.0	To implement the program for two additional garbage bags to deal with the increased garbage from individuals being at home, there is an expectation that anywhere between 5 per cent to 20 per cent of the households putting out extra bags. The expected cost increase will be up to \$4.0 million
Community Investment Program	\$1.1	On March 26, 2020, Council approved \$1 million funded from the Tax Rate Stabilization reserve to support community agencies that are experiencing severe financial challenges. On April 9, 2020, Council approved the continued processing of grant applications to facilitate the use of newly announced funding from the Province. At the time of the writing of this report, \$1.216million has been allocated to community agencies
Digital & Information Support	\$0.1	Additional cost to enable for remote work
Income Support	Unknown	As reporting of caseload lags by one month, no estimate is available yet for the expected increase in caseload resulting from the increase in unemployment.

**Appendix II
Updates and Management of the Financial Impacts of COVID-19**

Key Highlights of Decreased Revenue - \$15.9 million

Revenue	Impact (millions)	Additional Details
User Fees	\$5.2	Due to decreased activities, there will be decreases in user fee revenues from services such as TransHelp (\$1.1 million), Land Use Planning (\$0.7 million), Adult Day Services (\$0.2 million) and PAMA (\$0.1M). There will also be decreased fees in Waste Management due to the waiving of fees for the Community Recycling Centres until the end of the declared emergency (\$2.9 million).
Deferred 2020 Utility Rate Increase	\$5.25	On March 26, Council provided relief through deferral of the 2020 Utility rate increase which will have an estimated impact of \$4.6 million along with provision of late penalty relief of \$0.65 million.
Deferred Property Tax	\$3.4	On March 26, Council provided property tax relief to both residents and businesses which will result in decreased revenue of up to \$3.4 million.
External Revenue	\$2.0	There is risk of claw back of funding for services like Adult Day Services but it is unlikely given the overall incremental costs being incurred by Health Services.
Payments in Lieu of Taxes	Unknown	The volume of passengers passing through Pearson Airport have decreased significantly since the onset of the COVID crisis. As the Payments-In-Lieu-of-Taxes paid by the Greater Toronto Airports Authority lag by one year, the decreased revenue will not impact the 2020 fiscal year but will impact future years.

**Appendix III
Updates and Management of the Financial Impacts of COVID-19**

Key Highlights of Costs Avoided - \$13.0 million

Program	Cost Avoided (millions)	Additional Details
TransHelp	\$4.5	Although there has been a slight loss in TransHelp fees, the savings in costs from the decreased ridership is estimated to be \$4.5 million.
Public Health	\$1.9	To partially offset the incremental costs incurred due to COVID, staff have not filled vacancies and have found other operational savings from decreased training and other staff related costs.
Adult Day Services	\$1.7	Operations of the Adult Day Services have temporarily been paused resulting in staff and other operational savings of \$1.7 million. These staff have been redeployed to support the Long Term Care homes which are experiencing staffing shortfalls as a result of COVID-19
Lower Dental Benefits Costs	\$1.7	Due to the closures of dental offices, a projected savings of \$1.7 million is forecast.
Affordable Transit	\$0.8	Due to decreased activity, service demand has decreased significantly. Current estimated savings are \$0.8 million
Employment Support Programs	\$0.7	Employment Support programs have had to be put on hold including the Summer Job Challenge and the Families First program (see Appendix IV for more details)
Water and Wastewater	\$0.7	Various operational savings including decreased training and other staff related costs.
Lower Commodity Prices	\$0.6	As a result of the economic impact, the price of natural gas and oil have decreased significantly. Currently \$0.4 million is forecasted to be saved in tax supported programs and \$0.2 million in utility rate supported programs. Savings in electricity costs are also expected with the suspension of the "Time of Use" prices to May 7 and all customers were moved onto the lowest rate
Paramedic Services	\$0.3	Management of operational costs
Training and Summer Interns	\$0.1	Various costs including training and summer internships have been deferred
Peel Art Gallery and Museum	\$0.05	The Peel Art Gallery Museum and Archives has been temporarily shut down during the pandemic. While the facility must be maintained, some staff have been redeployed to the Customer Contact Centre and casual staff have been laid off resulting in some savings.

**Appendix IV
Updates and Management of the Financial Impacts of COVID-19**

Employment Support Programs on Hold Due to COVID

Portfolio/Program	COVID-19 Response	Cost Savings
Summer Job Challenge	Program on hold for 2020. Further decisions will be made in the fall with respect to 2021 programming.	\$1.1M (consists of \$0.4M Provincial funding and \$0.7M Regional funding)
Employment Programs	Employment Related Expense, Learning Earning and Parenting Program (LEAP) Child Care Costs and contracting out services such as vocational assessments.	\$1.0M Provincial funding
Safety One	Referrals and training on hold until further notice; job placements continue if client chooses.	Savings included in Employment Programs.
Employment Services Transformation/Model Changes	No current work being completed on this due to focus on COVID-19 response, and provincial delay of employment transformation.	Reduction in Provincial funding delayed to 2021.
Employment Placement Program	Employment Placement agencies have advised that they are not actively pursuing employment opportunities for clients until further notice.	\$0.3M Provincial funding
Internship Placement	OW clients currently with agencies are participating voluntarily and have been directed to follow the agencies' emergency response plans. New placement referrals have been suspended.	Savings included in Employment Placement Program.
Peel as a Model Employer	Clients are completing placements, no further referrals to be made at this time.	Savings included in Employment Placement Program.
Employment Resource Centre	Employment Resource Centre is shutdown.	\$0.4M Provincial funding
Families First	No new referrals are being made; Public Health Nurses have been reassigned to higher need COVID-19 related work; Employment Support Workers are supporting current clients via the telephone.	\$0.5M Provincial funding
Ontario Disability Support Program (ODSP) Advantage	Based on Ministry direction, ODSP clients will not be referred to Ontario Works for participation in employment activities until further notice.	N/A – costs not tracked separately.