

**Report to
Rapport au:**

**Finance and Economic Development Committee
Comité des finances et du développement économique
6 October 2020 / 6 octobre 2020**

**and Council
et au Conseil
14 October 2020 / 14 octobre 2020**

**Submitted on September 25, 2020
Soumis le 25 septembre 2020**

**Submitted by
Soumis par:
Wendy Stephanson, Chief Financial Officer, Financial Services Department /
Cheffe des finances, Direction générale des services des finances**

**Contact Person
Personne ressource:
Isabelle Jasmin, Deputy City Treasurer, Corporate Finance, Financial Services
Department / Trésorière municipale adjointe, Finances municipales, Direction
générale des services des finances
613-580-2424, ext. / poste 21312, Isabelle.Jasmin@ottawa.ca**

Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2020-CSD-FIN-0021

**SUBJECT: 2020 TAX AND RATE OPERATING AND CAPITAL BUDGET Q2
STATUS REPORT AND COVID-19 FINANCIAL MITIGATION
STRATEGIES**

**OBJET: RAPPORT D'ÉTAPE DU T2 SUR LE BUDGET 2020 DE
FONCTIONNEMENT ET DES IMMOBILISATIONS POUR LES
PROGRAMMES FINANCÉS PAR LES RECETTES FISCALES ET LES
REDEVANCES ET STRATÉGIES D'ATTÉNUATION FINANCIÈRES EN
RÉPONSE À LA COVID-19**

REPORT RECOMMENDATIONS

- 1. That the Finance and Economic Development Committee receive the 2020 Tax and Rate Operating and Capital Budget Q2 Status Report and COVID-19 Financial Mitigation Strategies.**
- 2. That the Finance and Economic Development Committee recommend Council approve the following:**
 - a) The COVID-19 Financial Mitigation Strategies for 2020 for Tax and Rate Supported Services as described in this report.**
 - b) That the following unrestricted capital funds from capital projects be deferred to 2021 or later, as detailed in Document 4, and the following be returned to source:**
 - i. City Wide Capital Reserves \$15,373,123;**
 - ii. Transit Capital Reserves \$4,038,600;**
 - iii. Rate Reserves \$23,232,000 as follows:**
 - (1) Water Capital Reserve \$16,132,000;**
 - (2) Wastewater Capital Reserve \$3,100,000;**
 - (3) Stormwater Capital Reserve \$4,000,000.**
 - iv. Development Charge Reserves \$16,113,827.**
 - v. Debt Authority \$18,683,106 as follows:**
 - (1) City Wide Debt \$13,740,547;**
 - (2) Water Funded Debt \$448,338;**
 - (3) Transit Debt \$3,122,000;**
 - (4) Development Charge Debt \$1,372,221.**
 - c) That the Chief Financial Officer submit a report to the Ministry of Municipal Affairs and Housing, outlining the City of Ottawa's COVID-19 municipal operating costs and pressures along with any other required information, and seeking additional funding under Phase 2**

of the Safe Restart funding program – Municipal Operating Pressures Stream.

RECOMMANDATIONS DU RAPPORT

- 1. Que le Comité des finances et du développement économique et le Conseil reçoive le présent rapport à titre d'information;**
- 2. Que le Comité des finances et du développement économique recommande au Conseil d'approuver ce qui suit :**
 - a) Les stratégies d'atténuation financières 2020 en réponse à la COVID-19 pour les services financés par les recettes fiscales et les redevances, telles que décrites aux présentes;**
 - b) Le report au plus tôt à 2021 des fonds d'immobilisations suivants non assujettis à des restrictions et normalement alloués à des projets d'immobilisations, comme le décrit le document 4, et leur retour à la source :**
 - i. Fonds de réserve pour immobilisations de la Ville – 15 373 123 \$;**
 - ii. Fonds de réserve pour immobilisations du Service de transport en commun – 4 038 600 \$;**
 - iii. Fonds de réserve lié aux redevances – 23 232 000 \$ ainsi réparti :**
 - 1. Fonds de réserve pour les services d'eau – 16 132 000 \$;**
 - 2. Fonds de réserve pour les services d'eaux usées – 3 100 000 \$;**
 - 3. Fonds de réserve pour les services d'eaux pluviales – 4 000 000 \$;**
 - iv. Fonds des redevances d'aménagement – 16 113 827 \$.**
 - v. Pouvoir d'endettement – 18 683 106 \$ ainsi réparti :**
 - 1. Dette municipale – 13 740 547 \$;**

2. **Dette consolidée des services d'eau – 448 338 \$;**
 3. **Dette du transport en commun – 3 122 000 \$;**
 4. **Dette des redevances d'aménagement – 1 372 221 \$.**
- c) **Que la cheffe des finances soumette au ministère des Affaires municipales et du Logement un rapport faisant état des coûts de fonctionnement de la Ville d'Ottawa et des pressions en lien avec la COVID-19 avec lesquelles cette dernière doit composer, ainsi que de toute autre information requise, et qu'une demande de financement supplémentaire dans le cadre de la phase 2 du programme d'aide financière pour la relance sécuritaire au titre du volet Contraintes opérationnelles municipales.**

EXECUTIVE SUMMARY

The purpose of this report is to present the June 30, 2020 (Q2) year-to-date operating and capital results for City Wide Tax Supported Programs and Rate Supported Programs along with providing a year-end forecast. A significant portion of the 2020 Q2 results and forecast to the end of the year includes the additional costs and revenue shortfalls due to COVID-19. Therefore, included in this report is an analysis of the revised forecast COVID-19 deficits in 2020 for Tax and Rate, and the recommended financial strategies to address these anticipated deficits.

The Q2 results indicate a deficit of \$30.2 million in the tax-supported program areas and a surplus of \$2.0 million in the rate-supported programs. The tax-supported programs include \$37.5 million of COVID-19 related expenditures and revenue losses.

A tax-supported services deficit of \$46.6 million is projected to the end of the year for 2020 which is comprised of a forecast non-COVID related surplus of \$13 million and a forecast COVID deficit of \$59.6 million. Staff have forecasted the financial impact of the COVID-19 response up to and including Phase 2 resumption of service. Phase 3 and subsequent phases will impact these forecasts and any potential resurgence that may be experienced in the fall. However, this is our best estimate for 2020 based on current assumptions and with each resumption phase, our forecast has improved, but there is still the potential of a resurgence that could worsen the deficit forecast.

Staff moved quickly at the beginning of the pandemic to reduce costs to help safeguard the City's position and mitigate expenses. There have been several cost containment measures adopted by the Senior Leadership Team (SLT); including, the implementation

of a staffing pause for non-essential positions to the end of September, and a discretionary spending pause adding up to estimated savings of \$14.2 million.

A total of 33 capital projects have been identified with total tax reserves funding of \$19.4 million (\$15.4 million for City Wide and four million for Transit) and rate reserves funding of \$23.2 million that can be returned to source. These are projects that have not started, nor tendered or have any dependency on other projects. Capital closures in June 2020 also helped to return funds to City Wide Capital reserves in the amount of \$20 million. The combined funds from capital closures and the capital project deferrals, will help to address any funding gaps in 2020 if the funding from senior levels of government is not sufficient to cover all the costs and budget pressures due to COVID-19 in 2020, and provide some flexibility in 2021.

On July 20, 2020, as part of the Federal-Provincial Safe Restart Agreement, the Ontario Government announced that it had secured up to four billion in federal emergency assistance to provide Ontario's 444 municipalities with the support they need to respond to COVID-19. It includes up to \$2 billion to support municipal operating pressures, and up to \$2 billion to support municipal transit agencies.

On August 12, 2020 the City received confirmation of its allocation, and the funding will be allocated in two phases for two main streams: Municipal Operating Pressures Stream and the Transit Stream. A two-phased approach provides some flexibility to address pressures, including any ongoing or increased impacts from a resurgence of COVID-19. In this report, we will describe the Municipal Stream.

Under Phase 1 of the Municipal Operating Pressures Stream, the City will receive funding of \$49,348,500 to support COVID-19 operating costs and pressures for 2020. Per the current forecast, it is estimated the City of Ottawa's COVID costs and pressures for 2020 will exceed the Phase 1 funding by \$10.2 million. Therefore, the City of Ottawa will submit an application for additional funding through Phase 2, which is due by October 30, 2020.

RÉSUMÉ

Le présent rapport rend compte des résultats opérationnels et d'immobilisations en date du 30 juin (T2) pour les programmes municipaux financés par les recettes fiscales et les redevances, ainsi que les prévisions pour la fin de l'exercice. Une grande partie des résultats du deuxième trimestre de 2020 et les prévisions pour la fin de l'exercice tiennent compte des coûts supplémentaires et du manque à gagner découlant de la pandémie de COVID-19. Sont donc intégrés au rapport une analyse des prévisions

révisées du déficit en 2020 pour les programmes financés par les recettes fiscales et les redevances, ainsi que les stratégies financières recommandées pour combler les déficits.

Selon les résultats du deuxième trimestre, il y a un déficit de 30,2 millions de dollars pour les programmes financés par les recettes fiscales et un surplus de 2,0 millions de dollars pour ceux financés par les redevances. Dans le premier cas, cela inclut des dépenses liées à la COVID-19 et des pertes de revenus, pour un total de 37,5 millions de dollars.

Quant aux services financés par les recettes fiscales, on prévoit un déficit de 46,6 millions de dollars à la fin de l'exercice 2020, à savoir un surplus de 13 millions de dollars non lié à la COVID-19 et un déficit de 59,6 millions de dollars attribuable à la COVID-19. Les prévisions du personnel quant aux répercussions financières de la lutte contre le virus vont jusqu'à la phase 2 inclusivement (reprise des services). La phase 3 et les suivantes, de même qu'une éventuelle deuxième vague à l'automne, pourraient les forcer à revoir leurs estimations. Cela dit, à la lumière des hypothèses actuelles, il s'agit des meilleures prévisions pour 2020. À chaque étape de la relance, nous les avons améliorées, mais il faut s'attendre à ce que le déficit se creuse advenant une deuxième vague.

Au début de la pandémie, le personnel s'est empressé de diminuer les coûts afin de protéger la Ville et de réduire les dépenses. L'équipe de la haute direction a adopté plusieurs mesures d'endiguement en ce sens, comme un gel de la dotation des postes non essentiels jusqu'à la fin septembre et un gel des dépenses discrétionnaires, ce qui s'est traduit par des économies d'environ 14,2 millions de dollars.

La Ville a répertorié 33 projets d'immobilisations dont les fonds de réserve financés par les recettes fiscales totalisent 19,4 millions de dollars (15,4 millions issus de projets municipaux et 4 millions, de projets de transport en commun) et les fonds de réserve financés par les redevances, 23,2 millions de dollars; des fonds qu'elle peut retourner à la source. Ces projets n'ont pas débuté, n'ont pas fait l'objet d'un appel d'offres ou ne sont liés à aucun autre projet. La clôture de projets d'immobilisations en juin 2020 a aussi permis de rapatrier 20 millions de dollars dans les fonds de réserve municipaux. Le financement issu de la clôture et du report des projets d'immobilisations contribuera à combler le manque à gagner en 2020 si l'aide financière des instances supérieures ne suffit pas à couvrir toutes les dépenses et contraintes budgétaires liées à la COVID-19 pour l'exercice et laisse une certaine marge de manœuvre pour 2021.

Le 20 juillet 2020, le gouvernement de l'Ontario a annoncé qu'il avait obtenu une aide financière d'urgence fédérale atteignant 4 milliards de dollars au titre du Cadre de relance sécuritaire, établi entre le gouvernement fédéral et les provinces et territoires, pour fournir aux 444 municipalités ontariennes l'aide dont elles ont besoin pour faire face à la COVID-19. De ce montant, un maximum de 2 milliards peut servir à répondre aux contraintes opérationnelles des municipalités et au plus 2 milliards à soutenir les sociétés municipales de transport en commun.

Le 12 août 2020, la Ville a reçu la confirmation de la part qui lui serait versée en deux phases au titre de deux volets : Contraintes opérationnelles municipales et Transport en commun. Ce double versement donne une certaine marge de manœuvre advenant l'évolution des contraintes, notamment si une deuxième vague venait prolonger ou empirer les conséquences financières de la COVID-19. Le présent rapport est consacré au volet Contraintes opérationnelles municipales.

À la première phase de ce volet, la Ville recevra 49 348 500 \$ pour couvrir les coûts et contraintes de fonctionnement de 2020 liés à la COVID-19. D'après ses prévisions actuelles, elle estime avoir besoin de 10,2 millions supplémentaires en 2020. Elle déposera donc une demande de financement additionnel pour la deuxième phase d'ici la date limite (30 octobre 2020).

BACKGROUND

With the significant and unprecedented measures the City has undertaken in response to the COVID-19 pandemic, staff committed to provide Council regular updates of the current and projected financial implications related to the City's Operating Budget for 2020. Verbal updates on the City's finances were provided to Council on April 8, 2020, April 22, 2020, May 13, 2020, June 10, 2020 and June 24, 2020.

Council has played a leading role in the City's approach to fiscal prudence and financial sustainability. Strong financial management is a priority for the City, Council and our residents, it's the foundation to our success. Throughout the years, the City has adopted strong financial policies and plans that have led to financial sustainability through:

- The first long range financial plan adopted in 2002 and refreshed each term of Council;
- Advancing various other Long-Range Financial plans to support the Housing and Homelessness 10-year plan and the Solid Waste Master plan;

- Adoption of a Fiscal Framework that sets out the high-level road map to sustainable City finances;
- Council endorsement of a Strategic Asset Management Plan and State of the Assets report to support the City's continued investment in infrastructure;
- Adoption of the Reserve Management Policy to ensure the City's cash and investments remain at healthy levels, investing in the future.

Throughout this time, staff have conducted many reviews of our city operations, ensuring administrative staff is as lean as possible so that growth investments are directed to front line services. From 2001 to 2018, the City has achieved \$361 million in efficiency savings and eliminated 1,658 FTEs. These savings have been achieved through a series of structured, continuous improvement initiatives in areas such as business process improvements, organizational and administrative efficiencies, technological improvements, and revenue enhancement initiatives leveraging best-practice programs.

Management has accommodated growth through a series of initiatives including reviewing expenditures and implementing reductions that do not affect service delivery, streamlining processes and administration, the strategic investment and implementation of technological improvements, and organizational adjustments to ensure the redeployment of FTEs to frontline services. Staff will always have more people to serve. Ottawa is a growing City, and growth in population over the next 26 years puts pressure on all existing services - COVID-19 will not stop growth. Current projections show Ottawa's population is forecasted to grow by approximately 410,000 between now and 2046.

As a result of Council's actions, the City entered 2020 in a sound financial position; transit ridership was up at the beginning of the year, the local real estate market was the best it has ever been, and the local economy was at a high. The City has a healthy balance of reserves, a strong credit rating and enjoys low debt levels. With direction of Council, staff have taken a prudent and balanced approach while continuously improving and investing in the City's future.

That said, and as Council is aware, the COVID-19 pandemic has resulted in many changes, affecting government priorities, human needs and behaviors, and the world's economic condition. In response, the City's operations needed to change significantly, in a short period of time, with required facility closures, program cancellations, and modification of services provided. More recently, attention has turned to the safe

resumption of some services in modified ways to meet evolving restrictions on social gathering and physical distancing. Employee's work environments have also been modified such that employees have been redeployed to other services, or are working from home.

The City of Ottawa has taken extraordinary and necessary measures to support its residents, including the most vulnerable, through this unprecedented public health and economic challenge. The response to the COVID-19 pandemic is expected to continue to result in significant financial pressures for the remainder of 2020, as well as the next several years.

Given these unique circumstances the City is facing in response to the COVID-19 pandemic, staff have provided Council with numerous verbal updates of the current and projected financial implications related to the 2020 Budget specific to this event.

As Council has been advised, the City has experienced significant revenue losses resulting from the COVID-19 pandemic response and business closures. COVID-19 has highlighted how vulnerable the City is, in terms of revenues generated outside the property tax base. The City is dependent on user fee revenues as well as other miscellaneous revenues to balance the budget.

The *Municipal Act* does not allow Ontario cities to debt finance operating deficits, so the City must find ways to close the gap within existing funding sources. To assist with the review and analysis of the financial mitigation strategies, staff developed guiding principles to support the analysis and overall strategies. Staff applied a measured and practical approach to eliminating the deficit using three guiding principles to prioritize areas where the City can reduce costs and close the gap.

The first guiding principle – One-Time Solutions

- Implementing one-time solutions that address immediate financial pressures and do not have long-term impacts on the City's financial sustainability.
- One-time solutions are best for one-time problems and do not impact the City's financial sustainability future years.
- They provide for flexibility and a right sized response to the City's immediate problem without long lasting effects.

The second guiding principle – Balanced Approach

- Using a balanced approach that ensures the delivery of statutory and mandatory services citywide and considers the Term of Council priorities.

- It recognizes that some of the mitigation strategies are over a longer period of time as the City cannot deal with them immediately.
- The principle also provides the flexibility to implement the mitigations with a view in terms of what is known about provincial and federal assistance.
- Staff are reviewing the Corporate Strategic Plan including revisiting each term of council priority to see what is still feasible in the new COVID reality.

The third and last guiding principle – Transformational

- Implementing transformational changes to improve how the City offers services now and, in the future.
- COVID has changed how the City does business creating a need to assess what future service delivery looks like.
- Provides a view into the City's service delivery to year end and into 2021, which will inform the 2021 budget and future service offerings.

Using the guiding principles, a number of mitigating strategies have been identified to address the significant forecast deficit. Financial mitigation strategies include; identification of funds through the annual capital close exercise, deferring a small number of capital projects, and implementing non-essential staffing and discretionary spending pauses.

Following the announcement of Safe Restart funding the City received confirmation of its allocation and that the funding will be allocated in two phases for the Municipal Operating Pressures Stream and the Transit Stream. A two-phased approach provides some flexibility to address pressures, including any ongoing or increased impacts from a resurgence of COVID-19. In this report, we will describe the Municipal Stream. The Transit Stream is described in greater detail in the 2020 Transit Q2 Operating and Capital Budget Status Report and COVID-19 Financial Mitigation Strategies Report. If Council approves the staff recommendation, staff will proceed to make application for Phase 2 Safe Restart funding to address the additional COVID expenses and pressures identified later in this report.

Quarterly operating and capital status reports are prepared as part of the reporting framework approved by Council. Operating reports present actual year-to-date revenues and expenditures against the amounts previously budgeted for in the corresponding period. Year-end forecasts are also presented in the second quarter report. Capital reports provide a listing of the capital projects / programs, the authorized

expenditure budgets, actual expenditures and commitments incurred to date, and the remaining amount to be spent.

The purpose of this report is to present the June 30, 2020 (Q2) year-to-date operating and capital results for City Wide Tax Supported Programs and Rate Supported Programs along with providing a year-end forecast. A significant portion of the 2020 Q2 results and forecast to the end of the year includes the additional costs and revenue shortfalls due to COVID-19. Therefore, included in this report is an analysis of the revised forecast COVID-19 deficits in 2020 for Tax and Rate, and the recommended financial strategies to address these anticipated deficits. Results for boards and commissions are not included with this report, specifically the results for Ottawa Police Services, Ottawa Public Library, Ottawa Public Health and Transit Services will be presented in separate reports to their respective Boards.

Document 1 provides operating budget detail on year-to-date results for the various Departments and the 2020 Forecast. Document 2 provides a detailed listing of the capital project status. Document 3 provides compensation information, showing the actual salary, benefit and the overtime costs incurred by departments for the first six months versus the full year budget. Document 4 provides a list of the capital projects recommended for deferral to 2021 or later, to return funding for these projects to source and provide sufficient cash reserves to address any COVID deficits that cannot be offset by other sources in 2020, and provide some flexibility in 2021.

DISCUSSION

June 30 Year-to-Date Results

The year-to-date budget figures are prepared on a “calendarized” basis. Departments allocate their annual budgets on a monthly/quarterly basis, based primarily on experience.

A high-level corporate summary of the year-to-date net operating results for each City department are summarized below in Table 1. A discussion on significant budget variances follows. Document 1 provides additional details on the departmental June 30 position.

Table 1: June 30 Operating Results (in thousands of dollars)

	YTD Net Surplus/(Deficit)
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	Non- COVID	COVID	Total
Tax Supported Programs			
Elected Officials	162	0	162
Office of the Auditor General	5	0	5
City Clerk & Solicitor	111	(142)	(31)
Transportation Services	1,894	876	2,770
Community and Social Services	(3,317)	104	(3,213)
Public Works & Environmental Services	3,318	(2,943)	375
City Manager's Office	12		12
Emergency and Protective Services	(267)	(8,733)	(9,000)
Recreation, Cultural and Facility Services	393	(12,717)	(12,324)
Finance Services	556		556
Planning, Infrastructure & Economic Services	1,286	(774)	512
Innovative Client Services	1,245	(9,339)	(8,094)
Non-Departmental - All Services	1,928	(3,847)	(1,919)
Total Tax Supported Programs	7,326	(37,515)	(30,189)
Total Rate Supported Programs	1,970	0	1,970
Total Tax & Rate Supported Programs	9,296	(37,515)	(28,219)

June 30 Results

The Q2 results in Table 1 indicate a deficit of \$30.2 million in the tax-supported program areas and a surplus of \$2.0 million in the rate-supported programs.

The tax-supported programs include \$37.5 million of COVID-19 related expenditures and revenue losses, mainly impacting Community and Social Services, Public Works and Environmental Services, Innovative Client Services, Emergency and Protective Services, Recreation, Cultural and Facility Services, and Non-Departmental.

The breakdown of the departmental Non-COVID and COVID impacts are as follows:

1. Transportation Services Department \$2.8 million surplus:

- Non-COVID surplus of \$1.9 million – This is driven by \$1.6 million savings from the streetlight LED conversion program, and \$300 thousand in vacancies and discretionary cost savings.
- COVID surplus of \$0.9 million - This is driven by savings from the School Crossing Guard program.

2. Community and Social Services \$3.2 million deficit:

- Non-COVID deficit of \$3.3 million – This is due to Housing Services' higher costs in emergency shelters which were mitigated by surpluses in other housing programs.
- COVID surplus of \$0.1 million – This is due to lower usage of transit-related benefits in Employment and Social Services as a result of the economic shutdown and lower usage of some benefits in Housing Services due in part to federal COVID benefit programs. These surpluses are offset by a deficit in Long-Term Care related to the increase in resident care and a deficit in Children's Services as a result of lost revenues during the closure period and from additional staffing, PPE and enhanced cleaning costs for the emergency child care provided to essential workers (anticipated to be fully mitigated by Provincial revenue). In addition, the Department incurred \$6.1 million of COVID-related expenditures which were offset by provincial and federal funding.

3. Public Works & Environmental Services \$0.4 million surplus:

- Non-COVID surplus of \$3.3 million – There was a transfer of \$3.3 from the parking reserve to offset the full amount of the On-street and Off-street parking revenue deficit due to COVID. If these costs can be recovered from government funding the contribution from the parking reserves can be returned.
- COVID deficit of \$2.9 million – This is driven by a deficit of parking and other lost revenues of \$3.7 million. There were also deficits in Solid Waste due to additional compensation, temporary truck rentals, and PPE of \$0.8 million. The deficit was offset by savings of \$1.6 million in Forestry and Parks Operations due to reduced operations early in the pandemic.

4. Emergency and Protective Services deficit of \$9.0 million:
 - Non-COVID deficit of \$0.3 million – This is driven by a deficit in Fire Services of \$0.6 million and offset by savings of \$0.3 million from vacancies and discretionary cost savings.
 - COVID deficit of \$8.7 million – This is driven by a deficit in Paramedic Services of \$2.1 million due to higher compensation costs for additional temporary resources and PPE supplies for COVID-19, a deficit of \$6.5 million By-Law & Regulatory Services' from a shortfall in revenues from licensing and parking fines, and deficit in Fire Services of \$400 thousand.
5. Recreation, Cultural and Facility Services' \$12.3 million deficit:
 - Non-COVID surplus of \$0.4 million – This is driven by savings in discretionary expenditures such as travel, professional fees, and training.
 - COVID deficit of \$12.7 million – This is driven by reduced program, rental, and membership revenues, offset by decreased facilities costs due to closures with some increased costs for additional cleaning, materials and equipment requirements due to COVID-19.
6. Planning, Infrastructure & Economic Development forecasts a surplus of \$0.5 million.
 - Non-COVID surplus of \$1.3 million – This is driven by vacancy savings of \$120 thousand and discretionary savings of \$1.2 million.
 - COVID deficit of \$0.8 million – This is driven by lost revenues of \$0.8 million in Right-of-Way and Planning.
7. Innovative Client Services' deficit of \$8.1 million:
 - Non-COVID surplus of \$1.2 million – This is driven by vacancy savings and discretionary cost savings.
 - COVID deficit of \$9.3 million – Deficit due to increased PPE expenditures procured to satisfy City wide requirements that were unallocated to other departments at June 30th, 2020.
8. Non-Departmental accounts deficit of \$1.9 million:

- Non-COVID surplus of \$1.9 million –This is driven by a small surplus in investment income of \$600 thousand, Provincial Offences Administration revenues of \$900 thousand, and lower financial service charges and discretionary savings of \$450 thousand.
- COVID deficit of \$3.8 million - This deficit is driven by lower revenues in Red Light Camera \$1.6 million, Lotteries \$300 thousand, and Rideau Carleton Raceway \$400 thousand. There were also deficits totaling \$1.5 million in the Municipal Accommodation Tax for Airbnb, penalties and interest, and interest charges.

9. Rate supported programs surplus of \$2.0 million.

- Non-COVID surplus of \$2.0 million - Driven by \$1.1 million of reduced expenditures, due to less work required for roadway reinstatements, and reduced hydro costs due to provincial rebates, in addition to increased stormwater revenue due to higher than anticipated growth in the number of client accounts, resulting in a \$0.9 million surplus. Year to date overall water and wastewater consumption is exceeding budget at 102.5 per cent and 101.8 per cent of the consumption target respectively.

2020 Forecast – Tax Supported Services

A high-level corporate summary of the net year-end forecast for each City department are summarized below in Table 2. A discussion on significant budget variances follows. Document 1 provides additional details on the departmental year-end forecast.

Table 2 Year-End Forecast (in thousands of dollars)

	Forecast Surplus/ (Deficit)		
	Non-COVID	COVID	Total
Tax Supported Programs			
Elected Officials	300	0	300
Office of the Auditor General	5	0	5
City Clerk & Solicitor	340	(340)	0
Transportation Services	1,620	931	2,551

Community and Social Services	(3,630)	(2,711)	(6,341)
Public Works & Environmental Services	6,848	(5,053)	1,795
City Manager's Office	25	0	25
Emergency and Protective Services	577	(15,207)	(14,630)
Recreation, Cultural and Facility Services	1,538	(20,658)	(19,120)
Finance Services Department	420	0	420
Planning, Infrastructure & Economic Services	2,792	(1,522)	1,270
Innovative Client Services	3,748	(1,963)	1,785
Non-Departmental - All Services	(1,608)	(13,062)	(14,670)
Total Tax Supported Programs	12,975	(59,585)	(46,610)
Total Rate Supported Programs	1,655	0	1,655
Total Tax & Rate Supported Programs	14,630	(59,585)	(44,955)

A tax-supported services deficit of \$46.6 million is projected for 2020. This is expected to include \$59.6 million of tax-supported services pressures relating to COVID-19. The projected tax-supported services deficit includes the following:

1. Transportation Services forecasts a surplus of \$2.5 million.
 - Non-COVID surplus of \$1.6 million - This is driven from a forecasted \$1.6 million savings due to the streetlight LED conversion program and \$0.6 million savings from vacancies and discretionary costs. These surpluses are offset by a \$600 thousand deficit to implement the road safety speed program.
 - COVID surplus of \$0.9 million – This is driven by \$800 thousand savings from the School Crossing Guard program and utility savings.

2. Community and Social Services forecasts a deficit of \$6.3 million.

- Non-COVID deficit of \$3.6 million – This is due to a deficit in Housing Services related to higher emergency shelter costs where demand for emergency shelters continues to remain high, and the use of motels and hotels for overflow capacity contributes to a deficit in operations. This deficit is mitigated by surpluses in other housing programs.
- COVID deficit of \$2.7 million – This is due to a deficit in Long-Term Care related to staffing and PPE costs to support the increase in resident care. This deficit is partially mitigated by a surplus in Employment & Social Services related to lower demand for transit-related benefits and in Partner and Stakeholder Initiatives due to lower expenditures on planned programs because responding to the pandemic has taken priority. In addition, the Department expects to incur \$17.5 million of COVID-related expenditures which will be offset by previously announced provincial and federal funding.

3. Public Works & Environmental Services forecast a surplus of \$1.8 million.

- Non-COVID surplus of \$6.9 million - Driven by a transfer of \$5.4 million from the parking reserve to offset the full amount of the On-street and Off-street parking revenue deficit from COVID. If these costs can be recovered from government funding the contribution from the parking reserves can be returned. There are also projected savings of \$3.0 million from vacancies. These surpluses are offset by \$1.5 million in decreased solid waste revenues.
- COVID deficit of \$5.1 million - There is a projected \$5.4 million deficit in parking revenues and other lost revenues of \$300 thousand. Solid Waste had a deficit of \$2.2 million for PPE, increased compensation costs, and truck rentals. This was offset by a savings of \$2.8 million in Forestry and Parks due to reduced operations early in the pandemic.

4. Emergency and Protective Services forecast a deficit of \$14.6 million.

- Non-COVID surplus of \$0.6 million – There is a projected surplus of \$0.6 million from vacancies and discretionary cost savings.
- COVID deficit of \$15.2 million - Increased projected staffing costs in Paramedic Service of \$3.2 million, Fire Services of \$2.2 million, and

lower user fees in these areas of \$0.5 million. There is expected to be a combined deficit of \$8.7 million in By-Law and Regulatory Services due to the reduction in revenues from parking fines, business licenses, and other fees.

5. Recreation, Cultural and Facility Services forecast a deficit of \$19.1 million.

- Non-COVID surplus of \$1.5 million - Driven by savings of \$0.9 million in discretionary expenditures such as travel, professional fees, and training. There were also savings of \$0.6 million due to vacancies.
- COVID deficit of \$20.7 million - There are expected to be \$51 million in lost revenues from facility closures, reduced programming, and reducing rentals. The projected deficit in revenues is expected to be offset by \$24.6 million in savings from staffing, utility costs, and other facility cost savings from the temporary closures.

6. Planning, Infrastructure & Economic Development forecasts a surplus of \$1.3 million.

- Non-COVID surplus of \$2.8 million – Driven by vacancy savings of \$300 thousand and discretionary expenditure savings of \$2.5 million.
- COVID deficit of \$1.5 million – Driven by lost revenues of \$1.5 million in Right-of-Way and Planning.

7. Innovative Client Services Department forecasts a surplus of \$1.8 million.

- Non-COVID surplus of \$3.7 million – Driven by vacancy savings of \$1.3 million and discretionary expenditure savings of \$2.4 million.
- COVID deficit of \$ 1.9 million - Driven by lost revenues of \$0.8 million, PPE of \$160 thousand, and increased compensation costs of \$180 thousand. There were also increased purchased service costs of \$0.8 million. The deficit at June 30th due to PPE expenditures is allocated to other departments at the end of 2020, with the remainder being retained in inventory.

8. Non-departmental forecasts a \$14.7 million deficit.

- Non-COVID deficit of \$1.6 million – This deficit is driven by a \$2.5 million increase in insurance premiums, \$0.5 million loss in penalties

and interest revenues, and \$2.0 million decrease in PILT revenues. The deficit is partially offset by higher than expected Hydro Ottawa dividend of \$2.6 million and \$1.0 million surplus revenue from the new Automated Speed Enforcement cameras pilot project. There were other minor deficits of \$200 thousand.

- COVID deficit of \$13.1 million – This is driven by the following decreases in revenues: Revenue user fees of \$0.8 million, Red Light Camera revenues of \$3.4 million, Rideau Carleton Casino of \$3.9 million, Lottery fees of \$400 thousand, Municipal Accommodation Tax - Airbnb of \$400 thousand, Investment Income of \$3.1 million due to reduced cashflow, and Tax Deferral Impacts of \$1 million.

2020 Forecast - Rate Supported Services - \$1.7 million surplus

- Non-COVID surplus \$1.7 million expenditure savings related to reduced overtime, vacancies and discretionary spending. The expenditure savings to be offset by a deficit of \$147 thousand due to impacts to the tiered distribution of water and wastewater consumption. Consumption levels will likely continue to be above budget but has shifted to residential versus industrial/commercial/institutional (ICI) accounts, and pricing for ICI consumption at the higher Tier 4 level has shifted to the lower tiers, driving a slight decrease in revenue.

Capital Projects and Programs

Document 2 provides a list of City tax and rate supported capital projects. The list identifies the lead department, financial status (approved budget versus actual results). The total for capital works in progress is \$11.7 billion, of which \$2.2 billion is uncommitted to date. Separate Q2 Status Reports will be provided to the Transit Commission, the Ottawa Police Services Board, Ottawa Public Library Board, and Ottawa Board of Health, and include a status on projects that are under their respective mandates.

Q2 Compensation Results

Document 3 provides compensation information showing the actual salary, benefits and overtime costs incurred by departments for Q2 versus the full year budget. The overall total actual compensation costs for the first half of 2020 were 51 per cent of the full year 2020 compensation budget. These results include additional compensation costs due to

COVID in some areas like Community and Social Services, Emergency and Protective Services, and Innovative Client Services. But these additional compensations costs were offset by savings from a staffing pause in all areas and temporary emergency leave in savings particularly in Recreation and Cultural Services.

Actual overtime costs as a percentage of the annual budget are 66 per cent spent. Additional overtime costs were incurred due to COVID-19 related support mainly in Community and Social Services, Emergency and Protective Services, and Innovative Client Services Department. Additional overtime cost was also incurred in Public Works and Environmental Services due to winter storm events in the first two months of 2020 for winter maintenance and for solid waste due to COVID.

Budget Adjustments and Transfers

A summary of the budget adjustments and transfers made in the first half of 2020, either through the delegated authority given to the Chief Financial Officer or through Council-approved reports is provided in the following table.

Table 3 summarizes the adjustments made that have changed the overall expenditure which are funded from external revenues.

Table 3: Budget Adjustments and Transfers Impacting Overall Expenditures (in thousands of dollars)

Nature of Budget Adjustment	Amount	Funding Source	Net Effect on Budget Revenues and Expenditures
Transfer of 5 FTE's due to increase in the Paramedic Service Central Ambulance Communication Centre (CACC) base budget for the provision of dispatch services which is 100 per cent funded by the province.	440	Provincial Funding	Increase in revenues and increase in expenses
Increase in 2020-2021 Investment Plan funding for Community Homelessness Prevention Initiative.	750	Provincial Funding	Increase in revenues and increase in expenses

2020 COVID-19 Financial Mitigation Strategy for Tax Supported Services

As described in the previous section, the total forecast deficit due to COVID-19 for tax-supported Services is \$59.6 million, and for rate-supported services there are no material impacts on financial results due to COVID. Therefore, the mitigation strategies detailed in this report focus on the COVID mitigation strategies for tax-supported Services only.

The forecast \$59.6 million COVID deficit in 2020 for Tax Supported Services is the “net” deficit amount which has been offset by the expected savings. Staff have forecasted the financial impact of the COVID-19 response up to and including Phase 2 resumption of service. Phase 3 and subsequent phases will impact these forecasts and any potential resurgence that may be experienced in the fall. However, this is our best estimate for 2020 based on current assumptions and with each resumption phase, our forecast has improved, but there is still the potential of a resurgence that could worsen the deficit forecast.

The forecast 2020 COVID net deficit of \$59.6 million for Tax, breaks down as follows:

- **Revenue reductions of \$82.0 million:** Much of the revenue reductions were due to recreational and cultural facility closures, reductions in parking fines, red light camera revenue, investment income, interest revenue, penalties collected, share of OLG revenues and reduced demand for various other service fees.
- **Plus COVID-related costs of \$44.6 million:** To safely continue operations and re-open some City services, meet public health guidelines and ensure a safe workplace, the City was expected and required to incur additional COVID-related costs for items such as: PPE, cloth masks, sanitizers, retrofits, additional staff, supplies and equipment for long term care and paramedics, enhanced cleaning and IT hardware and software for staff telework. There was also an increase in housing services costs.
- **Less additional program-specific funding from senior levels of government of \$22.7 million:** Table 4 provides a summary of the \$28.75 million of funding received or confirmed to date. \$22.7 million of the funding is projected to be spent by fiscal year end with the remaining \$6.05 million being spent in the first quarter of 2021. Details on the recently announced Federal-Provincial Safe Restart Program is described in greater detail in the next section of the report.

Table 4 – 2020 Forecast Additional Government Funding Due to COVID-19 (in Millions \$)

Source	Funding Program	Service	Projected Spend by Dec 31 st	Total Funding Allocation*
Federal	Reaching Home Program: Distribution to Agencies	Homelessness	1.65	1.65
Federal	Reaching Home Program: COVID 19 - Economic Response Plan	Homelessness	4.28	5.70
FCM/CMA	Partnership grant to support homelessness and housing services communities	Homelessness	0.64	0.64
Federal	Canada Summer Jobs	Recreation	0.26	0.26
Provincial	Special Needs and Seniors Centres	Recreation	0.42	0.42
Provincial	COVID Prevention and Containment	Long Term Care	0.98	0.98
Provincial	Temporary Pandemic Pay	Paramedics, LTC, Housing	4.56	5.90
Provincial	Community Homelessness Prevention Program (CHPI)	Homelessness	9.90	13.20
Total Additional Government Funding			22.7	28.75
<i>*Remaining funding at December 31, 2020 will be spent by March 31, 2021.</i>				

- Less cost savings of \$44.3 million:** Much of the COVID-related savings were due to the fact that facilities were closed and operating expenditures were no longer required or were significantly reduced. The cost reductions are comprised of savings from placing part-time casual staff in affected program areas on declared emergency leave, utility savings for closed facilities, significant reduction in hiring of student positions and a reduction in materials and supplies resulting from service disruption.

Expense Mitigation Strategy

Staff moved quickly at the beginning of the pandemic to reduce costs to help safeguard the City's position and mitigate expenses. There have been several cost containment measures adopted by the Senior Leadership Team (SLT); including, the implementation of a staffing pause for non-essential positions to the end of September and a discretionary spending pause. The savings associated with these measures are reflected in the non-COVID forecast surplus for the year. These estimated savings will provide the City with sufficient flexibility to address any unforeseen expenditures for the remainder of the year or to cover COVID costs and pressures that may not be eligible for funding by senior levels of government. Table 5 summarizes the forecast savings in 2020 from implemented expense mitigations for tax-supported services:

Table 5 – 2020 Forecast Cost Savings Due to Implemented Expense Mitigations for Tax Supported Services (in Millions \$)

Program	Amount
Discretionary spending pause across organization	6.70
Vacancy savings from staffing delays	7.50
Total Cost Savings	14.20

Capital Deferrals as a Financial Mitigation Strategy

The City is making a significant investment in infrastructure in 2020. As part of the 2020 Budget, Council approved a capital envelope of \$813 million and 90 per cent of the projects are proceeding.

Over the month of July and part of August, staff conducted a review of the planned 2020 capital projects. All projects were evaluated based on the restrictions established by the government of Ontario in respect to essential services and the timelines in which emergency orders are in effect, as well as, risk to the City if these capital works were not completed in 2020. Furthermore, through the regular evolution of the capital program and project co-ordination, there was a need to adjust the timing for some projects, with some projects being postponed for reasons other than the pandemic.

With an eye to risk, level of service and coordination, staff undertook a prudent review of the 2020 capital program to identify candidates for deferral. Specifically, projects

were identified that will likely not proceed to construction in 2020 primarily due to co-ordination or project progress/schedule and for which funds will not likely be used in 2020. Further, select projects nearing design completion were identified for deferral on the basis that there would be minimal risk to service by doing so. This approach maximizes spending in 2020, minimizes uncommitted authority at the end of the fiscal year, and avoids penalties or claims associated with cancelling active contracts. More broadly, this approach is in keeping with the City's approved Comprehensive Asset Management Program objectives.

A total of 33 projects have been identified with total tax reserves funding of \$19.4 million (\$15.4 million for City Wide and \$4 million for Transit) and rate reserves funding of \$23.2 million that can be returned to source. These are projects that have not started, nor tendered or have any dependency on other projects. This has not been an easy exercise; however, it is the result of a co-ordinated and collaborative staff effort to inform a broader approach to the City's financial future, and staff remains committed to working with colleagues and Council to that end.

Capital closures in June 2020 also helped to return funds to City Wide Capital reserves in the amount of \$20.0 million. The combined funds from capital closures and the capital project deferrals, will help to address any funding gaps in 2020 if the funding from senior levels of government is not sufficient to cover all the costs and budget pressures due to COVID in 2020 and provide some flexibility in 2021. A list of deferred capital projects is outlined in Document 4.

In terms of next steps, staff are completing a review of capital projects to proceed with using targeted federal/provincial stimulus funds should a program be announced. This involves an identification of municipal contributions and commitments to cover a portion of the gap with a goal to reduce reserve borrowing or advance some of the deferred capital projects. Staff have actively sought projects of all sizes from across the City in anticipation of stimulus (or similar) funding from our partner governments for "shovel-ready work" or broader initiatives. Deferred projects could also become candidates for stimulus or other funding. For these projects, staff are endeavouring to complete the design portion of the project so that they are either ready to tender in a future year or so that they are in the best state of "shovel readiness" to be candidates for stimulus funding.

Federal-Provincial Safe Restart Program

On July 16, 2020 the federal government announced they will provide \$19 billion to the provinces and territories to help fund a "safe restart" of the Canadian economy.

On July 20, 2020, as part of the Federal-Provincial Safe Restart Agreement, the Ontario Government announced that it had secured up to \$4 billion in federal emergency assistance to provide Ontario's 444 municipalities with the support they need to respond to COVID-19. It includes up to \$2 billion to support municipal operating pressures, and up to \$2 billion to support municipal transit agencies.

On August 12, 2020 the City received confirmation of its allocation, and the funding will be allocated in two phases for two main streams: Municipal Operating Pressures Stream and the Transit Stream. A two-phased approach provides some flexibility to address pressures, including any ongoing or increased impacts from a second wave of COVID-19. In this report, we will describe the Municipal Stream. The Transit Stream is described in greater detail in the 2020 Transit Q2 Operating and Capital Budget Status Report and COVID-19 Financial Mitigation Strategies Report.

Under Phase 1 of the Municipal Operating Pressures Stream, the City will receive funding of \$49,348,500 to support COVID-19 operating costs and pressures for 2020. This funding applies to 2020 and was allocated on a per household basis. The Province also recognizes that some municipalities have experienced greater financial impacts arising from COVID-19, and will therefore proceed with a second phase of funding, for municipalities that can demonstrate that COVID-19 operating costs and pressures that exceed their Phase 1 per household allocation. Per the current forecast, the City of Ottawa's COVID costs and pressures for 2020 are estimated to exceed the Phase 1 funding by \$10.2 million. Therefore, the City of Ottawa will submit an application for additional funding through Phase 2, which is due by October 30, 2020.

Depending on Phase 2 allocations, whether the City receives funding for all the additional COVID-related costs and pressures from senior levels government, this will determine how much we need to rely on the other mitigation measures put in place.

Table 6 summarizes the financial mitigation strategies implemented in 2020 that will return funds to operating and capital reserves to address any future year unexpected pressures.

Table 6 – Total Financial Mitigation Strategies for Tax Supported Services

Program	Amount (in Millions \$)
Projected cost savings due to implemented expense mitigations	14.2
Deferred capital projects funds returned to city wide capital reserves	15.4
Capital close funds returned to city wide capital reserves	20.0
Total Cost Savings	49.6

Cash Flow Implications

Staff has been carefully monitoring cash flow during this pandemic and will continue to analyze the City's position to ensure there is enough liquidity to provide for ongoing operations. Based on current projections, the City's financial position can sustain the cash flow implications of foregone and deferred revenues. However, if circumstances change, and emergency orders are extended into 2021, the City's cash flow position may become more severe.

The approved property tax assistance measures were designed to provide temporary relief to taxpayers facing hardship during the COVID-19 pandemic. With respect to the property tax deferral program, 1,913 accounts were approved for deferral for a total of \$16.96 million. While the measures do not reduce the amount, the City will ultimately receive lower than budgeted interest for late payments. Cash flow will be temporarily impacted; however the City has sufficient cash flow to provide for this period. In addition, the capital markets are being monitored for opportunities to improve our cash flow with the purchase of short-term investments to increase interest income.

RURAL IMPLICATIONS

There are no rural implications associated with this report.

CONSULTATION

Not applicable

COMMENTS BY THE WARD COUNCILLOR(S)

Not applicable

ADVISORY COMMITTEE(S) COMMENTS

There are no comments by an advisory committee required for this report.

LEGAL IMPLICATIONS

There are no legal impediments to implementing the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk impediments to implementing the recommendations in this report.

ASSET MANAGEMENT IMPLICATIONS

Capital deferrals negatively impact the renewal program, and the impact may be felt for several years into the future. That said, Finance worked closely with Asset Management to ensure that the impact was minimized and that asset management best practice were applied, as described in the report above. It is understood that this is just one piece of the overall strategy for balancing the overall City budget. As such, the recommendations documented in this report are consistent with the City's [Comprehensive Asset Management \(CAM\) Program](#) objectives. The implementation of the Comprehensive Asset Management program enables the City to effectively manage existing and new infrastructure to maximize benefits, reduce risk, and provide safe and reliable levels of service to community users. This is done in a socially, culturally, environmentally, and economically conscious manner.

FINANCIAL IMPLICATIONS

As outlined in the report.

ACCESSIBILITY IMPACTS

There are no accessibility impact implications with this report.

TERM OF COUNCIL PRIORITIES

This report supports the City's on-going commitment to financial sustainability and transparency.

SUPPORTING DOCUMENTATION

Document 1 – Quarterly Results June 30, 2020 and 2020 Forecast

Document 2 – Q2 Capital Works-In-Progress2020

Document 3 – Q2 Compensation Summary

Document 4 – 2020 Deferred Capital Projects

DISPOSITION

Upon approval of this report, Finance will process the necessary adjustments and submit the report and application for Phase 2 funding to the Province within the required deadlines.