

Report from Financial Management Services, Director

Date of Report: April 20, 2020

Date of Meeting: April 27, 2020

Report Number: FMS-B014-2020

File: 10.57.12

Subject: 2021 Operating Budget Guidance

Recommendation

That Report FMS-B014-2020, regarding 2021 Operating Budget Guidance, be received for information; and

That the BSC provide staff an overall expenditure budget guidance increase for the 2021 Operating Budget.

Summary

This report includes a projected recovery process for the Canadian economy and provides an outlook for the City's financials for 2021. The COVID-19 pandemic has placed severe impact on the City's operations and fiscal position. The City will be focusing on recovery in 2021 in order for the City to get back to a state of financial health, which may take more than one year to accomplish.

Background

At the BSC meeting of May 31, 2017, the following motion was approved:

That staff return to the BSC at the beginning of each annual operating budget cycle with an update on the rolling 12-month average of CPI-common in order for the BSC to set the annual overall expenditure budget guidance.

At the March 27, 2019 BSC Strategic Plan meeting, discussions addressing annual overall expenditure budget guidance for 2020 occurred. It was stated that inflation rates alone should not dictate annual budgeted expenditure increases. Consideration needs to be given to new programs, program changes, staffing requirements and changes in strategic corporate direction.

Report

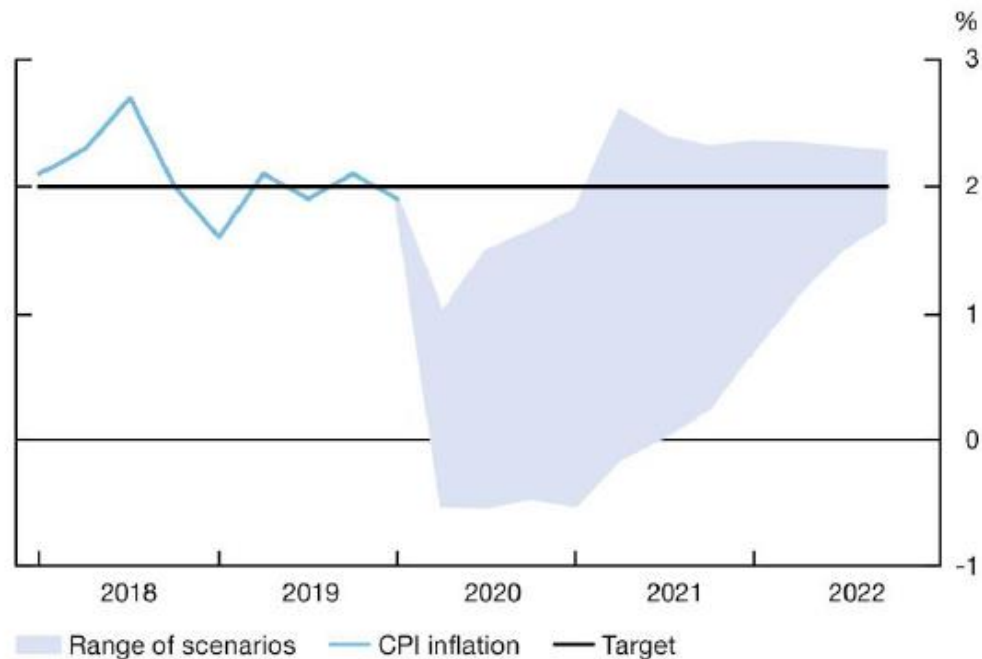
Economic Recovery and 2021 Outlook

According to the Bank of Canada, since none of the previously experienced recessions were caused by a shock to human health and safety, there is no good historical example to reference. However, if control measures are in place for a long time, the impact on businesses and households will be more severe and the damage would take

years to repair. There are therefore a range of possibilities for the recovery, depending on how quickly controls can be safely lifted and how much structural damage is done before then. The weak economic outlook will also weigh on inflation:

Chart 12: How fast inflation returns to target will depend on the timing and strength of the recovery

CPI inflation, quarterly data



Sources: Statistics Canada and Bank of Canada calculations and projections

Staff have been closely monitoring the updates and changes of the Canadian economy. As of the beginning of Q2 2020, the City has established a Recovery Planning Team consisting of Senior Leadership Team as well as various staff representation from each department. The mandate of this team is to develop and formalize arrangements for the effective management of the recovery process for municipal services, projects and resources. The project team is focusing on addressing economic, organizational and psychosocial supports to assist each division in returning to a normal state of operations as quickly as possible. The work of this team will provide valuable information for the planning and development of the 2021 budget.

Impact of COVID-19 Pandemic

Due to the global pandemic COVID-19, the closure of non-essential businesses in Canada and the implemented social-distancing restrictions will have large economic consequences. At the end of Q1 2020, the Chief Economist at Scotiabank projected that Canadian economic activities will fall by 28% in Q2.

External Assessment

All sectors in Niagara, including St. Catharines, have been negatively affected due to COVID-19. Through a recent economic development survey on COVID-19 impact, 521 businesses in St. Catharines reported an estimated \$77 million loss of revenue projected over April to June in 2020.

In Niagara, the unemployment rate is higher than the rest of Canada, with 5.9% unemployment in February 2020 and 8.6% in March 2020.

Staff have been exploring all opportunities for financial assistance from senior levels of government. However, the provincial and federal governments at the time of this report have not offered assistance or changed budget rules associated with the Municipal Act.

Internal Assessment

City Council recently approved a series of measures to help residents and businesses with the costs of municipal taxes and services in response to COVID-19, including:

- Deferring April 30 interim tax instalment to June 30;
- Deferring the 2020 water and wastewater increase from April 1 to July 1;
- Waiving tax penalty and interest charges until June 30;
- Waiving payment for on-street parking, municipal parking lots and garages;
- Waiving late fees for 2020 general business licenses;

These relief measures have an unfavourable impact on the City's 2020 operating budget. In addition, the City has experienced increased cost in response to COVID-19 such as cleaning services, information technology purchases and upgrades, etc.

City staff has been and will continue to be monitoring and quantifying the financial impact of the COVID-19 operational impacts. This remains a highly speculative task given the uncertainty with respect to the longevity and severity of COVID-19 and the resulting impacts on the global, national and local economy and on the City's finances.

Although difficult to quantify the impact of individual items, as well as the overall impact to the City, staff is of the preliminary view that the pandemic will result in a 2020 operating shortfall at year-end. SLT and the finance team are critically looking at all potential options to mitigate the impact of COVID-19. This allows staff to provide an overall picture for BSC to see the many factors that are being taken into consideration and the multi-pronged approach. The following are some of the mitigating efforts that staff is considering:

- Usage of the 2019 unallocated year end surplus (tax-stabilization reserve);
- Other reserves, such as Building Code Reserve and Civic Project Fund;
- Reduction of utility costs due to closure of City facilities;

- Cancellation of non-essential expenditures, such as travel, office supplies, postage, conferences and meetings;
- Deferral of staff and student hiring;
- Temporary staffing reductions of part-time staff;
- Temporary staffing reductions of full-time staff;
- Reduction or elimination of the tax levy support for various capital projects to be offset by positive variances in other capital projects or reduction in 2021 capital program.

Through these mitigation efforts we are optimistic that we can minimize the impact of COVID-19 on the 2020 Operating Budget. However, should there be a shortfall in the 2020 Operating Budget, as required under the Municipal Act this shortfall will need to be made up by the 2021 Operating Budget.

Forecast of Consumer Price Index (CPI)

In recent years, staff have provided an update on the rolling 12-month average of the CPI common in Canada in this report as guidance to the BSC and staff with regards to an annual budgetary expenditure increase. However, we are in unprecedented times, and with an unstable economy and the City's mandate to deliver essential services it may be necessary to look beyond the CPI for budgetary guidance for 2021. Due to the unique nature of the situation and range of possible outcomes, it is staff's recommendation that consideration should be given to replace CPI common with a fixed increase based on the mandated services provided by the City.

Appendix 1 of this report includes the CPI forecast for 2020 and 2021.

2021 Expenditure Budget Guidance

The expenditure increase from 2011 to 2020 for all City Departments, Boards and Commissions averaged to 2.77% per year. The total tax increase, which includes the Region and Education rates, averaged to 1.47% annually.

Expenditure Budget Pressures

For the City of St. Catharines, over 70% of the City's expenditure budget is comprised of employee salary and benefit costs. The City has responsibility to its union groups and commitments in the Collective Bargaining Agreements for wage increases to all union groups are subject to respective wage increases in 2021.

There are also budget pressures with employee pension and benefit costs (OMERS, CPP, EI, EHT, WSIB, etc.), utilities, service and other outside contract costs. These expenditures are essential and yet the pricing has been set to increase over the years by the service providers. Staff is currently undertaking the annual insurance renewal with our provider; and therefore details are not yet available.

From the revenue prospective, the work around the development of 2021 rates and fees began in February 2020. Guidance provided to City departments at that time was an increase at 1.9%. Should the Committee decide to hold off the increase and maintain the fees at the 2020 level, it will create additional pressure to the 2021 expenditure budget as this would maintain these revenue sources at the 2020 level.

In addition, the St. Catharines Transit Commission is experiencing severe financial impact due to COVID-19 (significant loss of ridership and revenue, as well as increased operational cost such as cleaning supplies). In order to recover from the financial crisis, the Commission will likely seek financial assistance from the City as they have a limited level of reserves to draw on to mitigate this impact. Municipal Associations are lobbying for financial support for municipalities, especially transit services, as they have been identified as essential services. However, at the time of writing this report no financial support by upper levels of government has been announced for transit or municipalities in general.

As a result of the budget pressures stated above, an overall expenditure increase of 1.5% is recommended for 2021.

Financial Implications

There are no direct financial implications from this report. However, through this report, staff is recommending that BSC provides an overall expenditure budget guidance increase for the 2021 Operating Budget.

Relationship to Strategic Plan

This report would enhance the Economic Prosperity of the city as it supports the City's commitment to building and growing a diverse and resilient economy through fiscal responsibility, urban regeneration and collaborative partnerships. It also enhances the Social Well-Being of the city as it supports the strategic goal of building and supporting strong, inclusive neighbourhoods that provide high quality of life for residents of all ages.

Conclusion

The City is experiencing financial challenges in 2020 due to the COVID-19 pandemic and projecting a slow economic recovery in 2021. Staff is recommending that BSC provide an overall expenditure budget guidance increase for the 2021 Operating Budget based on the information in this report.

Notification

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Karen Smith Curtis, St. Catharines Public Library
Dan Pilon, Niagara District Airport
Colleen Smith, FirstOntario Performing Arts Centre

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Appendix:

Appendix 1 – Consumer Price Index Analysis for 2020 to 2021

CONSUMER PRICE INDEX ANALYSIS for 2020 to 2021

The CPI provides a broad measure of the cost of living in Canada. While there are other ways to measure price changes, the CPI is the most important indicator because of its widespread use. Through the CPI, Statistics Canada tracks on a monthly basis, the retail price of a representative shopping basket of about 600 goods and services from an average household's expenditure on food, housing, transportation, furniture, clothing and recreation.

On March 25, 2020, the City's current financial institution, Scotiabank has provided an outlook on Canada's economic performance. The following is the CPI forecast for the remainder of 2020 and 2021.

	2020			2021			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Scotiabank CPI Forecast¹	0.3	0.8	-0.1	-0.1	1.9	2.2	2.4

However, due to the severe and adverse impact of COVID-19 pandemic and the considerable uncertainty of the global economy outlook the projected CPI's are obviously subject to change.

¹ Scotiabank – Global Economics – Forecast Update: Economies Shutting Down, March 25, 2020, page 4.