

Report from Financial Management Services, Director

Date of Report: May 20, 2020

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Subject: Multi-Year Budgeting and Multi-Year Financial Recovery Plan

Recommendation

That staff develop a multi-year financial recovery plan as part of the City's overall recovery plan; and

That staff continue to review best practices regarding multi-year budgets and work towards the development of a multi-year budget policy post-COVID-19; and

That staff target 2023 as the base year budget of implementation of a multi-year, with the first multi-year budget to be completed with the 2024 to 2026 budgets.

Summary

The report discusses the feasibility of implementing a multi-year budgeting and fiscal planning process at the City. Due to the current uncertain state of the economy which is suffering from the impacts of COVID-19 and MPAC deciding to postpone the assessment updates planned for 2021 to 2024, it may not be the appropriate time to commence multi-year budgeting. Best practices indicate that multi-year budgets result in the best outcomes when they are based on approved policy that clearly articulates the objectives of the multi-year budget and that is fully supported by Council.

At this time, with staff resources focused on bringing the City out of the pandemic and mitigating the financial impacts of COVID-19 in 2020; it may not be ideal to introduce a new budget policy. Efforts may be best focused on planning for the City's financial recovery to get existing current services back online, at the right time and at a fiscally responsible level.

Background

At its meeting on April 27, 2020, the Budget Standing Committee (BSC) approved the motion that staff report back on the appropriateness and feasibility of implementing multi-year budgeting.

The City of St. Catharines (the City) currently budgets on an annual basis. The City has also presented operational Multi-Year Forecasts in recent years. In addition, the City

has adopted several long-term strategic plans including St. Catharines Strategic Plan (2019-2028), Strategic Asset Management Policy (2019) Asset Management Plan (2013), Four-Year Capital Forecast, etc.

Report

According to research conducted by the Government Finance Officers Association (GFOA), implementing multi-year budgeting and planning processes enables Council to implement multi-year visions which improves financial management and long-range planning. As the City navigates through the COVID-19 global pandemic, a long-term financial plan is important as part of the comprehensive recovery strategy.

COVID-19 Impact on Current Year Budgets

The COVID-19 pandemic will have a significant financial impact on the City's 2020 budgets. The most recent COVID-19 update report CAO-072-2020 forecasted a financial impact up to June 30, 2020:

- Tax Levy Budget: \$2.5 Million unfavourable impact;
- Water and Wastewater Budget: \$100,000 favourable impact;
- Parking Budget: \$500,000 unfavourable impact.

Overall the net financial impact on the City's finances, up to June 30, 2020, is estimated to be \$2.9 Million unfavourable. As items begin re-opening, the financial impact of the City returning to its new normal will have further financial impacts, which are currently being reviewed and evaluated by staff. It is important to strike a balance with returning as many city functions to normal as possible, while being mindful of the additional health and safety measures that need to be in place prior to reopening which have a financial impact.

Staff continue to review and consider all options available to offset the unfavourable impact on 2020 yearend forecast.

It is also important to ensure that the City is not completely draining all of its existing reserves to mitigate the impact of the pandemic. It has taken several years to create and build up these reserves and to fully utilize in one year is not fiscally responsible.

Multi-Year Financial Recovery Plan

While the City is making every effort to mitigate the impact to remain in a financial stable condition in 2020, a full recovery is expected to take longer than one year. Especially as the City works within the phased parameters of the Province and the Region to re-open. There are many changes required to re-open and to work towards the new normal and services may need to be phased in or altered due to Provincial directives. Services may also need to be amended to minimize the number of customer-staff and staff-staff

interactions. Long-term financial planning is an important part of the financial recovery. It ensures the City is on a path to a long-term, solid financial foundation.

According to the [GFOA](#) – “A big risk during a financial recovery is when a government fails to account for: A) long-term issues that thwart a full recovery or B) the long-term effects of financial strategies that were used to give near-term relief to financial stress.”

The essential elements of a multi-year financial recovery plan should include public engagement, an analysis of the financial and economic environment, long-term forecasts incorporated with scenario planning, debt analysis, and financial strategies. A financial plan should also be supported by sound financial policies in order to provide essential guidance for the recovery process, for example:

- How much of the reserves can be used?
- How much debt can be issued?
- How much should be contributed to capital infrastructure projects from the operating fund?
- In response to unexpected events, how much budgeted funds could be re-purposed to allow fiscal flexibility?

Therefore, staff recommend that the City develops a plan of returning to financial sustainability over several years considering the impact on all City budgets including Tax Levy, Capital, Parking and Water and Wastewater Budgets. Once the multi-year financial recovery plan is developed, it could be used as the foundation to the development of a multi-year budget policy with the planning exercise performed annually as a prelude to the budget process and provide a long-term perspective to the budget discussions.

Financial Implications

This report does not have a direct impact on the City's finances. However, the staff recommend the development of a multi-year financial recovery plan would be the next logical step to this report. The City's recovery plan and related multi-year financial plan would serve as an important tool for the City to return to financial health and to improve the City's long-term fiscal sustainability. In financial recovery the political and economic environment are foundational to fiscal health. As there is significant uncertainty with the current economic environment, there needs to be more stability in this area in order for a full return to financial health. Therefore, focus in the short term is recommended to be on the areas where there is greater oversight and control such as revenue, expenditures, and reserves, while being mindful of liabilities.

Next Steps

At the May 20, 2020 Council meeting, Council received the first look of the City's Recovery Plan. The impacts of the various stages and steps need to be fully costed so

that a balance can be struck between re-opening activities and continuing to provide essential services to our businesses and residents. This plan focuses on the immediate term. These financial impacts will put further strain on the City's 2020 yearend position and future years while working within the guidance of no or extremely low tax increases. Further analysis is required on the short and medium term impacts of recovery which will be factored into the multi-year recovery plan.

Due to the interdependency of all four City budgets, tax levy, capital, water/wastewater and parking, they need to be reviewed together as reduction in one has an impact on another. Therefore, as all the City's 2021 budgets are developed they are being viewed with the lens as how they may contribute to the City's return to fiscal health over the next few years. Staff will include information with each budget as to how it is contributing to the City's return to fiscal health and how it is assisting in mitigating the impacts of the COVID-19 pandemic.

Looking to others who have completed a multi-year budget and considering the impact on COVID-19 pandemic on City's finances, uncertain national and global economies and postponed MPAC assessment update, the following is the recommended timeline for the introduction of multi-year budgeting of the City of St. Catharines.

Year	Task
2020 to 2021	Financial Recovery Plan as part of City's overall Recovery Plan Inclusion in each 2021 Budget how contributing to City's return to Financial Health
2021 to 2022	Research of best practices for Multi-Year Budgeting Development of Multi-Year Budget Policy for BSC and Council Consideration
2022 to 2023	Base Year Budget Developed and Presented to BSC and Council
2023 to 2024	First Multi-year Budget prepared for 2024 to 2026 and presented to BSC and Council

Relationship to Strategic Plan

This report would enhance the Economic Prosperity at 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 at 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 report provides information with regards to the importance of a multi-year financial recovery plan to assist the City to gradually return to fiscal health after the COVID-19 pandemic. It also includes the staff's recommendations on the timeline and consideration points for the implementation of the plan for multi-year budgeting.

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