CC24.2

REPORT FOR ACTION

COVID-19 Financial Update

Date: September 23, 2020
To: City Council
From: City Manager, Chief Financial Officer and Treasurer, and Chief People Officer
Wards: All

SUMMARY

This report provides an update on COVID-19 related financial impacts experienced as of August 30, 2020, projected financial impacts to year-end, results of implemented mitigation strategies, details on the City's allocation of initial Safe Restart Agreement funding and the City's remaining funding requirements for phase two Safe Restart funding.

It is estimated that the City will experience $1.885 billion in COVID-19 related financial impacts in 2020. This report details the work the City has been undertaking to address the expenses, loss of revenue, and the unprecedented financial challenges resulting from the pandemic.

Current mitigation strategies and savings/offset are expected to collectively generate $542.8 million in total offset by year-end, comprised of $508.7 million in savings from workforce restraints, spending constraints and cost avoidance, and $34.1 million in added offsets available from budget variance.

When considering the COVID-19 related financial impacts, partially reduced by savings/offsets, the City is projecting a 2020 budget shortfall across all City Programs and Agencies of $1.342 billion by year-end prior to the City's allocation of Safe Restart funding.

The City has been engaging with their Federal and Provincial counterparts to obtain funding support for municipalities to offset projected deficits resulting from COVID-19 related financial impacts and longer-term commitment to support Toronto into 2021.

On July 27, 2020 the Ontario government in partnership with the federal government announced $4 billion in financial support for Ontario's 444 municipalities as part of the Safe Restart Agreement and on August 12, 2020 the City of Toronto was provided with initial phase funding allocations under the agreement totalling $668.6 million, reducing the City's estimated 2020 shortfall to $673.1 million.

The Mayor, City Manager and Chief Financial Officer and Treasurer continue to engage with their Provincial counterparts to confirm future phase Safe Restart funding that will be allocated to municipalities by the Province on a needs basis.

The City is optimistic that further Safe Restart funding is forthcoming but there is still uncertainty about the extent to which it will offset the remaining 2020 budget pressures and likely shortfall for 2021.

This report recommends the City Manager report to City Council later this year with an update on further funding received from the Safe Restart Agreement that would offset the remaining 2020 budget pressure and any further mitigation options required to address COVID-19 financial impacts.

RECOMMENDATIONS

The City Manager and the Chief Financial Officer and Treasurer recommend that:

1. City Council formally requests $673 million in COVID-19 funding support from Phase 2 of the Provincial Safe Restart Program to offset the City's COVID-19 financial impacts to the City, following offsets generated by the City primarily through cost mitigation strategies;

2. City Council direct the City Manager to report to City Council in Fall 2020 on any additional commitments of financial support received from the Federal and Provincial governments to the City; to continue to explore opportunities to achieve greater 2020 budget efficiencies or offsets; and to provide recommendation on any further mitigation options needed to address any remaining 2020 COVID-19 financial impacts.

3. City Council direct the City manager and Chief Financial Officer to continue to explore opportunities for budget efficiencies and offsets as part of the 2021 budget process to mitigate anticipated 2021 COVID-19 related financial impacts.

4. City Council direct the City Manager and Chief Financial Officer to engage with the Federal and Provincial Governments to obtain funding commitments to fully address remaining COVID-19 related financial impacts anticipated in 2021 to avoid reductions to transit service, service levels across all City operations and programs.

5. City Council approve the use of the Operating Variance Report for the Six Months Ended June 30, 2020 for the City's Phase 2 Safe Restart financial submissions.

6. City Council approve and increase to the Children's Services 2020 Operating budget by $47.5 million gross and $0.0 net, funded from the City of Toronto's allocation of Safe Restart Funding for the Child Care and Early Years' Sector.

7. City Council authorize the Mayor and the Chief Financial Officer and Treasurer to enter into and execute any agreements, including any amendments and extension of such agreements, with the Province of Ontario for funding under the Municipal Transit Enhanced Cleaning program on terms and conditions satisfactory to the City Manager, and in a form satisfactory to the City Solicitor.

8. City Council grant approval to receive and disburse funds from the provincial Municipal Transit Enhanced Cleaning program.

9. City Council authorize the Executive Director, Corporate Real Estate Management to negotiate, approve and enter into interest free rent deferral agreements with qualifying tenants and licensees, which permit for a rent deferral period that extends through December 31, 2020, including the requirement that such tenant or licensee had a lease or licence with the City of Toronto that was in good standing prior to April 1, 2020, such agreements to be in a form satisfactory to the City Solicitor.

FINANCIAL IMPACT

Since mid-March, the City of Toronto, consistent with other major Canadian and Greater Toronto and Hamilton Area (GTHA) municipalities has experienced significant financial impacts, both in the form of added costs and revenue losses as a direct result of the COVID-19 pandemic.

City staff reported to Council in July 2020 (*CC23.3 Update on the City's Response to COVID-19 and Financial Impacts)* providing details on COVID-19 related financial impacts experienced as of June 28, 2020 and estimated impacts to year-end based on the trends experienced through the initial 15 weeks since the declaration of a pandemic in mid-March. The report also detailed mitigations strategies initiated by the City to offset COVID-19 related financial impacts; acknowledged what was then the recently announced Safe Restart Agreement; and recommended that staff report back to Council in September on the extent that Safe Restart funding will mitigate estimated budget pressures.

Estimates continue to project that COVID-19 will result in a financial impact to the City of Toronto of between $1.5 billion to $2.8 billion in 2020 depending on the duration of the lockdown and recovery.

- Consistent with that estimate, the overall COVID-19 related financial impacts, including programs that are not directly supported through the property tax base, are currently trending to $1.885 billion to year-end based on 24 weeks of experience. Financial impacts predominantly reflect losses to budgeted revenues accounting for 81% of financial impacts experienced as of August 30, 2020.

- Mitigation strategies in combination with COVID-19 related savings and other offsets are expected to collectively generate $542.8 million in total offset by year-end, comprised of $508.7 million in savings from workforce restraints, spending constraints and cost avoidance, and $34.1 million in added offsets available from budget variance.
- Combined, the City is projecting $1.885 billion in COVID-19 related financial impacts, reduced by $542.8 million in savings and offsets for an anticipated year-end funding shortfall of $1.342 billion prior to the City's allocation of Safe Restart Funding.

On July 27, 2020 the Ontario government in partnership with the federal government announced $4 billion in financial support for Ontario's 444 municipalities as part of the Safe Restart Agreement.

The City of Toronto was provided with initial phase funding allocations under the agreement totalling $668.6 million as follows:

- Municipal Transit Funding Phase 1 - $404.1 million allocated to Toronto proportionately based on ridership.
- Social Services Relief Fund Phase 2 - $118.8 million allocated to Toronto in addition to the $39 million previously received as part of Phase 1 funding.
- Municipal Operating Funding Phase 1 - $145.7 million allocated to Toronto proportionately based on households.

Following initial funding under the Safe Restart Agreement, it is estimated that the remaining 2020 funding shortfall will be $673.2 million comprised of $217.8 million in remaining transit impacts and $455.3 million in all other municipal operating impacts.

Below are further details on:

- Weekly financial impacts as of August 30, 2020 for both added costs and revenue losses;
- Cost mitigation strategies that have been implemented and have generated $293.3 million in savings as of August 30, 2020 and when combined with other offsets are expected to total $542.8 million by year-end;
- Safe Restart Agreement funding allocations that total $668.6 million and future phase funding requirements to offset remaining City COVID-19 related financial impacts; and
- Options available, if required to offset any remaining COVID-19 related 2020 funding shortfalls to the extent that future phase funding as part of the Safe Restart Agreement is not adequate to offset all 2020 impacts.

Weekly Monitoring and Analysis as of August 30, 2020 (Week 24 of COVID Impacts)

As reflected in Table 1, $1.134 billion in COVID-19 related costs and revenue losses have been experienced by the City as of August 30, 2020.

City impacts of $1.134 billion are predominantly driven by lost revenue, with impacts broken out as follows:

- $916.3 million or 81% of the pressure experienced to date is driven by lost revenue. Key components contributing to this pressure include:
  - Toronto Transit Commission revenue loss - $453.2 million;
  - Corporate Revenues - $210.5 million (including MLTT, Parking Tag Revenue and Municipal Accommodation Tax); and
  - Toronto Parking Authority - $73.2 million.
- $218.0 million or 19% of the overall experienced impact is attributed to added costs, with added Shelter costs of $83.0 million reflecting the largest component. Further impacts have been experienced within the following services:
  - Senior Services and Long-Term Care $15.2 million);
  - Toronto Public Health $13.5 million); and
  - Technology Services $8.5 million).

COVID-19 related financial impacts are currently trending to $1.885 billion to year-end based on 24 weeks of actual experience and incorporating federal and provincial funding received to date, excluding the $668.6 million in Safe Restart Agreement funding allocation detailed to the City on August 12, 2020.

- The year-end trend excludes savings achieved and expected from mitigation strategies and budget offsets; and is based on impacts to City Programs and Agencies as well as estimated impacts to Toronto Community Housing Corporation.

Table 1: COVID-19 - Weekly Financial Impacts

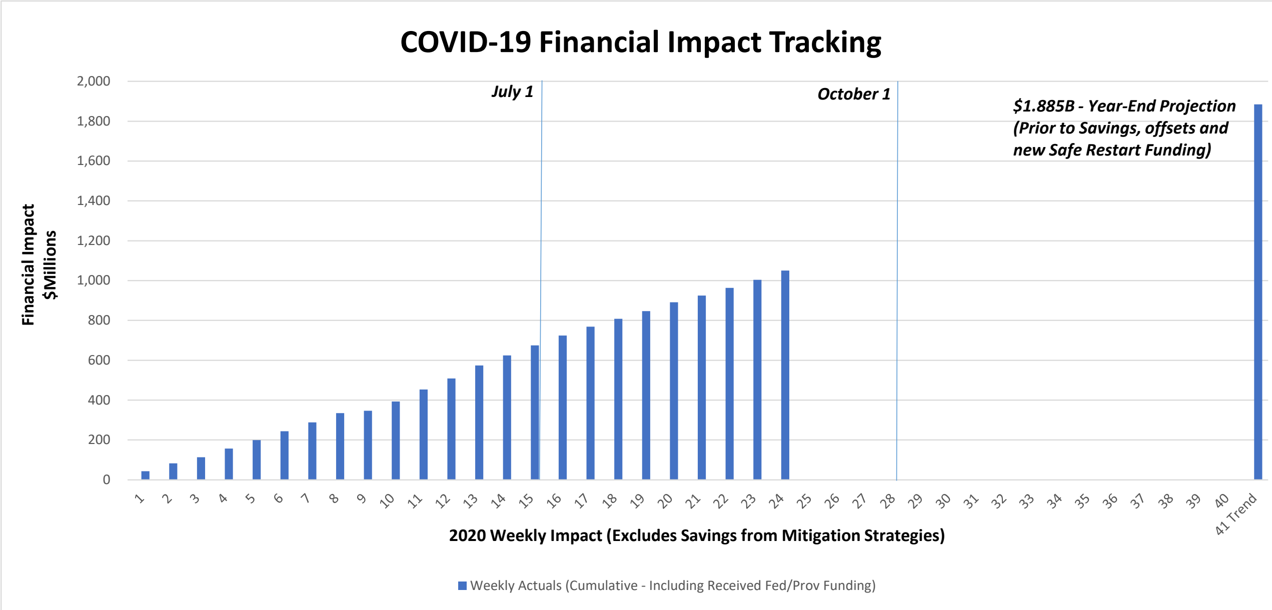
Initial Burn Rate Estimate $ Millions		**Weekly Actuals**																								
		Wk 1	**Wk 2**	**Wk 3**	**Wk 4**	**Wk 5**	**Wk 6**	**Wk 7**	**Wk 8**	**Wk 9**	**Wk 10**	**Wk 11**	**Wk 12**	**Wk 13**	**Wk 14**	**Wk 15**	**Wk 16**	**Wk 17**	**Wk 18**	**Wk 19**	**Wk 20**	**Wk 21**	**Wk 22**	**Wk 23**	**Wk 24**	**Total**
Revenue Centric Impacts	**45.4**	**32.6**	**34.0**	**37.2**	**40.4**	**37.7**	**38.4**	**39.0**	**40.3**	**39.5**	**40.5**	**54.0**	**46.0**	**58.3**	**44.0**	**42.8**	**41.8**	**35.1**	**31.9**	**31.2**	**43.2**	**27.0**	**32.9**	**34.0**	**41.5**	**943.4**
TTC - Predominantly fare revenue	23.5	16.2	16.4	21.4	19.4	21.5	22.4	21.6	22.3	21.6	19.7	21.4	20.8	33.7	20.7	19.8	17.3	17.8	17.2	17.7	15.3	14.7	16.1	15.8	15.1	465.8
TPA On-street/Off-street	3.9	2.0	3.1	3.1	3.6	3.3	3.3	3.5	3.5	3.5	3.4	3.2	3.2	3.1	3.1	3.1	3.2	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	73.5
Toronto Community Housing	3.0	***3.0***	***3.1***	***1.4***	***1.1***	***1.1***	***1.1***	***1.9***	***1.3***	***1.3***	***1.3***	***1.1***	***1.1***	***1.1***	***1.1***	***1.1***	***1.1***	***0.8***	***0.8***	***0.8***	***0.8***	***0.8***	***0.8***	***0.8***	***0.8***	***29.7***
Corporate Revenue (i.e. Investments, Parking Tag)	3.7	3.6	4.6	4.9	5.0	5.3	5.4	5.5	6.1	6.1	5.9	5.9	6.3	5.2	6.3	6.2	5.9	5.1	4.2	4.1	4.2	4.2	4.3	3.4	3.4	121.1
Permit / License Fees	3.1	2.1	2.7	2.5	1.0	1.7	2.3	2.1	1.6	0.7	0.5	0.0	0.2	1.0	0.6	0.9	1.1	0.4	0.5	0.8	0.4	0.2	0.5	0.8	0.1	24.7
MLTT - Current Experience*	2.9	***0.2***	***0.2***	***0.0***	***0.0***	***0.0***	***0.0***	***0.7***	***1.2***	***1.4***	***1.4***	***10.9***	***10.5***	***8.5***	***7.2***	***4.4***	***6.8***	***1.9***	***0.0***	***0.0***	***14.4***	***0.0***	***2.4***	***1.1***	***16.4***	***89.6***
Cancellation of Public Events	1.6	2.6	0.8	0.9	1.0	0.4	0.5	0.7	0.3	0.8	0.7	0.9	0.7	1.1	0.6	1.4	0.2	0.6	0.2	0.8	0.2	0.1	0.5	4.7	0.2	20.8
User Fee Revenue	1.0	0.8	0.7	1.2	6.9	1.8	1.0	0.9	1.4	1.3	1.2	1.0	1.0	0.9	0.7	1.8	3.1	2.0	3.4	2.1	2.6	1.5	2.3	1.7	0.7	42.0
Toronto Zoo – Admission and fees	0.5	0.9	0.3	0.3	0.4	0.4	0.3	0.5	0.6	0.8	3.5	1.3	1.0	0.9	1.1	1.0	1.2	1.2	1.1	1.1	1.0	1.1	1.1	1.0	0.8	22.8
Other Revenue Loss	2.2	1.2	2.3	1.7	2.0	2.2	2.1	1.6	1.9	1.9	2.8	8.2	1.4	2.7	2.5	3.0	1.9	2.5	1.8	1.1	1.6	1.6	2.2	1.9	1.1	53.3
Increased Costs	**12.1**	**10.3**	**6.2**	**9.6**	**3.9**	**5.8**	**6.6**	**5.4**	**7.2**	**6.7**	**7.1**	**7.3**	**10.0**	**6.2**	**6.8**	**7.9**	**8.3**	**9.6**	**9.4**	**7.3**	**5.8**	**6.8**	**24.8**	**6.6**	**5.2**	**190.9**
Child Care Costs	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	3.7
Overtime Costs	3.8	0.8	1.0	1.2	1.0	1.6	1.4	1.6	1.8	1.7	1.2	1.9	1.2	3.3	1.9	2.8	1.5	2.6	2.6	2.7	1.7	2.3	1.2	2.4	1.1	42.4
Cleaning Supplies	2.0	0.7	0.7	0.7	0.6	0.5	1.0	0.6	0.5	0.5	0.7	0.5	0.5	0.3	0.4	0.7	0.2	0.5	0.9	0.5	0.8	0.0	0.4	0.6	0.4	13.1
Shelter Related Costs	1.1	2.2	4.3	6.7	2.0	2.5	2.2	2.8	3.2	3.1	3.0	3.5	5.7	2.2	3.6	2.8	3.6	5.2	4.7	3.0	3.0	4.1	3.7	3.1	3.1	83.0
Other Costs	5.0	6.4	0.1	0.8	0.2	0.9	1.8	0.3	1.5	1.2	2.1	1.2	2.5	0.2	0.8	1.4	2.9	1.2	1.2	1.0	0.3	0.3	19.5	0.4	0.5	48.7
Total Weekly Estimate**	**57.5**	**42.8**	**40.3**	**46.8**	**44.3**	**43.4**	**45.0**	**44.4**	**47.5**	**46.2**	**47.6**	**61.2**	**56.0**	**64.5**	**50.9**	**50.7**	**50.1**	**44.7**	**41.4**	**38.5**	**49.0**	**33.8**	**57.8**	**40.6**	**46.7**	**1,134.4**

* MLTT, the COVID19 impact on the revenue performance for the City is delayed on average 60 to 90 days

** Additional "Trailing Costs" and COVID19 related savings are not reflected in the weekly impacts, any adjustments required to prior weeks are reflected entirely in the week the adjustment is recorded

Actual experience to date and the trend to year-end are illustrated in Figure 1.

Figure 1: COVID-19 Financial Impacts – 2020 Forecast



Adjustments to Forecast 2020 Financial Impacts

The forecast $1.885 billion financial impact to year-end prior to savings and budget offsets ($1.342 billion following all offsets as detailed in the following section), reflect projections identified in the City' Six Month Variance Report and includes three key changes from the forecast previously identified as part of the Five Month Variance Report as follows:

- The estimated transit impacts have been reduced by $77.7 million for 2020 based on an increase in ridership above COVID-19 expectations experienced in July and August;
- An estimated $83.3 million in increased Municipal Land Transfer Tax revenue by year-end compared to previous projections following an increase in both sales volume and average price experienced in July; and
- Estimated impacts for the Toronto Parking Authority and Toronto Community Housing had previously been identified separately from the programs that are funded directly from the City's property tax base.

Mitigation Strategies and Budget Offsets

City staff are recommending a three phased approach to address anticipated 2020 COVID-19 financial impacts, as follows:

1. Continued implementation of a series of mitigation strategies aimed at achieving cost savings focusing on workforce and spending restraints. These actions, detailed in Table 2, have already achieved $293.3 million in savings as of August

30, 2020 and are expected to collectively generate $542.8 million in total offset by year-end when including an added $34.1 in budget variance.

2. Apply initial Safe Restart Agreement funding of $668.6 million to offset the City's remaining $1.342 billion in COVID-19 related financial pressures and continue to seek an estimated $673.2 million in future phase Safe Restart Agreement funding which will be allocated across Ontario municipalities on a needs basis.
3. (As required) – Prepare options that may need to be brought forward for Council's consideration to offset any potential remaining pressure following final allocation of Safe Restart Agreement funding. As we enter the final quarter of the year, options to reduce expenditures and/or generate revenue will be limited and may include reductions in funding intended for capital infrastructure spending and changes to the Surplus Management Policy (Impacts to Capital Funding).

Continued Implementation of Mitigation Strategies

In an effort to lessen the COVID-19 related financial impacts the City has undertaken a series of mitigation strategies aimed at achieving cost savings. These actions have generated $293.3 million in savings as of August 30, 2020 and are expected to achieve total offsets of $542.8 million by year-end, reducing the estimated $1.885 billion overall 2020 budget shortfall to $1.342 billion, as detailed in Table 2.

Table 2: COVID-19 – Estimated Budget Shortfall and Mitigation Strategies

2020 Budget Shortfall & Mitigation Strategies	
Description $Millions	**2020 Forecast Impacts**
2020 Forecast Budget Shortfall (Prior to Mitigation Strategies)	**1,884.5**
Actions Taken to Date - Mitigation Strategies Implemented and Budget Offsets	***2020 Forecast Impacts***
Mitigation Strategies Implemented	
Spending Constraints / Cost Avoidance - ***City Programs***	(128.6)
Spending Constraints / Cost Avoidance - ***City Agencies***	(214.7)
Workforce Restraints: Emergency Leave / Layoffs Recreations Workers Hiring Slowdown Labour Negotiation Savings (Non-Union Savings Subject to Council Approval)	(165.4)
Total Mitigation Strategies	**(508.7)**
Redeploy staff to critical and essential services	Cost Avoidance
Mandated Vacation Utilization*	***Up to $31 million in Reduced City Liability***
Experienced Budget Variance	
2020 Budget Offset (MLTT Q1 Experience)	(34.1)
Total Added Savings / Offsets	**(542.8)**
Estimated Remaining Shortfall	**1,341.7**

***Based on Non-Union/Management staff only and subject to level of current vacancies, less already planned or utilized vacation**

As reflected in Table 2, $542.8 million in total savings / offsets are anticipated to year-end as detailed below:

Spending constraints and cost avoidance across the City programs and agencies have generated $207.6 million in savings to date and are expected to total $342.6 million in 2020.

- Expected savings are split between City Programs ($128.3 million) and City Agencies ($214.3 million)
- Actions taken include matching transit service capacity to demand; reducing discretionary spending; reviewing all services for criticality (prioritize critical, essential and priority services); and the tracking and forecasting of COVID-19 related savings / cost avoidance.
- At the onset of COVID-19, due to the uncertainty of the financial impact and the amount of financial assistance from other levels of government, capital projects funded by Capital from Current (CFC) were slowed to enable potential offsets to COVID-19 financial impacts.
    - ➢ Given the continued uncertainty regarding the allocation that Toronto will receive of future phase Safe Restart Agreement funding, CFC funded capital projects will continued to be slowed to the end of the year. Impacted capital projects will be reassessed as part of the 2021 budget process.

Workforce restraints have produced a further $85.7 million in savings as of August 30, 2020 and are expected to total $166.1 million by year-end.

- These savings predominantly reside within City Program budgets and estimated year-end savings are equal to approximately 6.1% of budgeted 2020 salary and benefit across all City Programs and include the following actions.
    - ➢ Redeployment of staff to critical and essential service areas;
    - ➢ Implementing Emergency Leave for staff unable to provide service / work remotely;
    - ➢ Seasonal / part-time staff layoffs;
    - ➢ Implementation of a hiring slowdown;
    - ➢ a 0% general salary range increase (cost of living adjustments) for Accountability Officers, Management/Non-union employees and Mayor and Council;
    - ➢ Cancellation of pay for performance for non-union employees; and
    - ➢ Labour negotiation savings.

Continued Workforce Restraints:

The City is committed to disciplined stewardship of public funds, especially given the City's current financial situation. To that end, the City has recently implemented a number of strategies aimed at managing the workforce through attrition and leveraging opportunities for both short-term and long-term salary savings, in order to address the financial pressures that are being faced by the City:

1) Hiring Slow-Down

A hiring slow-down was implemented earlier this summer to ensure that only essential and critical vacancies that arise in the organization are filled. In order for vacancies to be approved for filling they must meet clear criteria for being essential or critical. The approval process for filling vacancies was recently revised such that approval by the Senior Leadership Team is required before any position is filled permanently.

This approach is allowing the organization to leverage vacancies that arise due to attrition, in order to realize immediate savings. To date, the City has generated $45.3 million in savings specifically attributed to the hiring slow-down.

2) Voluntary Separation Program

City Council recently approved the implementation of a Voluntary Separation Program (VSP), for those employees eligible to retire with an unreduced pension, by December 31st, 2020. The program, which provides up to a 3-month payment (based on employee's years of service) requires that the division hold the resulting vacancy that arises from the retirement, for a minimum period of 6 months. This will enable the City to realize immediate salary savings, with the potential for achieving longer-term savings as well in some cases. Filling the vacancy following the 6 month timeframe requires approval through the hiring slow down process. Only those vacancies that meet the hiring slowdown criteria and which are subsequently approved by members of the Senior Leadership team will be filled permanently.

Application deadline for the VSP was August 31st, and 500 employees from across the Toronto Public Service have applied: 147 non-union and 353 union employees. Divisional management are reviewing the applications and final decisions on those that will be approved will be made by the end of September. Every effort will be made to maximize the number of approved applications. This will contribute to short-term savings in the 2021 budget as well as the potential for ongoing and permanent savings in 2021 and beyond.

3) General Salary Range Increases

In 2019, the City paid approximately $576.6 million in salaries for Management/Non-union employees and Accountability Officers and approximately $134.8 million in benefits (statutory and non-statutory benefits), for a total compensation cost of approximately $711.4 million.

Consistent with Council approval obtained during the meeting of July 28 and 29, 2020, not paying a general annual increase to Accountability Officers, and Management/Non-union employees in the Toronto Public Service, results in budget savings that have been reflected in the $165.4 million total workforce restraint savings previously detailed in Table 2.

4) Pay for Performance

Consistent with Council approval obtained during the meeting of July 28 and 29, 2020, the City cancelled the existing performance management program (effective for the 2020 performance year). By so doing, the City will avoid an obligation to continue to pay employees a pay for performance increase in accordance with the existing program pending the approval and implementation of a new program anticipated in Q2 2021.

5) Mandated Vacation Utilization

An additional initiative underway is the requirement for all non-union/management employees to use a minimum of three weeks of their vacation entitlement by December 31, 2020. Discussions are also underway with a view to extending this initiative beyond non-union staff.

This directive is intended to reduce the City's future liability related to vacation carry-over, and vacation payouts while also ensuring that staff are able to take time off. It is estimated that this initiative may reduce up to $31 million in City liability, subject to full participation and the level of current vacancies, less already planned or utilized vacation.

Overall

In addition to these specific strategies the City is engaged in an accelerated modernization and digitization effort. These efforts will provide new opportunities for City staff and also drive efficiencies.

A corporate-wide lens is being applied to manage workforce planning goals and objectives. Strategies have been put in place to ensure that a corporate-wide perspective is being applied to leverage opportunities for managing vacancies. The objective is to enable the organization to look at how work is performed and how services are being delivered, in order to identify opportunities for efficiencies, through use of technology and business process reviews, in order to realize longer-term savings.

As the results of the current initiatives are assessed, decisions will be made about whether additional strategies are required to ensure that the goal of having an efficient, effective, outcome focussed and modern public service are fully realised.

Safe Restart Agreement Funding

A 2020 budget pressure of $1.342 billion is expected to remain following continued implementation of cost mitigation strategies.

On July 27, 2020 the Ontario government in partnership with the federal government announced $4 billion in financial support for Ontario's 444 municipalities as part of the Safe Restart Agreement and on August 12, 2020 the City of Toronto was provided with initial phase funding allocations under the agreement totalling $668.6 million as follows:

- Municipal Transit Funding Phase 1 - $404.1 million allocated to Toronto proportionately based on ridership.
- Social Services Relief Fund Phase 2 - $118.8 million allocated to Toronto in addition to the $39 million previously received as part of Phase 1 funding.
- Municipal Operating Funding Phase 1 - $145.7 million allocated to Toronto proportionately based on households.

As detailed in Table 3 below, it is estimated that the remaining 2020 funding shortfall for the City will be $673.2 million prior to the receipt of any funding available as part of future phases of the Safe Restart Agreement.

- Future phase funding of up to $2.029 billion will be allocated by the Province on a needs basis between municipal transit needs ($1.334 billion) and municipal operating needs ($695.0 million)

Table 3: Safe Restart Funding Allocation - Total NEW Municipal Funding of $3.752 Billion

Safe Restart Agreement (Ontario Allocations - New Funding) $Billions		Toronto Need*	Funding Allocation Phase One		Toronto - Remaining Funding Shortfall
Priority	**Full Funding*** **		**Phase One Allocation**	**Basis**	
Transit	2.000	0.622	0.404	Aug. 12 Letter (Ridership 60.7%)	(0.2178)
Municipal	1.390	0.601	0.146	Aug. 12 Letter (Household 21.0%)	(0.4553)
Social Services Relief Fund (Phase 2)**	0.212 0.150	0.119	0.119	Aug. 12 Letter (Reflects 32.8%)	0.0
Total	**3.752**	**1.342**	**0.669**	**Combined**	**(0.673)**

****2020 Pressure Includes $28 million in offsetting CHPI expansion funding announced April 1, 2020 (and $18 million in Federal Reaching Home funding)***

*****Excludes $148 million in CHPI expansion funding announced April 1, 2020***

******Excludes $100 million in Safe Restart Allocation towards Public Health***

- Total new funding of $3.752 billion not included in previous forecast is comprised of $2.0 billion in transit funding, $1.390 billion in municipal operating funding and $362.0 million in new Social Services Relief Funds.

- The Province also announced an additional $100.0 million in funding directed towards public health (details on public health allocation and eligibility are not yet available).

Following initial funding of $668.6 million under the Safe Restart Agreement, it is estimated that the remaining 2020 funding shortfall for the City of Toronto will be $673.2 million comprised of $217.8 million in remaining transit impacts and $455.3 million in all other municipal operating impacts.

Future phase Safe Restart Agreement funding for both the Municipal Transit and Municipal Operating funding will be allocated on a needs basis, Toronto needs as follows:

- Municipal Transit Funding - Toronto's estimated 2020 funding need is $217.8 million

- Municipal Operating Funding - Toronto's estimated 2020 municipal operating funding need is $455.3 million.

- Public Health Funding:
  - Further details are pending on municipal allocations and funding eligibility for the $100 million in Safe Restart funding directed towards Public Health
  - Toronto Public Health is currently projecting a funding shortfall of $5.1 million by year-end, which is currently factored within our Municipal Operations shortfall however may be eligible for funding within the Public Health allocations.

The City remains optimistic but uncertain about the extent to which future phase Safe Restart Agreement funding will resolve Toronto's remaining $673.2 million shortfall in the 2020 budget and any projected pressures for 2021.

- The City will continue to seek an equitable distribution of remaining Safe Restart Agreement funding.
- Funding received should be consistent with experienced COVID-19 financial impacts commensurate with municipal services provided to vulnerable populations.
- Funding for PPE costs should be distributed based on established and proven needs and demands.

Options to be Brought Forward for Council's Consideration to address any Potential Remaining Shortfall (as required)

The City Manager will report to Council in late 2020 regarding options that may be required for Council's consideration to offset any remaining financial pressures in the event that future phase allocations of the Safe Restart Agreement are not sufficient to fully offset anticipated COVID-19 impacts.

As we enter the final quarter of the year, options to reduce expenditures and/or generate revenue will be extremely limited, remaining available options will include:

- Capital Adjustments
  - A permanent reduction in capital funding to enable the reallocation of Capital from Current and Provincial Gas Tax funding to the 2020 Operating Budget to offset COVID-19 related operating pressures.
    - A recast of the 10-Year Capital Plan will also be required as part of the 2021 budget process, which will include a reprioritization of capital work, with a focus on legislated, health and safety and state-of-good repair capital projects.
- Change in Surplus Management Policy (Impacts to Capital Funding)
  - Consideration to deviate from the City's surplus management policy that requires 75% of prior year operating surplus be directed to the City's Capital Financing Reserve.

As previously noted in July, municipalities in Ontario, and the City of Toronto, do not have the ability to budget for operating deficits. As a result of this, the City of Toronto has avoided many of the risks that would be inherent in deficit financing.

The City Manager and CFO and Treasurer do not want the ability to deficit finance and would recommend that Ontario make no legislative amendments that would grant the authority to deficit finance to the City of Toronto Act based on the following:

1. Municipal revenue measures are limited and make deficit financing undesirable as compared to the federal and provincial governments.
2. The Great Depression and the origins of the ban on municipal deficits, mitigating the risk of municipal insolvency are still relevant today; the need to protect against municipal deficit financing is a long-term safeguard and should not be waived to address the in-year problems of 2020.
3. Toronto must prepare for the eventuality that the financial challenges of the 2020 fiscal year continue into 2021 and beyond.
4. Toronto and Ontario Municipalities have benefitted from not being able to deficit finance.
   - The limitation on operating deficits has helped Ontario municipalities develop a strong, responsible culture of dealing with “today’s problems today.”
   - Ontario Municipalities get the most in taxpayer services out of our tax base by avoiding the accumulating pressure of debt charges.

- Since operating deficits are “off the table,” municipal borrowing is reserved for investments in capital.
- Avoiding operating deficits has helped protect against the downgrading of municipal debt ratings, which in turn increases overall cost of borrowing.

Long Term Municipal Financial Sustainability

The City has been engaging with their Federal and Provincial counterparts to obtain funding support for municipalities beyond 2020. It is well understood that the financial pressures caused by COVID-19 will exist into at least 2021. As the City engages in discussions on a long term municipal financial strategy, it is essential to consider which responsibilities of government are best planned, managed and delivered by local governments, and the need to fund these responsibilities in a sustainable way in a post COVID-19 economy.

While the 2021 Operating Budget pressures cannot be confirmed until budget request submissions are received, staff are estimating a preliminary opening pressure of nearly $1.5 billion based on 2021 outlooks provided during the 2020 budget process and assumptions on continued COVID-19 financial impacts. As the City initiates its 2021 budget process, there is a need for a financial commitment prior to December 31, 2020. In the absence of a financial commitment similar to the 2020 Safe Restart Funding the City will be forced to consider impacts such as reductions to transit service, service levels across all City operations and program reductions.

DECISION HISTORY

At its July 28 and 29, 2020 Meeting, City Council adopted the City Manager's report on Update on the City's Response to COVID-19 and Financial Impacts. This report provided direction to the City Manager to report in September on any commitments of financial support received from the Federal and Provincial governments to the City.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.CC23.3

At its June 28 and 29, 2020 Meeting, City Council adopted the City Manager's report on COVID-19 Actions and Council Directions. This report identified that future reports would include updates on the financial impacts of COVID-19.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.CC22.3

At its May 28, 2020 Special Meeting, City Council adopted the City Manager's report on the City's Service Restart and Recovery Update.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.CC21.1

At its May 28, 2020 meeting, City Council adopted the Medical Officer of Health's COVID-19 Update and requested the City Manager to establish a process by which the

public is consulted through the City of Toronto's Poverty Reduction Office, the Anti-Black Racism Office, the Indigenous Affairs Office and all other bodies concerning the problems faced by marginalized people during COVID-19.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.HL16.2

The City Manager reported on this item to Council at its meeting of June 28 and 29, 2020.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.CC22.3

At its April 30, 2020 Special meeting, City Council adopted the City Manager's report on the City of Toronto Response and the Ongoing Management of Emergency City Business during the COVID-19 Pandemic.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.CC20.2

COMMENTS

In addition to providing an update on COVID-19 related financial impacts, this report also respond to Council direction to report on potential savings, that can be found for all capital projects in excess of $500 million in the current capital plan; seeks authority to receive funding programs that are either already reflected in estimated COVID-19 year-end financial impacts or reflect funds that flow through the City to community partners; and seek authority to provide rent relief to qualifying commercial tenants of the City.

Capital Plan Review

City Council request the City Manager and the Chief Financial Officer and Treasurer to report to Council on cost implications of, and potential savings, that can be found for all capital projects in excess of $500 million in the current capital plan to support COVID-19 related budget challenges.

In reviewing the Council approved 10-Year Capital Plan against the provided budget threshold, six Capital Projects with capital funding over the 10-Year Capital Plan that ranges from $526 million to $2.2 billion were identified as detailed in Table 4.

These projects were reviewed for potential savings that could support COVID-19 related budget challenges. Given limitations on the use/eligibility of capital funding and timing differences between capital cash flows that span a 10 year planning period compared to immediate COVID-19 related budget challenges, considerations as part of this review was as follows:

- Cash flows available in 2020 that could be used to offset immediate COVID-19 pressures; and
- Eligibility of project funding sources for use to offset operating budget pressures.

Table 4: Capital Projects in Excess of $500 Million in Current Capital Plan

Capital Project* ($Millions)	2020 Budget	2020 Actuals and Projected Spend Rates	
		Actuals (June 30)	Year-End Projection**
Automatic Train Control Resignalling	63.7	54.9%	100.0%
TTC Easier Access Phase II & III	65.2	54.5%	112.6%
F. G. Gardiner Rehabilitation Program	96.0	81.4%	100.0%
George Street Revitalization	36.2	13.0%	72.2%
SmartTrack	5.0	0.0%	6.0%
TTC Yonge Bloor Capacity Improvements	12.6	65.1%	101.9%
Total	**278.7**	**58.0%**	**97.7%**

**In addition to the above projects, a few capital programs were identified that exceed $500 million, however these programs were excluded as they reflect a series of annual stand-alone projects that form a capital program. This includes projects related to Community Centres, TTC Buildings and Structures, TCHC Building Repairs and Major/Local Roads.*

***In some instances, year-end expenditures reflect an anticipated acceleration of 2021 planned funding into 2020.*

Following a review of the above list of capital projects, it was determined that savings are not immediately available from these projects to support COVID-19 related budget challenges, based on the following:

- The majority of 2020 approved cash flow of $278.7 million for the identified capital projects has already been spent as of June 30 (58.0% spent) or is committed to be spent by year-end (97.7% projected to be spent by year-end) and is not available to offset 2020 COVID-19 related financial impacts; and
- The projects identified are funded from a combination of debt, recoverable debt, development charges and federal/provincial funding, which unlike Capital from Current (CFC) funding, are not eligible for use to offset COVID related operating budget pressures.

Following receipt of this direction from Council in July, staff have also been able to confirm the following:

- That initial Safe Restart funding allocated to the City to offset COVID-19 related financial impacts will total $668.6 million, reducing the anticipated 2020 shortfall to $673.2 million; and
- Future phase Safe Restart Agreement funding of up to $2.029 billion (for the Municipal Transit and Municipal Operating funding) will be allocated to municipalities on a needs basis.

- The City Manager and Chief Financial Officer continue to engage with Provincial counterparts to ensure the City receives an equitable distribution of remaining Safe Restart Agreement funding to offset the remaining $673.2 million in anticipated 2020 funding shortfall.

Further review of project scope, cash flow timing and funding sources will be undertaken as part of the 2021 budget process to identify potential savings that could support 2021 and/or ongoing COVID-19 related budget challenges in future years.

Safe Restart Funding for the Child Care and Early Years' Sector

On August 14, the Ministry of Education released details of the Safe Restart Funding for the child care and early years' sector, including approximately $47.5 million allocated to the City of Toronto.

Licensed child care can return back to full capacity as of September 1, 2020. Licensees will continue to be required to maintain ratios and group sizes as set out under the Child Care and Early Years Act, 2014 (CCEYA).

EarlyON Child and Family Centres will be permitted to reopen with in-person programming as of September 1, 2020.

Before- and after-school programs for school aged children will be permitted to operate with standard ratios and maximum group size requirements.

The Government of Ontario will provide $234.6 million in additional Safe Restart Funding, with support from the Federal government through the Safe Restart Agreement, to help child care operators and EarlyON Child and Family Centres purchase cleaning supplies, personal protective equipment (PPE), and support staffing needs related to new procedures.

The Safe Restart Funding consists of two components:

- Funding will be used by the Province to procure and deliver face coverings directly to operators and licensed home child care agencies across Ontario in order to comply with the Ministry’s reopening operational guidance.
- In addition to face coverings, funding will be provided through Consolidated Municipal Service Managers (CMSMs) and District Social Services Administrative Boards (DSSABs) to operators with a purchase agreement, and directly from the Ministry of Education, which can be used for additional personal protective equipment, enhanced cleaning, additional staff to meet health and safety requirements, support for short term vacancies as operators transition to

return to full capacity, and minor capital required in accordance with Ministry's reopening operational guidance or local public health requirements.

Funding to CMSMs and DSSABs have been allocated proportionally based on their total 2020 child care and EarlyON allocations. The City of Toronto's allocation will be approximately $47.5 million. These funds are intended to be spent by December 31, 2020.

Toronto Children's Services will be required to track and monitor expenditures, as well as service data including the number of licensed child care centres and licenced spaces, EarlyON Child and Family Centres, and licensed home child care agencies and homes supported by Safe Restart Funding.

- It is important to note that this funding is not available to address the City's $1.342 billion funding shortfall and is separate from the initial $668.5 million in Safe Restart Funding that the City will receive to address COVID-19 related financial impacts to Transit Operations, Municipal Operations and the Social Services Relief Fund.

It is recommended that the Children's Services 2020 Operating budget be increased by $47.5 million gross and $0 net, funded from the City of Toronto's allocation of Safe Restart Funding for the Child Care and Early Years' Sector.

Provincial Municipal Transit Enhanced Cleaning Program

On June 29, 2020, provincial Minister of Transportation, Caroline Mulroney, announced the Municipal Transit Enhanced Cleaning (MTEC) program which will provide $15 million to 110 municipalities across the province to support enhanced cleaning of their public transit systems and help reduce the transmission of COVID-19. The City of Toronto is eligible to receive an allocation of up to $7.4 million. Allocations were based on a modified provincial gas tax funding formula that includes $500 base funding amount for each recipient in addition to the funding distribution determined by 70% ridership and 30% population, utilizing the same data that was used to determine the 2019-20 Provincial Gas Tax program allocations.

Eligible costs include expenses necessary for the enhanced cleaning of transit vehicles and any other public and non-public facing transit assets, that provide or support transit services and must be incurred between April 1, 2020 and December 31, 2020. City Council approval is required in order for the Mayor and Chief Financial Officer and Treasurer to execute the transfer payment agreement for MTEC funding.

It is recommended that City Council authorize the Mayor and the Chief Financial Officer and Treasurer to enter into and execute any agreements, including any amendments and extension of such agreements, with the Province of Ontario for funding under the

Municipal Transit Enhanced Cleaning program on terms and conditions satisfactory to the City Manager, and in a form satisfactory to the City Solicitor; and that authority be granted to receive and disburse funds from the provincial Municipal Transit Enhanced Cleaning program.

Commercial Rent Deferral

The City of Toronto has lease agreements with more than 1200 corporate tenants that generate approximately $86.5 million in revenues, annually. In the initial stages of the COVID-19 pandemic, corporate tenants requesting rent relief were permitted to defer the rent for April, May and June 2020. Payments of deferred rent were to become due three months following the expiry of rent deferral period on October 1, 2020, payable in equal monthly increments over a period of 12 months, interest free. Rent deferral for those requiring continued assistance was subsequently extended to July and August, with the same terms.

Although the Federal Government introduced the Canada Emergency Commercial Rent Assistance Program (“CECRA”) to provide forgivable loans to qualifying commercial landlords, municipal landlords are ineligible to participate.

Table 5: April 1 to Dec 31 - Rent Revenue and Rent at Risk

Rent Revenue	$ 65,013,930	%
Deferred Rent	$ 10,222,139	16%
Rent Arrears	$ 4,765,472	7%
Bad Debt Provision	$ 8,885,490	14%

The total rent at risk as a result of COVID-19 impacts is $11 million. This includes rent deferrals granted and unpaid rent accumulated between April and August, 2020. An exercise conducted at the division and agency level estimates the bad debt risk to be $8.9 million. The bad debt assessment is based on factors including the perceived tenant revenue loss, broader business resiliency (based on size, type of ownership and access to credit or assets) and assumptions about the prospect of economic recovery within the tenant’s respective business sector. There are a number of tenants whose financial hardship is related to being forced to close for protracted periods of time, the prospect of encountering significantly slower economic recovery related to the pace of staged re-opening, modified operating requirements, or market conditions specific to the sector in which they operate. As an example, businesses that rely on a healthy tourism sector, activities that are event-based or require congregation, or are limited by seasonal revenue generation will potentially produce an increased risk of inability to satisfy deferred repayment terms.

In order to address the bad debt risk associated with the deferred and unpaid amounts, authority is being requested to coordinate rent deferral agreements that seek to balance the need to offer tenants rent relief with the responsibility to maintain City revenue, and include:

- Ability to permit tenants to defer all or part of their monthly rent obligation through the end of 2020.
- Extension of deferral payback periods beyond the current 12 months, and up to the entire term of an existing lease.
- Extension of leases for periods of a minimum of 12 months, and as required to permit sufficient time for repayment of deferred rent.

Commercial Rent Deferral – further information

Although the majority of tenancies are managed within Corporate Real Estate Management ("CREM"), there are several operating under the oversight of specific agencies and divisions including the Arena Board of Management, Exhibition Place, TTC, Toronto Public Library, Toronto Parking Authority, CreateTO and Parks, Forestry and Recreation. As such, and in consultation with the aforementioned City partners, there is an interest to establish a uniform approach and practice to rent relief requests being made by corporate tenants.

In late April, the federal government introduced the Canada Emergency Commercial Rent Assistance Program (CECRA). Under a rent forgiveness agreement with commercial landlords, qualified property owners must reduce their tenant's monthly rent for April to August by at least 75 percent. The tenant is required cover 25 percent, the property owner 25 percent, and federal and provincial governments collectively cover the remaining 50 percent.

While, municipal landlords are not eligible to participate in the federal program, there is an eligibility exception to municipally owned properties where "long-term commercial leases with third parties" exist. This exception applies to the City's head lessee at Union Station as well as the Lakeshore Arena Corporation. Both entities have been approved for CECRA program support.

In June, the Ontario government passed the "*Protecting Small Business Act*", temporarily halting or reversing evictions of commercial tenants and protecting them from being locked out or having their assets seized from May 1, 2020 until August 31, 2020.

An environmental scan of landlords in the private corporate/commercial real estate sector indicates that rent deferral remains the prevailing practice. While a very small percentage of relief agreements include some form of rent abatement, these have been predominantly in the retail sector among high-value tenants impacted by mandated closures. The private sector landlords have preferred rent deferral in anticipation of positive impacts expected to emerge from gradual re-opening, Federal CECRA program payments and overall tenant business recovery. As the pandemic has continued to elapse, private sector landlords are beginning to evaluate lease amendments that contemplate rent structures tied to a tenant's revenue and clauses that anticipate the need for subsequent deferral in the event of a second wave or early termination if the tenant's business fails.

Among Canadian municipalities, there is a mix of approaches ranging from a replication of the federal CECRA program by reducing rent by 75 percent to continued rent deferral with longer payback periods. Some are offering 100% rent abatement for tenants that were forced to close while deferring the rents of others that could remain open. The Federal government, as well as Crown corporations, are providing 75 percent rent reduction to their commercial tenants, in alignment with CECRA intent and criteria.

In both the private and public sector (including CECRA), corporate tenants must provide evidence to support the scale and type of rent relief required. This includes income statements to illustrate the level of revenue loss, attestations to describe anticipated staff layoffs and/or operational cost reduction measures taken and documentation to detail any access to and use of business savings and credit. Additionally, tenants must validate having sought eligibility to the many federal programs available to support business such as the Canada Emergency Benefit Account (CEBA), Wage Subsidy (CEWS) and the Business Credit Availability Program (BCAP). Both public and private landlords are conscious of the need to eliminate opportunistic claims for rent relief where there may be resources to address some measure of the financial pressure.

Commercial Rent Deferral – Recommendation

It is recommended that City Council authorize the Executive Director, Corporate Real Estate Management to negotiate, approve and enter into interest free rent deferral agreements with qualifying tenants and licensees, which permit for a rent deferral period that extends through December 31, 2020, including the requirement that such tenant or licensee had a lease or licence with the City of Toronto that was in good standing prior to April 1, 2020, such agreements to be in a form satisfactory to the City Solicitor.

Tenants will be required to supply documentation to:

1. Confirm the status of their business operations including any period(s) of closure, date(s) of re-opening and rationale for each.

2. Validate the reduction in gross revenue experienced over the course of the period of the rent relief application as compared to either a) the average gross monthly revenues for the corresponding period in previous year or b) average gross revenues for January and February, 2020 (if Tenant was not operating in 2019) by supplying Business Account Statements, Audited Financial Statements and/or Revenue reports.

3. Provide evidence of having investigated and, where possible, applied for available existing federal relief programs for which they may be eligible.

4. Provide an attestation that outlines information about the Tenant's business, including:

a) Whether the business is publically or privately owned (including shareholders)
b) Access to any insurance proceeds available to it in respect of any impairment of rental revenue or rent payment obligations
c) Access to any business credit facility or other sources of equity to assist
d) Confirmation of not being subject to any actual or pending insolvency proceeding and having not made any filing for relief or protection under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada) or any other bankruptcy or insolvency legislation.

Reasonable rent deferral agreements will be negotiated for corporate tenants that provide sufficient evidence to validate a significant decline in revenue (50%+) either as a result of being forced to close or slow economic recovery, having pursued Federal funding for which they were eligible, having no other assets, credit or business resiliency resources to service the rent obligation and that they are not subject to bankruptcy risk.

The length of repayment periods will be determined thorough an assessment of the tenant's capacity to resume full rent payment along with a manageable installment against the deferred amount.

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