



The Corporation of the Town of Milton

Report To: Council

From: Glen Cowan, Chief Financial Officer / Treasurer

Date: October 19, 2020

Report No: CORS-056-20

Subject: Safe Restart Phase 2 Funding Program

Recommendation: THAT the Province of Ontario be requested to ensure that financial support will be available to municipalities in 2021 as the financial impacts of COVID-19 are expected to continue, and that any further distribution of funding be undertaken on an equitable basis (such as the Phase 1 distributions in August 2020).

EXECUTIVE SUMMARY

- Applications for Phase 2 funding including a resolution of Council, a financial report and supporting documentation are due October 30, 2020. Although Phase 1 funding is expected to be sufficient for most municipalities, Phase 2 funding may be made available for any remaining operating budget deficits in 2020.
- The most recently completed year end forecast shows the Town as having projected position between a deficit of \$0.6 million and a surplus of \$0.4 million after Phase 1 funding is fully utilized. A comprehensive update to the forecast is currently being undertaken based on September month end actual results, and preliminary findings indicate further savings may be identified.
- A preliminary estimate of potential 2021 financial impacts of COVID-19 is also being prepared through the budget process, and suggests that a net pressure of \$2.8 million may be expected, of which \$1.4 million may potentially be offset through the further mitigation measures that have been identified.
- All of the estimates above assume that the shortfalls in external revenue that is associated with the Ontario Lottery and Gaming Corporation and Halton Court Services will be funded from the related reserve funds.
- Although consideration has been given to applying for Phase 2 for the operating-related uses of these external revenue shortfalls, the Town's largest remaining financial risk relates to the anticipated 2021 budget pressures. As such, and with consideration of the Town's understanding of the Province's focus for Phase 2, it has been recommended that the Town focus its advocacy around the need for sufficient and equitable funding support from the Federal and Provincial governments for 2021 pressures.

REPORT

Background

Under the federal-provincial Safe Restart Agreement, the Ontario government is providing up to \$4 billion in emergency assistance so that municipalities are supported as they respond to COVID-19. The funding is divided between four different streams:

- Social Services Relief Fund
- Public Health
- Transit Supports
- Municipal Operating Fund

As part of this agreement, \$1.39 billion in funding is being made available to Ontario's 444 municipalities in two phases for general municipal operating pressures.

Phase 1 funding was allocated to municipalities in August 2020, on a per household basis. The Town of Milton received a total of \$2,348,400 through Phase 1 of the program. The Town also received \$460,236 through Phase 1 of the Transit Supports program.

For many municipalities, Phase 1 funding, together with municipal actions taken to find efficiencies and address shortfalls, was expected to be sufficient to manage 2020 operating pressures arising from COVID-19. Phase 2 funding through the Municipal Operating Fund stream will be available on an application basis for municipalities that have 2020 operating pressures in excess of their Phase 1 funding allocation. Applications for Phase 2 funding including a resolution of Council, a financial report and supporting documentation are due October 30, 2020.

Phase 2 funding under the Transit Supports Stream will follow a different process than the Municipal Operating Fund program. The Province intends to focus funding on achieving outcomes related to consolidated procurement, micro-transit, fare and service integration, and governance structures. Phase 2 funding for transit is intended to align with the period October 2020 to March 2021. Transfer payment agreements will proceed later in the fall of 2020 and funding will flow in the spring of 2021. As such, the balance of this report will focus on the immediate decision with respect to the Municipal Operating Fund stream as opposed to the Transit Support stream.

Discussion

The Town of Milton has been proactive in its response to COVID-19, both in investing in the safety measures required to support service delivery during the pandemic as well as in identifying cost mitigation opportunities to reduce the impact of the lost revenues during this period. The most recent financial update to project the Town's potential year end position was presented in report CORS-051-20 and can be summarized in the table below:



Table 1: Estimated Operating Variance for 2020*

Programs Offered	Gross Revenue Loss	Estimated Net Favourable / (Unfavourable) Variance	
		Before Federal/Provincial Funding	After Federal/Provincial Funding
Scenario 1: Fall Revenue at 25% Programs / 50% Facilities	(13,809,519)	(3,417,441)	(608,805)
Scenario 2: Fall Revenue at 50% Programs / 75% Facilities	(12,623,439)	(1,595,544)	388,835

* Estimated prior to September month end comprehensive review.

As shown, the mitigation undertaken was expected to reduce an overall revenue loss of \$12.6 million to \$13.8 million to a net position of \$1.6 million to \$3.4 million, before the consideration of Federal and Provincial Funding. The mitigation options undertaken include a combination of reductions costs (contracts, staffing, materials, etc.), utilization of reserves, and adjustments in service delivery.

After the \$2.8 million in previously announced Federal and Provincial funding support is considered, the projected year end net position was estimated between a surplus of \$388,835 and a shortfall of \$608,805. This range was subject to the amount of revenue that could be generated through programs in late 2020, as well as further changes in the related service delivery costs.

At the time of writing this report, Town staff continue to work through a comprehensive update to the 2020 year end projections based on the September 30th position of the Town. Although early, preliminary insights from that process suggest that further savings have been identified and the Town may be more likely to realize a surplus than deficit in 2020, assuming utilization of the Federal and Provincial funding that has been announced to date.

Another initiative that staff are preparing at this time is a comprehensive estimate of the potential COVID-related financial impacts in 2021. This forecasting is occurring as part of the proposed budget and business plan that will be presented in November 2020. Preliminary estimates suggest that the Town may face further financial pressures associated with COVID-19 as follows:

Table 2: Preliminary 2021 Forecasted Net Financial Pressure from COVID-19*

	Net Financial Pressure
Before Additional Mitigation Options Identified	\$2,820,000
After Additional Mitigation Options Identified	\$1,410,000

* Preliminary estimate assuming gradual return to normal service by end of 2021



The estimates above reflect continued revenue shortfalls in the Town's programs, facilities and transit, along with an associated reduction in the program spending as well as the investment in personal protective equipment (PPE). Additional mitigation measures, including the Town's vacancy management program, discretionary spending reductions and program cost adjustments can be expected to offset a portion of this pressure.

Based on this initial forecasting, the Town is expecting to navigate another financially and operationally challenging year in 2021 as the community progresses through the next phases of the pandemic and recovery.

Alternatives Considered

Within all of the figures presented above, assumptions have been made with respect to several of the Town's external revenue sources. Specifically, the Ontario Lottery and Gaming Corporation (OLG) revenue shortfalls have been shown as being mitigated by the Town's OLG Reserve Fund, and the Provincial Offences Act (POA) revenue shortfall has been mitigated by the stabilization reserve that is maintained by Halton Court Services. Each of these points is discussed in further detail below.

OLG Revenue

The Town is entitled to a portion of the slot machine and table revenues generated at Woodbine Mohawk Park. These funds are utilized annually to support the Town's capital program, fund the Community Fund allocations, and pay a portion of the interest and principal associated with the debt used to fund the expansion of the Milton District Hospital. The Town maintains a reserve fund to manage differences between the collection and utilization of the OLG funding.

COVID-19 has resulted in the closure of Mohawk for a significant portion of 2020 and therefore the funding available to the Town will be significantly lower than prior years or as was anticipated in the Town's 2020 Budget. 2020 collections are anticipated to be in the order of \$1,311,368, which is well below the 2019 total of \$7,984,162. In the Town's 2020 year end forecasting and 2021 budgeting, this shortfall is shown as being drawn from the reserve fund balance that began 2020 with a balance of \$9.0 million. The results of the shortfall will mean less funding available to invest in the Town's infrastructure program. As a result, the overall 10 year forecast will need to be reduced by an equivalent expenditure, additional Town funding will be required, or a combination thereof.

Since this shortfall has been mitigated by the reserve fund and therefore not reflected in the forecasted 2020 operating budget position noted above, the Town could consider an application to the Province to utilize Phase 2 funding for the portions related to the Hospital debt charges (\$710,294) and the Community Fund (\$278,162). The Province has indicated that capital costs are not eligible for Phase 2 funding, and therefore could not be considered as part of the Town's application.



POA Revenue

As a municipal partner, the Town of Milton is eligible to receive a share of the net proceeds of POA revenue after the related processing costs have been deducted by Halton Court Services (HCS). In 2020, both court and collection activity have been halted for a large portion of the year as a result of the pandemic, and as a result a significant reduction in revenue during the year is anticipated. The total planned distribution for HCS for 2020 amounts to \$4,665,640, of which the Town of Milton's share is an estimated \$391,074. In order to maintain the 2020 budget distributions, HCS anticipates a draw from stabilization reserve in the order of approximately \$2.0 million to be required. As such, an alternative available to the Town would be to apply for Phase 2 funding in an amount equivalent to the Town's budget distribution, thereby allowing HCS to draw less funding from reserve fund in 2020.

Recommendation

It is recommended that the Town not pursue funding from Phase 2 of the Municipal Operating Fund stream at this time, but rather advocate to the Province to ensure that financial supports will be available to municipalities in 2021 as the financial impacts of COVID-19 are expected to continue. As part of this advocacy, the Town is requesting that any potential distribution in 2021 be undertaken on an equitable basis, such as the Phase 1 distributions in August 2020.

Although alternatives have been considered, the recommendations have been arrived at on the basis that:

- The Town's forecasting for 2020 suggest that the Town will be close to achieving a balanced position (and potentially a surplus) once the Phase 1 funding has been considered.
- The Town will require financial support to manage the pressures that are anticipated in 2021 without the requirement for a significant reduction in the Town's reserves, and as such would prefer the Province focus any funding that may be available on the continued COVID-19 related pressures in 2021.
- Although specific opportunities to apply Phase 2 funding towards OLG and POA revenue shortfalls have been identified, any application cannot include revenue used for capital purposes and may prove unsuccessful based on the availability of existing reserve funds that are comprised of accumulated revenue from the same sources as the 2020 shortfalls. Should the Town achieve a surplus in 2020 it may be more challenging to carry those savings to 2021 should an application for OLG or POA be made as well.

It is unfortunate that the Town is not afforded an opportunity to better reflect the actual fall financial results into the forecast before a final decision is required on the Phase 2 submission, however given the deadline the Town is responding with the most recent information that is available.

