

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee

From: Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports

Subject: 2021 Mid-Year Operating Budget Monitoring Report

Date: September 20, 2021

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, the following actions be taken with respect to the 2021 Mid-Year Operating Budget Monitoring Report:

- a) The 2021 Operating Budget Mid-Year Monitoring Report for the Property Tax Supported Budget, Water Budget, and Wastewater and Treatment Budget **BE RECEIVED** for information. An overview of the net corporate projections are outlined below, noting that the year-end positions could fluctuate based on factors beyond the control of Civic Administration:
 - i) Property Tax Supported Budget projected surplus of \$11.2 million prior to the Reserve Fund contribution listed in recommendation b).
 - ii) Water Rate Supported Budget projected surplus of \$3.3 million prior to the Reserve contribution listed in recommendation c).
 - iii) Wastewater and Treatment Rate Supported Budget projected surplus of \$3.5 million prior to the Reserve contribution listed in recommendation c).
- b) Notwithstanding the Council approved Surplus/Deficit Policy, Civic Administration **BE AUTHORIZED** to allocate up to \$10 million of the Property Tax Supported Budget Surplus to the New Affordable Housing Reserve Fund to support future affordable housing initiatives, noting that any remaining surplus will be allocated in accordance with the Surplus/Deficit Policy.
- c) The contribution of year-end Water and Wastewater and Treatment Rate Supported Budget surplus to the applicable Contingency Reserve up to the respective contingency target in accordance with the Council approved Surplus/Deficit Policy **BE RECEIVED** for information. Current projected contributions to achieve each contingency target are as follows:
 - i) \$1.7 million to the Water Budget Contingency Reserve.
 - ii) \$2.3 million to the Wastewater and Treatment Budget Contingency Reserve.The remaining Water and Wastewater and Treatment Rate Supported Budget surplus will be allocated in accordance with the Surplus/Deficit Policy.
- d) The presentation providing an overview of 2021 Mid-Year Budget Monitoring (Appendix C) **BE RECEIVED** for information.

Executive Summary

This report provides a summary of the projected 2021 year-end operating results for the Property Tax Supported Budget, the Water Rate Supported Budget and Wastewater and Treatment Rate Supported Budget.

The Property Tax Supported Budget is projected to incur a total of \$70.8 million of COVID-19 financial impacts in 2021 (projected lost revenues and additional costs). However, significant Federal and Provincial support has been made available since the onset of the pandemic, with the City of London currently projecting to utilize a total of \$50.8 million in 2021 through various programs announced this year and unused funding carried over from 2020. In addition, net operational savings are projected primarily from temporary closures or reduced operations in various programs, services and facilities throughout the City due to public health restrictions in the first half of the year (total projected savings of \$31.2 million). Combining the Federal and Provincial funding support with the net savings resulting primarily from closures and reduced operations, the City is projecting to end the year in a surplus position of \$11.2 million for the Property Tax Supported Budget.

The Water Rate Supported Budget is projecting additional costs of \$0.1 million related to COVID-19, however also projecting to realize a revenue surplus of \$2.2 million primarily driven by surplus from consumption-based revenues. These factors, combined with a \$1.2 million surplus from various operational costs savings, has resulted in the Water Rate Supported Budget projecting a \$3.3 million surplus.

The Wastewater and Treatment Rate Supported Budget is projecting lost revenues due to COVID-19 of \$1.4 million as a result of the delay in rate increases associated with the transfer of the Conservation Authorities' costs from the Property Tax Supported Budget. The Wastewater and Treatment Budget is also projecting additional costs of \$0.4 million related to COVID-19. A total of \$1.4 million of Safe Restart Funding was applied to the Wastewater and Treatment Budget to offset the lost revenues noted above. A total of \$2.6 million was realized primarily from energy efficiency savings and net operational savings, with another \$1.3 million in revenue surplus from consumption-based revenues. These factors result in the Wastewater and Treatment Budget projecting an overall surplus of \$3.5 million.

Linkage to the Corporate Strategic Plan

Council's 2019 to 2023 Strategic Plan for the City of London identifies 'Leading in Public Service' as a strategic area of focus. The City of London's Multi-Year Budget development and monitoring is a strategy to maintain London's finances in a transparent and well-planned manner to balance equity and affordability over the long term. On a semi-annual basis, through the Operating Budget Monitoring Report process, Civic Administration measures the results achieved against approved budgets, and recommends appropriate adjustments in line with City policies and practices. This exercise ensures the operating budget is continuously updated and reflective of the City's Strategic Plan.

Analysis

1.0 Background Information

1.1 Previous Reports Related to this Matter

Strategic Priorities and Policy Committee, meeting on April 27, 2021, Agenda Item 4.2, 2020 Year-End Operating Budget Monitoring Report and COVID-19 Financial Impacts <https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=80678>

2.0 Discussion and Considerations

Budget monitoring is a key component for the governance and accountability process of the 2020 to 2023 Multi-Year Budget. As part of the move to a Multi-Year Budget for the Corporation of the City of London (the “City”), the budget monitoring process and reporting elements were evaluated to ensure that Council and the community are provided with the appropriate amount of information to understand actual and projected spending against the budget.

Each year Civic Administration will submit two monitoring reports to Council, the Operating Budget Mid-Year Monitoring Report and Operating Budget Year-End Monitoring Report. In addition to these two reporting cycles, once per year the multi-year budget is updated through the Annual Budget Update (refer to **Appendix B** for the budget cycle). The monitoring reports and annual budget updates inform Council and the community of the City’s progress towards achieving the approved multi-year budget targets.

The purpose of this report is to:

- Provide an overview of the projected financial results of the operating budgets for the Property Tax Supported Budget and rate supported budgets for Water and Wastewater and Treatment.
- Provide an overview of the projected net financial impacts of COVID-19.
- Provide information on the proposed allocation of 2021 year-end surplus and obtain Council’s approval as applicable.
- Provide an overview of federal and provincial funding as well as other forms of grants provided in response to COVID-19.
- Provide an updated summary of the COVID-19 factors projected to impact the 2022 Budget and beyond.
- Provide a summary of other emerging issues that may impact the Multi-Year Budget in 2022 to 2023.

3.0 Financial Impact/Considerations

3.1 2021 Property Tax Supported Operating Budget Monitoring

COVID-19 continues to have a significant financial impact on the City’s Property Tax Supported Budget. The City is projecting to incur a total of \$70.8 million of COVID-19 financial impacts in 2021 (projected lost revenues and additional costs). However, significant Federal and Provincial support has been made available since the onset of the pandemic, with the City of London currently projecting to utilize a total of \$50.8 million in 2021 through various programs announced this year and unused funding carried over from 2020. In addition, net operational savings are projected primarily from temporary closures or reduced operations in various programs, services and facilities throughout the City due to public health restrictions in the first half of the year (total projected savings of \$31.2 million). Combining the Federal and Provincial funding support with the net savings resulting primarily from closures and reduced operations, the City is projecting to end the year in a surplus position of \$11.2 million for the Property Tax Supported Budget. Table 1 provides a summary breakdown of the projected year-end position.

Table 1 – 2021 Projected Year-End Position (\$millions)

Category	Lost Revenues due to COVID-19 (A)	Additional Costs due to COVID-19 (B)	Financial Impacts due to COVID-19 (C) = (A+B)	COVID-19 Related Grant Funding (D)	All Other Factors (E)	Surplus/ Deficit (F) = (C)+(D) + (E)
Property Tax Supported Civic Service Areas Budgets	-\$23.9	-\$19.9	-\$43.8	\$33.0	\$21.8	\$11.0
Boards and Commissions Budgets	-\$26.3	-\$0.7	-\$27.0	\$17.8	\$9.4	\$0.2
Total Civic Areas and Boards and Commissions	-\$50.2	-\$20.6	-\$70.8	\$50.8	\$31.2	\$11.2
Recommendation b) for contribution to the New Affordable Housing Reserve Fund up to \$10 million to support future affordable housing initiatives						-\$10.0
Total Civic Areas and Boards and Commissions Surplus After Recommendation b)						\$1.2

Subject to rounding

The primary contributing factors driving the year-end position include:

- Lost revenues of \$50.2 million. Main drivers include lost transit revenue due to lockdown measures that resulted in a significant decline in transit ridership, lost user fee revenue due to closures or significantly reduced operations at community centres and recreation facilities, cancellation or reduced offerings of recreation events and programming, and lost gaming revenues at the Western Fair.
- Additional costs incurred of \$20.6 million, primarily driven by additional funding to provide temporary housing arrangements for vulnerable populations, costs to support safe re-opening plans, and enhanced cleaning and additional personal protective equipment.
- Offset by other grant funding of \$50.8 million primarily driven by Safe Restart Agreement funding, and Social Services Relief Funding.

- Also offset by other factors of \$31.2 million due to various operational savings (net of associated reserve fund contributions), the majority of which are resulting from temporary closures, delays or reduced operations due to COVID-19. Specific examples include, among others:
 - Neighbourhood and Recreation Services – Cost savings due to reduced operations and closures at community centres and recreation facilities/programs;
 - Various Services – Reduced utilities usage and lower maintenance costs at City facilities due to closures/reduced operations;
 - Social and Community Support Services – Lower than anticipated spending on employment-related expenses for Ontario Works participants as many individuals are still being supported by other government income supports;
 - Roadways – Cost savings driven by a number of factors such as delayed implementation of Transportation Intelligent Mobility Management System (TIMMS), winter maintenance savings from a milder winter from January to March, and savings due to new streetlight maintenance contract and LED conversion;
 - RBC Place London – Cost savings from reduced operations and events, as well as additional one-time funding received from the City of London;
 - London Transit Commission – COVID-19 related operating cost savings, in addition to annualized Assessment Growth funding received but only partial year growth costs projected to be incurred;
 - Covent Garden Market – Operational savings due to reduced operations;
 - London Public Library – Operational savings due to reduced operations.

For a breakdown of the surplus/deficit by service grouping, refer to **Appendix A**.

In comparison to previous projections for 2021 COVID-19 net financial impacts (\$12.4 million per the 2020 Year-End Report for the Property Tax Supported Budget), the City is currently forecasting for greater COVID-19 net financial impacts (\$20.0 million). Additional lost revenues are anticipated due to the lockdowns that occurred in the first half of the year, primarily driven by reduced ridership for the London Transit Commission and closures at community centres and recreation facilities.

Recommended Allocation of 2021 Projected Surplus

On April 13, 2021, Municipal Council directed Civic Administration to expedite the development of 3,000 affordable housing units, as set out in the Housing Stability Action Plan, to be in place in five years, instead of ten years as set out in the Plan; and that Civic Administration be directed to report back with an implementation plan, including financial impacts. Civic Administration has engaged an external consultant to assist with development of this plan. The implementation plan inclusive of financial impacts is expected to be presented to Council this fall. In anticipation of this plan and recognizing the growing affordable housing needs in the community, Civic Administration recommends, notwithstanding the Council approved Surplus/Deficit Policy, up to \$10 million of the Property Tax Supported Budget surplus be contributed to the New Affordable Housing Reserve Fund to be used as funding source for future affordable housing initiatives.

The Council approved Surplus/Deficit Policy provides for the allocation of reported surplus for the Property Tax Supported Budget as follows:

- a) 50% to reduce authorized debt;
- b) 25% to the Community Investment Reserve Fund to be allocated at the discretion of Council, and;
- c) 25% to the Capital Infrastructure Gap Reserve Fund to mitigate growth in the infrastructure gap.

As per Policy, the residual projected \$1.2 million surplus, if realized, will be allocated as follows:

- a) \$0.6 million to reduce authorized debt;
- b) \$0.3 million to the Community Investment Reserve Fund, and;
- c) \$0.3 million to the Capital Infrastructure Gap Reserve Fund.

3.2 2021 Water Rate Supported Operating Budget Monitoring

The 2021 Water Rate Supported Budget projected surplus is \$3.3 million (Table 2) prior to the year-end contribution to the Water Budget Contingency Reserve.

Table 2 – 2021 Projected Year-End Position (\$millions)

Category	Lost Revenues due to COVID-19 (A)	Additional Costs due to COVID-19 (B)	Financial Impacts due to COVID-19 (C) = (A+B)	COVID-19 Related Grant Funding (D)	All Other Factors (E)	Surplus/Deficit (F) = (C)+(D)+(E)
Water	\$0.0	-\$0.1	-\$0.1	\$0.0	\$3.4	\$3.3
Projected contribution to the Water Budget Contingency Reserve to achieve Contingency Target						-\$1.7
Total Water Surplus After Contribution						\$1.6

Subject to rounding

The projected year-end position is driven by the following:

- Additional costs of \$0.1 million to meet COVID-19 protocol requirements and the purchase of additional COVID-19 related personal protective equipment.
- All other factors resulting in a net surplus of \$3.4 million:
 - A \$2.2 million surplus in revenues, primarily from residential consumption-based revenues as customers continue to spend more at home.
 - A \$1.2 million surplus driven by various operational cost savings.

The Council approved Surplus/Deficit Policy provides for the allocation of reported surplus for the Water Rate Supported Budget as follows:

- d) 50% to reduce authorized debt, and;
- e) 50% to the Waterworks Reserve Fund to mitigate growth in the infrastructure gap.

As per Policy, the residual projected \$1.6 million surplus, if realized, will be allocated as follows:

- d) Nil to reduce authorized debt, (there currently is no authorized debt to which debt substitution can be applied for Water), and;
- e) \$1.6 million to the Waterworks Reserve Fund.

3.3 2021 Wastewater and Treatment Rate Supported Operating Budget Monitoring

The 2021 Wastewater and Treatment Rate Supported Budget projected surplus is \$3.5 million (Table 3) prior to the year-end contribution to the Wastewater and Treatment Budget Contingency Reserve.

Table 3 – 2021 Projected Year-End Position (\$millions)

Category	Lost Revenues due to COVID-19 (A)	Additional Costs due to COVID-19 (B)	Financial Impacts due to COVID-19 (C) =(A+B)	COVID-19 Related Grant Funding (D)	All Other Factors (E)	Surplus/Deficit (F) =(C)+(D)+ +(E)
Wastewater and Treatment	-\$1.4	-\$0.4	-\$1.8	\$1.4	\$3.9	\$3.5
Projected contribution to the Wastewater and Treatment Budget Contingency Reserve to achieve Contingency Target						-\$2.3
Total Wastewater and Treatment Surplus After Contribution						\$1.2

Subject to rounding

The projected year-end position is driven by the following:

- Lost revenues of \$1.4 million due to COVID-19 are the result of the delay of the 3.5% additional Wastewater rate increase approved during the 2020-2023 Multi-Year Budget deliberations to fund the portion of the Conservation Authorities' costs shifted from the Property Tax Supported budget to the Wastewater & Treatment budget. The rate increase took effect July 1, 2021.
- Additional costs of \$0.4 million to meet physical distancing requirements and additional COVID-19 related personal protective equipment and cleaning.
- Utilization of \$1.4 million of Safe Restart Funding to cover the lost revenues due to COVID-19 noted above.
- All other factors resulting in a net surplus of \$3.9 million:
 - \$2.6 million was realized primarily from energy efficiency savings and net operational savings.
 - \$1.3 million revenue surplus from consumption-based revenues due to the higher than anticipated consumption in the residential sector.

The Council approved Surplus/Deficit Policy provides for the allocation of reported surplus for the Wastewater and Treatment Rate Supported Budget as follows:

- a) 50% to reduce authorized debt, and;
- b) 50% to the Sewage Works Reserve Fund to mitigate growth in the infrastructure gap.

As per Policy, the residual projected \$1.2 million surplus, if realized, will be allocated as follows:

- a) Nil to reduce authorized debt, (there currently is no authorized debt to which debt substitution can be applied for Wastewater and Treatment), and;
- b) \$1.2 million to the Sewage Works Reserve Fund.

3.4 Safe Restart Agreement Funding and Other Related Funding

As noted above, significant financial support was provided by the Federal and Provincial governments to municipalities since the onset of the pandemic, including funding that was allocated in 2020 but not utilized until 2021. This section provides a summary of the funding support being utilized in 2021.

Phase II Funding: Operating and Municipal Transit

In December 2020, the Government of Ontario announced it was investing an additional \$695 million under the Safe Restart Agreement's Municipal Operating Stream to help manage the financial impacts of COVID-19 in 2021. The City of London's allocation amounted to \$4.4 million. At the same time, it was announced Phase II allocations under the Municipal Transit Program amounted to \$1.5 billion. The Phase II allocation for London from the Safe Restart Agreement – Municipal Transit Program totalled \$23.2 million. This covered eligible expenditures incurred between October 1, 2020, and March 31, 2021, and was reimbursed based on required reporting in accordance with the Province's eligibility criteria.

Phase III Funding: Municipal Transit

On March 3, 2021, it was announced the Government of Ontario was investing an additional \$650 million of funding to address COVID-19 financial impacts on transit. Of the total \$650 million envelope, the City of London's allocated share will amount to \$18.1 million to be applied against eligible expenditures for the period between April 1, 2021, and December 31, 2021. The Province has also indicated that, at its sole discretion and on a case-by-case basis, it may grant extensions of the Phase 3 period to cover costs incurred after December 31, 2021, but prior to January 1, 2023.

2021 COVID-19 Recovery Funds

On March 4, 2021, the Government of Ontario announced an additional \$500 million investment to help municipalities further respond to 2021 operating budget pressures due to COVID-19. The City of London has been notified that its share of this funding will amount to \$11.7 million. An interim report was provided to the Province in June of 2021 on 2021 estimated operating impacts and planned use of funding under the 2021 program. A final report will be required in spring of 2022.

Other Related Funding

In addition to the major announcements and support mentioned above, additional grant funding is projected to be utilized/recognized through the following programs in 2021:

- Social Services Relief Fund (SSRF) – provincial funding available to assist vulnerable people with their housing needs and to help them find long-term housing solutions.
- Provincial Child Care and Early Years Re-investment Funding – additional funding support for the child care sector to support increased costs of operating licensed childcare centres during the ongoing COVID-19 crisis.
- Long-Term Care Prevention & Containment Funding, Wage Grants – funding available for prevention, containment and pandemic related costs, as well as other wage supports and personal support worker wage enhancements.
- Reaching Home Funding: Canada's Homelessness Strategy – incremental federal funding to prevent the spread of COVID-19 in shelters and to help prevent at-risk Canadians from becoming homeless.
- Other various Wage, Service Support and Personal Protective Equipment (PPE) Grants – funding available to support COVID-19 assessment centre costs, enhanced cleaning, PPE and various wage grants.

A summary of the City's portion of other related funding streams is detailed in the table below. In most cases, these funding streams are to be applied to specific eligible costs under the various programs and are not available to offset general municipal COVID-19 pressures.

Table 4 – Projected Other Related Funding to be Utilized/Recognized in 2021

2021 Program/Funding	Amount (in millions)
Provincial Social Services Relief Funding (SSRF)	\$12.9
Provincial Child Care and Early Years Re-Investment Funding	\$1.9
Long-Term Care Prevention & Containment Funding, Wage Grants	\$1.2
Reaching Home Funding: Canada's Homelessness Strategy	\$0.8
Other various Wage, Service Support and PPE Grants	\$2.3

Subject to rounding

4.0 Key Issues and Considerations

4.1. Future COVID-19 Projected Financial Impacts

2022 Budget

Several services have identified areas of significant uncertainty as they relate to the potential magnitude and duration of COVID-19 financial impacts on the City's 2022 Budget (Table 5). This table contains estimated financial impacts to the City of London in terms of potential lost revenues, additional costs and COVID-19 related grant funding for the 2022 Property Tax, Water, and Wastewater and Treatment Budgets. Civic Administration is continuing to actively monitor factors potentially impacting the 2022 Budget and actual experience of these estimated impacts will be driven by how the pandemic and its related disruptions evolves.

Table 5 – Summary of Factors Anticipated to Affect 2022 Budget (\$millions)

Category	2022 Lost Revenues due to COVID-19	2022 Additional Costs due to COVID-19	2022 COVID-19 Related Grant Funding	2022 COVID-19 Total Impact
Property Tax Supported Budget: Civic Service Areas	-\$9.2	-\$4.9	\$4.1	-\$10.0
Property Tax Supported Budget: Boards and Commissions	-\$6.5	-\$0.4	\$0.0	-\$6.9
Subtotal Property Tax Supported Budget	-\$15.7	-\$5.3	\$4.1	-\$16.9
Water Rate and Wastewater and Treatment Rate Supported Budgets	-\$0.0	-\$0.4	\$0.0	-\$0.4
Total Property Tax, Water, and Wastewater Budget	-\$15.7	-\$5.7	\$4.1	-\$17.3

Subject to rounding

Service areas included in the table above projecting to have significant financial impacts from COVID-19 or significant uncertainty include, but are not limited to, the following:

Civic Service Areas

- Parking – Parking revenues are anticipated to be reduced due to continued decreased demand for paid parking.
- Neighbourhood & Recreation Services – If programs are not running at full capacity in 2022, this will continue to impact user fee revenues from community centres, recreation facilities and programs and special events.

- Investment Income – The City is anticipating a significant reduction to investment income in comparison to budget due to the reduction of interest rates by 150 basis points (1.5%) by the Bank of Canada in 2020 that is forecasted to remain for 2021 and the majority of 2022.
- Airport Payment In Lieu of Taxes – The payment calculation is based on two-year prior passenger count, which has been significantly reduced due to COVID-19 restrictions. This will impact the City’s budget starting in 2022.
- Various Services – Lost user fees and additional costs to support enhanced cleaning and personal protective equipment, noting that some COVID-19 grant funding, particularly to support vulnerable populations, will be eligible to be carried over and utilized prior to March 31, 2022.

Boards & Commissions

- London Transit Commission – LTC is projecting lost revenue due to continued COVID-19 impacts on ridership.
- RBC Place London – COVID-19 has caused the cancellation or postponement of large events and gatherings, significantly impacting the primary revenue streams of RBC Place London. It remains unclear when the demand for these events will rebound to pre-pandemic levels.
- Covent Garden Market – Anticipated ongoing loss of parking revenues.
- Middlesex-London Health Unit – Depending on the progression of the pandemic, it is anticipated that the Middlesex-London Health Unit will incur additional pandemic related costs. However, the extent of these costs, and available provincial funding support to offset them, are not known at this time.

Due to the evolving nature of the pandemic, financial impacts are difficult to forecast. As a mitigation strategy for residual COVID-19 impacts on the 2022 budget, \$12.3 million was contributed to the Operating Budget Contingency Reserve through the 2020 Year-end Operating Budget Monitoring Report. It is not currently anticipated that this funding will be utilized in 2021 and, as a result, it will remain available to offset COVID-19 pressures on the 2022 budget. With the uncertainty surrounding longer-term impacts in 2022 and beyond, other measures may be necessary to mitigate lost revenues and additional costs impacting the City’s budget.

4.2. Other 2022 to 2023 Emerging Issues

Several services have identified potential service delivery pressures that may impact expenditures/revenues in 2022 to 2023. This section describes some of the more significant issues and the measures taken to mitigate or address these issues. Civic Administration is continuing to actively monitor all emerging issues, including items not listed below. The likelihood of each issue impacting the Multi-Year Budget is rated as high, medium or low. The definitions of the likelihood measures are as follows:

- High – the likelihood of the issue occurring over the 2022 to 2023 period is predicted to be greater than 60%
- Medium – the likelihood of the issue occurring over the 2022 to 2023 period is predicted to be between 30% and 60%
- Low – the likelihood of the issue occurring over the 2022 to 2023 period is predicted to be less than 30%

All the issues discussed below have been rated as High.

Legislative:

1. Multiple Services - Federal & Provincial Governments - The Federal and Provincial Governments have taken measures in responding to the economic and social fallout resulting from the COVID-19 pandemic. As outlined previously in this report, the City of London has received funding allocations for COVID-19 related municipal operating costs and pressures in 2021. However, significant uncertainty remains with regards to magnitude and duration of the recovery from COVID-19. Significant

uncertainty also exists regarding senior government funding support for COVID-19 economic recovery in future years.

What we are doing to mitigate/address the issue: Civic Administration is continuously monitoring projected financial impacts from COVID-19 and will utilize the available funding to mitigate the impacts. In the event that the funding allocations do not fully offset COVID-19 impacts, further actions may be required to balance the Corporation's budget. Civic Administration will also continue to ensure that our Federal and Provincial partners are aware of the need for stable, predictable funding to mitigate any longer-term impacts from the pandemic, particularly related to supporting vulnerable populations.

2. London Police Services - Provincial Funding under the Court Security and Prisoner Transportation grant program is under review for the first time since 2008. Some changes are expected to this province wide program.

What we are doing to mitigate/address the issue: The Ontario Association of Chiefs of Police are in continuous contact with the Ministry to ensure the perspective of local police services is communicated.

3. Social & Community Support Services - Employment Services Transformation (EST) - The Province of Ontario is transforming employment services across Ontario. On July 2, 2019, the Government of Ontario announced that the new employment services model would first be implemented in the following 3 prototype regions: Region of Peel, Hamilton-Niagara and Muskoka-Kawarthas. Full implementation will be phased in over the next several years.

On June 11, 2021, the Ministry announced the launch of EST to 9 additional catchment areas across the province. London is one of these catchment areas. The expansions will be sequenced in several stages between now and the end of 2023.

On July 13, 2021, the City responded to the Ministry's Request for Qualification and submitted a single-applicant bid for Service System Manager - Employment Services Transformation for the London Region (London, Middlesex, Elgin and Oxford). If the City qualifies via the Request for Qualification process the City will be invited to participate in the call for proposals. The anticipated timeline for this is September 2021.

There are no immediate changes to day-to-day operations in Ontario Works, and no expected impact to 2022 Ontario Works program delivery funding. While the timing of the rollout is not yet known, Ontario Works program delivery funding levels will remain at 2021 levels. There could potentially be significant budgetary impacts if the City is not selected as a permanent employment services program delivery provider.

What we are doing to mitigate/address the issue: The Ontario Works Administrator is working closely with the Ministry and colleagues across the province to ensure London's input on the desired state of employment service delivery is known.

4. Social & Community Support Services - Social Assistance Transformation - On February 11, 2021, the Province of Ontario released an update of their plans for Social Assistance Transformation and Human Services Integration. This plan includes centralizing functions, employment services transformation, a human services integration and a change to the funding model and accountabilities. This transformation is expected to occur over the period of 2020 to 2024. 2020 to 2022 will be largely "learning and testing years". 2022 to 2024 will be a period of continued implementation of centralized services and municipalities delivering life stabilization to Ontario Works/Ontario Disability Support Programs. 2024 will be the roll-out of a new human services model with municipalities providing integrated life stabilization supports to social assistance clients, people in crisis and other municipal programs.

What we are doing to mitigate/address the issue: Financial impacts related to a change in the funding model are unknown at this time as the Ministry plans to involve municipalities in the co-design of the model. The Ontario Works Administrator is working closely with the Province and colleagues across the Province to ensure

London's input on the desired state of employment service delivery is known. London will actively participate in any prototype opportunities.

5. Garbage Recycling & Composting - In June of 2021 the final regulation to transition the Blue Box program from 100% municipal responsibility and 50% funding responsibility to 100% industry responsibility and funding was made and filed under the Resource Recovery and Circular Economy Act, 2016. Under the regulation, London will start the process of transition to the new framework as of July 1, 2023.

What we are doing to mitigate/address the issue: As noted during the 2020 year-end monitoring report, estimated savings to the City will range between \$1 million and could reach \$4 million by 2026. The actual amount will be based on a negotiation with Industry (Producer Responsibility Organization – PRO) and our current contractor, Miller Waste Systems. Once further information is known, adjustments to the budget will be brought forward to a future annual budget update process. Some of the savings noted above may be realized in the latter half of 2023; however as details and the mechanisms for transition are currently being developed by the Resource Productivity & Recovery Authority, details will not be known until late 2021 or early 2022.

6. Social & Health Services - Middlesex-London Health Unit – In 2019, the Province of Ontario announced planned changes to the funding model for public health in Ontario. This included the migration of the shared funding model to a 70:30 split between province and municipalities, noting that the shift was capped at a 10% increase in the municipal share for 2020. Subsequent to the onset of the COVID-19 pandemic, it was announced that mitigation funding would be provided to fully offset the change in cost-sharing for both 2020 and 2021. It is currently unclear whether the mitigation funding will continue to be provided in 2022 and future years.

Additionally, the Middlesex-London Health Unit, like other health units, has incurred significant costs in responding to the COVID-19 pandemic. To date, the expectation has been that these costs will be fully funded by the Province. However, there is uncertainty as to whether the Province will continue reimbursing public health units for these costs in future years.

What we are doing to mitigate/address the issue: Civic Administration will continue to meet regularly with representations from the Health Unit to receive regular updates on provincial funding for public health. Opportunities for collaboration will also be explored to ensure that the Province is aware of the importance of stable, predictable funding for public health.

Cost/Revenue Driver:

1. Multiple Services – Inflationary pressures – As a result of COVID-19 and subsequent supply chain disruptions and increased demand for certain materials, many areas are experiencing inflationary pressures. Costs are rising at a fast pace, including areas such as shelter and energy, however these increases are becoming more widespread across various categories.

What we are doing to mitigate/address the issue: Civic Administration will continue to monitor these inflationary pressures and attempt to manage these pressures within budget. Should inflationary pressures become more permanent, future budget changes may be required.

2. Middlesex-London Health Unit - At its February 21st meeting, the Board of Health for the Middlesex-London Health Unit approved a budget that includes unanticipated increases related to inflationary cost pressures and higher occupancy-related costs for the new office space at Citi Plaza. Funding for these cost pressures is being requested from the Health Unit's municipal partners. These cost pressures were not included in the City's 2021 Budget Update process and will represent an in-year pressure on the 2021 budget.

What we are doing to mitigate/address the issue: Civic Administration is working with Middlesex-London Health Unit staff to ensure that a budget amendment is submitted for consideration as part of the 2022 Budget Update.

3. Payment in Lieu (PIL) of Taxation - London Airport - The London International Airport provides a payment in lieu of taxes that is based on a per-passenger rate according to the number of travellers utilizing the airport in previous years. This payment to the City of London is anticipated to decrease in 2022 by \$0.5 million and is attributed to a decline in the total number of enplaned and deplaned passengers in London. This payment reduction will continue thereafter, even after the total number of passengers return to previous levels, as the Municipal Act caps annual increases. Annual increases in the amount of the payment are capped to 5% regardless of the actual increase in number of passengers. It is anticipated that this will impact the City's PIL from the London Airport for numerous years to come.

What we are doing to mitigate/address the issue: Civic Administration will continue to communicate with the London Airport Authority to monitor the passenger volume that is applicable to PIL to determine what the future potential financial impacts might be. Civic Administration is engaging with the Ministry to advocate for the removal of the 5% cap in light of the future impacts this will have on the City's Budget.

4. RBC Place London – As outlined in previous reports on COVID-19 financial impacts, the pandemic has had a devastating impact on RBC Place London. COVID-19 has caused the cancellation or postponement of large events and gatherings, resulting in budgeted revenues not materializing. As part of the 2020 Year-End Operating Monitoring Report, RBC Place London received a one-time grant in the amount of \$2.5 million to sustain operations through 2021, and a one-time contribution of \$1.0 million to the RBC Place Renewal Reserve Fund to ensure that the current RBC Place capital plan remains fully funded despite pressures on the reserve fund. Despite this financial support and significant actions taken by RBC Place London to address financial challenges, public health restrictions continue to limit the size of indoor gatherings as of the time of writing and there remains hesitancy amongst some members of the public to attend large events. As a result, it is anticipated that 2022 will be another challenging year for RBC Place London. It remains unclear when the demand for these events will rebound to pre-pandemic levels.

What we are doing to mitigate/address the issue: Civic Administration is receiving regular updates on the operations and financial situation of RBC Place London. Due to the magnitude of the financial impacts and strong possibility that adverse impacts will continue into 2022, further budget changes may be required as part of the 2022 Annual Budget Update.

Conclusion

The Property Tax, Water and Wastewater and Treatment Budgets are incurring significant financial impacts in 2021 due to COVID-19. However, significant Federal and Provincial support has been made available since the onset of the pandemic. Additionally, net operational savings are projected primarily from temporary closures or reduced operations in various programs, services and facilities throughout the City due to public health restrictions. Combining the Federal and Provincial funding support with the net operational savings, the Property Tax, Water, and Wastewater and Treatment Budgets are projecting to end the year in a surplus after covering the residual deficit impacts of COVID-19.

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Appendix A – 2021 Projected Year-End Financial Summary

Property Tax Supported Budget – Civic Service Areas (\$millions)

Category	Lost Revenues due to COVID-19	Additional Costs due to COVID-19	COVID-19 Related Grant Funding	All Other Factors	Surplus / Deficit
Centennial Hall	-0.6	0.0	0.0	0.4	-0.2
Arts, Culture & Heritage Advisory & Funding	0.0	0.0	0.0	0.0	0.0
Heritage	0.0	0.0	0.0	0.0	0.0
Economic Development	0.0	0.0	0.0	0.0	0.0
Community Improvement/BIA	0.0	0.0	0.0	0.1	0.1
Environmental Action Programs & Reporting	0.0	0.0	0.0	0.3	0.3
Garbage Recycling & Composting	0.0	-0.1	0.0	-1.5	-1.6
Neighbourhood & Recreation Services	-10.1	-2.0	1.9	10.8	0.6
Parks & Urban Forestry	0.0	-0.1	0.0	1.1	1.0
Building Approvals	-0.1	0.0	0.0	1.4	1.3
Planning Services	0.0	0.0	0.0	0.8	0.8
Development Services	-0.2	0.0	0.0	0.6	0.4
Animal Services	0.0	0.0	0.0	0.5	0.5
By-law Enforcement	-0.1	0.0	0.0	0.0	-0.1
Corporate Security & Emergency Management	0.0	-1.7	1.4	0.3	0.0
Fire Services	0.0	-0.1	0.0	0.1	0.0
Housing Services	0.0	0.0	0.0	1.3	1.3
Land Ambulance	0.0	0.0	0.0	0.0	0.0
Long Term Care (Dearness)	-0.6	-1.2	1.3	1.4	0.9
Social and Community Support	0.0	-14.1	13.6	5.5	5.0
Parking	-3.5	0.0	0.0	0.7	-2.8
Roadways	0.0	-0.2	0.0	3.5	3.3
Rapid Transit	0.0	0.0	0.0	0.0	0.0
Corporate Services	0.0	-0.3	0.0	8.2	7.9
Corporate Planning & Administration	0.0	0.0	0.0	0.6	0.6
Council Services	0.0	0.0	0.0	0.2	0.2
Public Support Services	-2.7	-0.1	0.0	1.7	-1.1
Corporate Financing	-5.9	0.0	14.7	-16.0	-7.2
Total Civic Areas Surplus/Deficit	-23.9	-19.9	33.0	21.8	11.0

Subject to rounding

Property Tax Supported Budget – Boards & Commissions (\$millions)

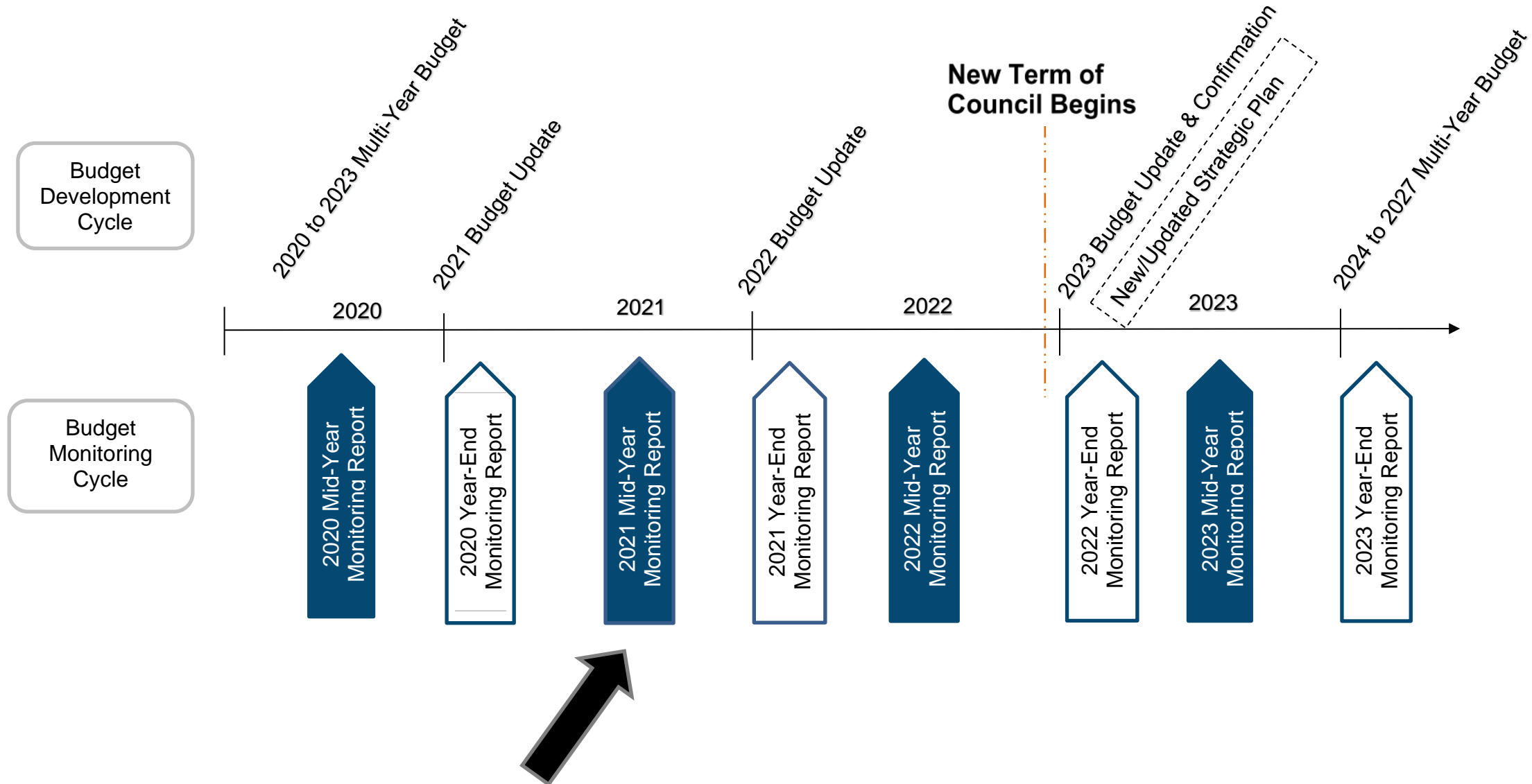
Category	Lost Revenues due to COVID-19	Additional Costs due to COVID-19	COVID-19 Related Grant Funding	All Other Factors	Surplus / Deficit
Museum London	-0.6	-0.1	0.7	0.0	0.0
Eldon House	0.0	0.0	0.0	0.0	0.0
London Public Library	-0.8	-0.2	0.0	1.0	0.0
RBC Place London	-3.6	0.0	0.0	3.6	0.0
Tourism	0.0	0.0	0.0	0.0	0.0
Covent Garden Market	-1.1	-0.1	0.1	1.1	0.0
Conservation Authorities	-0.1	0.0	0.0	0.2	0.1
London Police Services	-0.4	-0.1	0.0	0.5	0.0
Housing Development Corporation	0.0	0.0	0.0	0.0	0.0
London & Middlesex Community Housing	-0.5	-0.2	0.0	0.7	0.0
Middlesex-London Health Unit ¹	0.0	0.0	0.0	-0.6	-0.6
London Transit Commission	-19.1	0.0	17.0	2.9	0.8
Total Boards & Commissions Surplus/Deficit	-26.3	-0.7	17.8	9.4	0.2

Subject to rounding

Note 1: Consistent with 2020 reporting, Middlesex-London Health Unit excludes costs and grant funding related to case/contact management and operation of vaccine clinics funded by the Ministry of Health.

Appendix B – Multi-Year Budget Cycle

The timeline below illustrates when Council will receive the various reports that form the 2020 to 2023 Multi-Year Budget governance and accountability process.





2021 Mid-Year Budget Monitoring

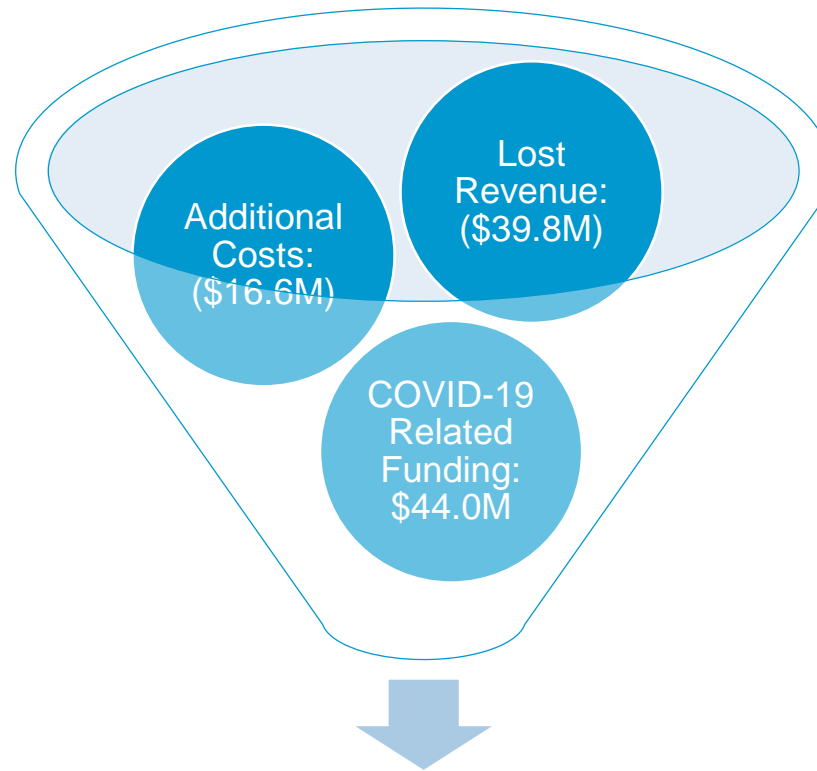
Summary

- The City is projecting total 2021 COVID financial impacts of \$71M (lost revenues & additional costs)
- Significant Federal and Provincial support has been provided through various programs that is being utilized to offset 2021 COVID impacts (\$51M)
- 2021 COVID impacts net of Federal/Provincial support = \$20M (\$71M - \$51M)
- Other net operational savings are projected primarily attributable to one-time COVID impacts, for example:
 - Reduced operations and closures at community centres and recreation facilities/programs
 - Reduced usage of utilities and lower facility maintenance costs due to closures/reduced operations
 - Lower spending on OW employment expenses as many individuals are still being supported by other government income supports

Summary – cont'd

- These other net savings are projected to be approx. \$31M
- Offsetting the net COVID impacts with these savings results in a total projected 2021 surplus of \$11M
- Notwithstanding the Surplus/Deficit Policy, up to \$10M of the property tax supported surplus, if realized, is recommended to be contributed to the New Affordable Housing Reserve Fund for future affordable housing initiatives; any remaining surplus will be allocated according to the Surplus/Deficit Policy

Refresher: 2021 COVID-19 Projections in 2020 Year-end Report

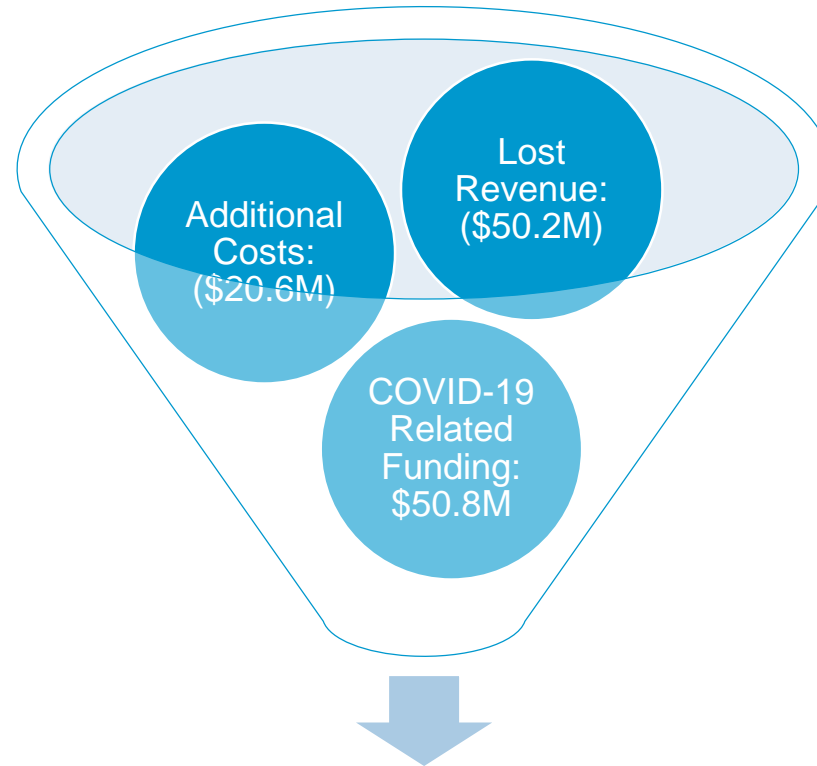


Projected 2021 Net COVID-19 Impacts: (\$12.4M)

Refresher: 2021 COVID-19 Projections in 2020 Year-end Report



2021 Projected COVID-19 Financial Impacts Summary

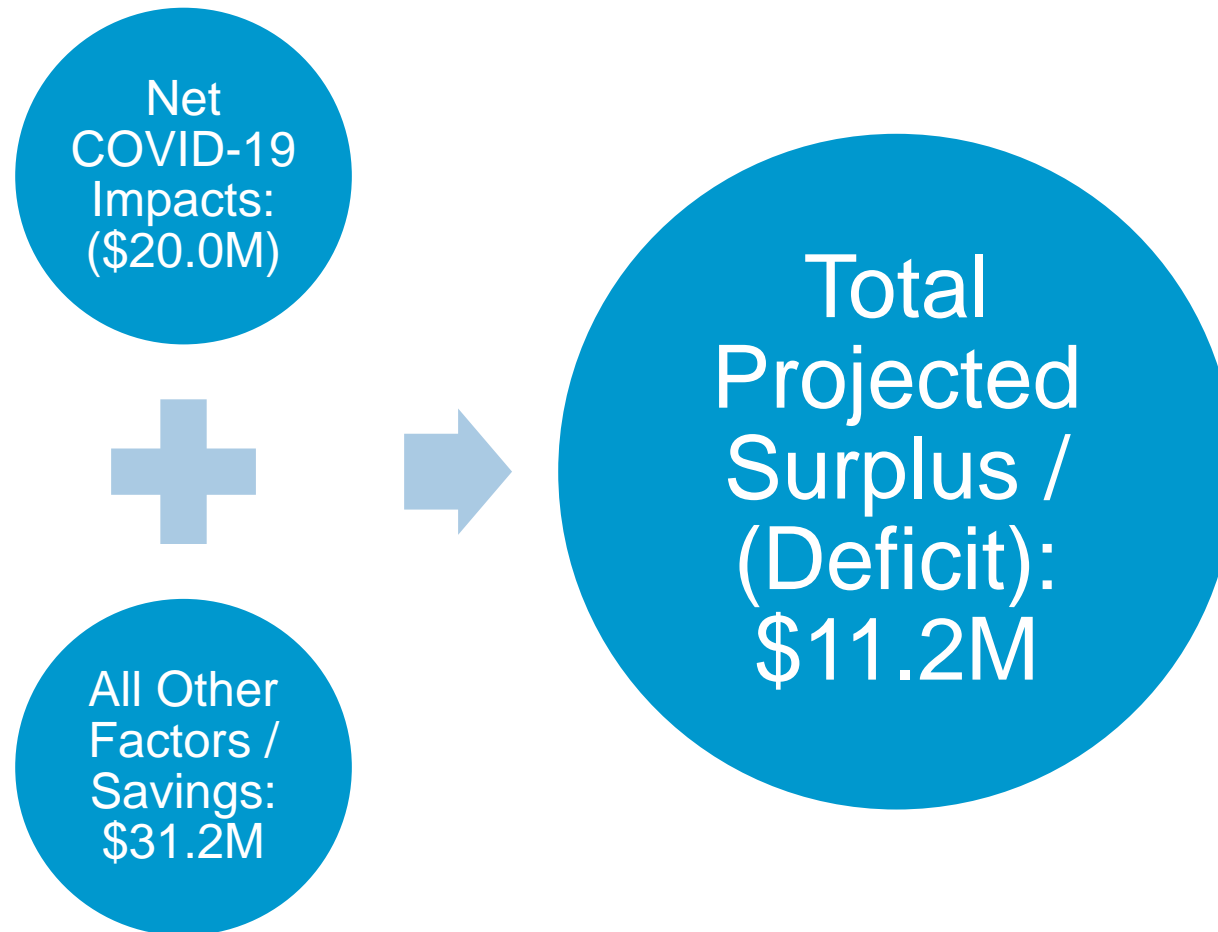


**2021 Projected Net COVID -19 Impacts:
(\$20.0M)**

Other Major Factors Offsetting Net COVID-19 Financial Impacts

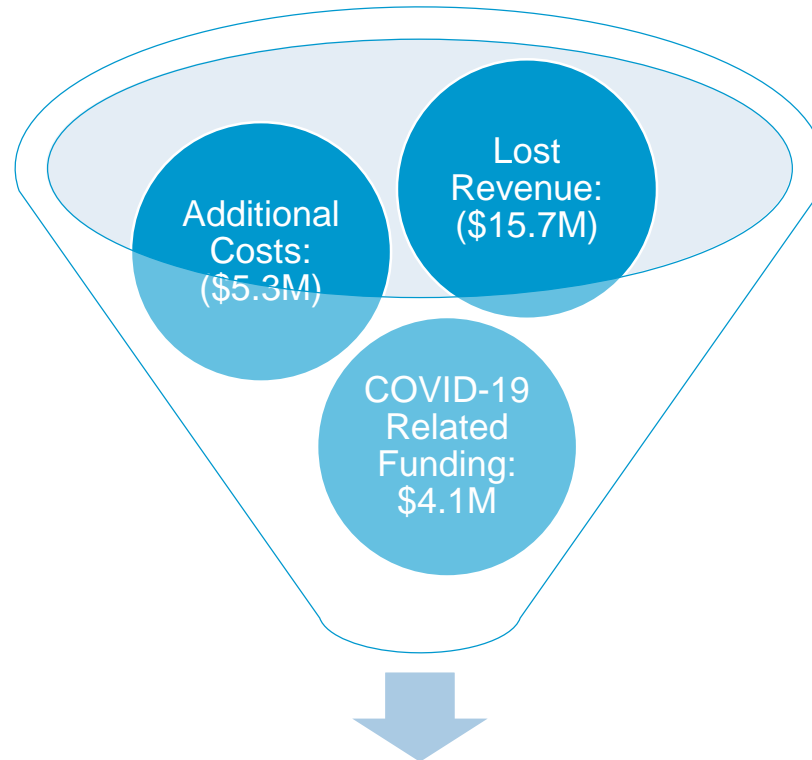
- Neighbourhood & Recreation Services – Reduced operations and closures at community centres and recreation facilities/programs
- Utilities & Facilities Maintenance – Reduced usage of utilities and lower facility maintenance costs due to closures/reduced operations
- Ontario Works – Lower spending on employment expenses as many individuals are still being supported by other government income supports
- RBC Place – Operational cost savings and one-time funding received from the City
- London Transit Commission – Full-year assessment growth revenues received but only partial year costs incurred; other operational savings

Pulling Together the Projected 2021 Surplus/Deficit



Notwithstanding the Surplus/Deficit Policy, up to \$10M of the property tax supported surplus, if realized, is recommended to be contributed to the New Affordable Housing Reserve Fund for future affordable housing initiatives; any remaining surplus will be allocated according to the Surplus/Deficit Policy

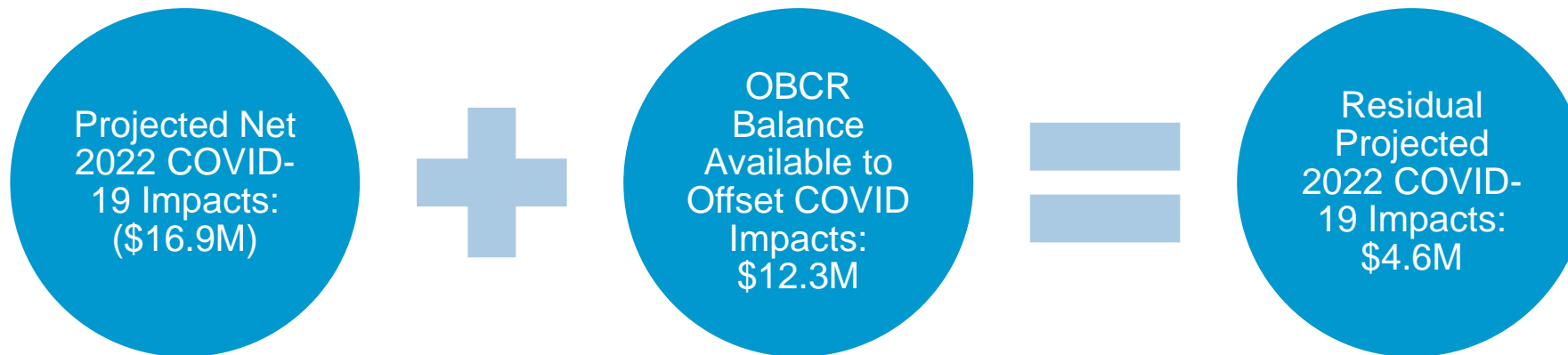
Preliminary Projected 2022 COVID-19 Financial Impacts



Projected 2022 Net COVID-19 Impacts: (\$16.9M)

Note: All figures are estimates based on current information, noting that these estimates are subject to significant uncertainty and may change.

2022 Forecasted Residual COVID-19 Impacts



Residual projected 2022 COVID-19 financial impacts appear to be manageable at this time.

2022 impacts will continue to be monitored and updates provided through the 2021 Year-End Budget Monitoring process.

Water and Wastewater & Treatment 2021 Budget Projections

Water
\$3.3M
surplus

- \$1.7M projected contribution to Water Contingency Reserve to achieve target balance
- Balance of surplus to be allocated per Surplus/Deficit Policy

Wastewater
\$3.5M
surplus

- \$2.3M projected contribution to Wastewater Contingency Reserve to achieve target balance
- Balance of surplus to be allocated per Surplus/Deficit Policy

Note: Projected net 2022 COVID-19 impacts are \$0.0M for Water & \$0.4M for Wastewater.