July 13, 2020

Mr. Amarjot Sandhu, MPP
Chair, Standing Committee on Finance and Economic Affairs

RE: Study of the recommendations relating to the *Economic and Fiscal Update Act, 2020* and the impacts of the COVID-19 crisis on the Municipalities, Construction and Building sector

Dear Chair,

I am writing on behalf of the Municipal Finance Officers' Association of Ontario, and the municipalities it serves, to provide you with the Association's perspective on the financial impacts of the COVID-19 pandemic on municipalities.

The Municipal Finance Officers' Association of Ontario (MFOA) represents individuals who are responsible for handling the financial affairs of municipalities. MFOA promotes the interests of its members through advocacy, research and analysis, sector engagement, and by providing professional development opportunities.

The pandemic has had a major impact on municipal finances by reducing revenues, increasing costs, and disrupting municipal cash flows. While cost mitigation strategies are being pursued by municipalities, they almost always produce insufficient savings to cover the added costs and lost revenues being experienced across the Province.

Ontario is a vast province composed of diverse urban, rural, and northern municipalities that not only face distinct economic, geographic, and demographic challenges, but also deliver different suites of services. A "one size fits all" policy approach will not be an equitable process to mitigating the pandemic's impact on municipal finances.

Focus should be on providing flexible policy tools that allow municipal leaders to use funds and resources where they are needed most in their communities. Flexibility is one of the principles guiding MFOA's first report on the financial implications of the COVID-19 pandemic for municipalities. The recommendations documented in this first report are intended to:

1. Leave municipalities in a financial position to continue to offer vital services with no ongoing major financial burdens that will impair them for years; and
2. Maintain essential services during the pandemic and into the recovery period.

MFOA's Report #1: Municipal Finance Implications of the COVID-19 Pandemic

The report is a preliminary analysis as we are still in the early days of understanding the full implications on municipal fiscal health of a pandemic that is not fully behind us. We expect to provide further updates to this report as time goes on and more information becomes available. The first update to the report can be found in the appendix. The report's recommendations are as follows:

- *MFOA supports FCM's recommendations to the federal government in principle*.

  In a time of crisis, support programs should be easy to administer and help money flow in a timely way to those that need it. Leveraging the existing administrative infrastructure of the federal Gas Tax Fund, where possible, achieves this objective. FCM's recommendations account for the disproportionate impact of the pandemic on transit providers, while providing support to all municipalities across the country.

- *That the Province establish a support grant to compensate municipalities for targeted net lost revenues resulting from the COVID-19 emergency. Targeted revenue streams include transit and recreation*.

  With the deferral of major revenue sources and the need for service modifications without compensating decreases in costs, some municipalities are facing significant cash flow issues. For some revenue streams, the money will never be recovered. For example, the loss of user fees from operating transit systems is permanent; as is the loss of penalties and interest for municipalities that waived these charges on property taxes and utility bills. We suggest that a support grant be targeted and related to demonstrable net lost revenues.

- *That the provincial or federal government provide forgivable interest-free loans to municipalities to address revenue shortfalls of a temporal nature*.

  We also suggest that the Province or federal government provide interest-free forgivable loans to municipalities to address current revenue shortfalls that are more temporal in nature. For example, it is likely that property taxes and utility bills will eventually be paid, but may be deferred. Deferred payments, however, can cause cash flow problems that can be alleviated by interest free loans if and when municipalities require them.

- *That the Province establish an emergency cost recovery grant to compensate municipalities for increased costs directly related to the COVID-19 emergency*.

  Many municipalities in the Province are experiencing increased costs directly related to the pandemic. Such costs include:
  - additional PPE for essential frontline workers;
  - IT-related expenses to accommodate work from home;

- additional staffing costs related to the province’s emergency measures (e.g. redeployments and the inability of employees to work at multiple long-term care homes);
- and more rigorous cleaning services.

In the past, the Province has provided a level of compensation for costs incurred to deal with emergencies, like natural disasters and the SARS pandemic. We recommend a continuation of this approach with respect to the current pandemic.

- *That the provincial and federal governments, under existing programs, maintain committed transfer payments to each municipality as planned for in 2020 to 2022*.

  Federal and provincial transfers are an important source of revenue in almost all Ontario municipalities and a major source in many. We recommend that funding from existing transfers remain stable in the coming years. Material drops in transfer payments places more upward pressure on municipalities’ existing tax base during the recovery, when residents and businesses may continue to experience the effects of the pandemic. This pressure could result in decreases in service levels or continued deferral of capital projects in the near term, both of which could hurt the recovery process.

- *That the Province extend statutory and non-statutory reporting deadlines: 1-year deferrals for new requirements and 6-month deferrals for existing reporting deadlines. Timelines should be reviewed in tandem with the easing of restrictions*.

  At the onset of the Province’s State of Emergency, municipalities were quick to mobilize staff and resources towards implementing the measures as well as provide relief and reassurance to the community where possible. Simultaneously, municipal staff have had to adjust to social distancing rules by working from home with little to no access to municipal offices. Given these pressures, municipal staff currently do not have the capacity to complete regular reporting duties as required, both for legislative requirements and for non-statutory requirements, such as transfer payment agreements. Last year, the provincial government successfully worked with municipal associations to reduce the reporting burden. Despite this work, the issue persists. As such, MFOA recommends that the Province extend their reporting deadlines. In the short-term, this will help municipalities focus on pandemic management. In the long-term, extending timelines will ensure municipalities can produce meaningful work that embodies the spirit of the required reporting.

- *That the Province continue to work closely with its municipal partners to learn “on the ground” lessons of the financial impacts of the pandemic and to plan for future recovery*.

The pandemic is unprecedented and its impact on municipal finance is sweeping. MFOA has found that in a policy environment that is moving and changing as rapidly as this, that wide-spread and frequent dialogue is required.

Other Considerations

With respect to pandemic financial assistance, municipalities still do not know if they will receive meaningful financial assistance from the provincial and federal governments. This is challenging. Very soon if not now, hard-hit municipalities will make decisions to address this year's deficits and next year's budgeting uncertainty. In numerous cases, these decisions will require draconian service cuts or tax increases or both in the absence of financial assistance.

Leveraging reserves and reserve funds will not be enough for many municipalities. While some municipalities appear to have overall strong levels of reserves, "the majority of reserves are restricted for specific purposes and are not intended for use as fiscal stabilization mechanisms. (…) Drawing on these funds to alleviate coronavirus-related shortfalls would result in long-term financial pressures to finance the projects they were originally designated for."[1]

All three orders of government have a shared responsibility for the wellbeing of Canadians. Municipalities appreciate the assistance provided to date and look forward to additional support through the crisis and its recovery. Support for the vital services municipalities provide acknowledges that there is only one taxpayer and that all governments are in this together.

We hope that our paper will build on the existing desire to work together over the coming months that will include dealing with the pandemic and the subsequent economic recovery. Please contact MFOA Executive Director, Donna Herridge (donna@mfoa.on.ca) should you wish to follow up on any issues identified in the letter.

Sincerely,

Trevor Pinn, CPA, CA
President

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[1] Moody's Investor Services. (July 2020). Sub-Sovereign – Canada: FAQ on pandemic-driven credit pressures facing public-sector entities

MFOA | MUNICIPAL FINANCE OFFICERS' ASSOCIATION OF ONTARIO

The Financial Implications of the COVID-19 Pandemic for Municipalities: First Report

Updated on July 13, 2020

Table of Contents

1. Executive Summary

The pandemic has had a major impact on municipal finances by reducing revenues, increasing costs, and disrupting municipal cash flows. While cost mitigation strategies are being pursued by municipalities, they often produce insufficient savings to cover the added costs and lost revenues being experienced across the Province.

Ontario is a vast province composed of diverse urban, rural, and northern municipalities that not only face dissimilar economic, geographic, and demographic challenges, but also deliver different suites of services. No two Ontario municipalities will experience the current crisis and the post-crisis recovery period in exactly the same way.

A “one size fits all” policy approach will not be an equitable process to mitigating the impact of the pandemic on municipal finances. Instead, focus should be on providing flexible policy tools that allow municipal leaders to use funds and resources where they are needed most in their communities.

This report documents a number of recommendations for both the federal and provincial government. It is a preliminary analysis as we are still in the early days of understanding the full implications of the pandemic on municipal fiscal health. We expect to provide further updates to this report as time goes on and more information becomes available.

The report’s recommendations are guided by two main objectives: leave municipalities in a financial position to continue to offer vital services (no ongoing major financial burdens that will impair them for years); and maintain essential services during the pandemic and into the recovery period. The recommendations are as follows:

- MFOA supports FCM’s recommendations to the federal government in principle.
- The Province establish a support grant to compensate municipalities for targeted net lost revenues resulting from the COVID-19 emergency. Targeted revenue streams include transit and recreation.
- The provincial or federal government provide forgivable interest-free loans to municipalities to address revenue shortfalls of a temporal nature.
- The Province establish an emergency cost recovery grant to compensate municipalities for increased costs directly related to the COVID-19 emergency.
- The provincial and federal governments, under existing programs, maintain committed transfer payments to each municipality as planned for 2020-2022.
- The Province extend statutory and non-statutory reporting deadlines: 1-year deferrals for new requirements and 6-month deferrals for existing reporting deadlines. Timelines should be reviewed in tandem with the easing of restrictions.
- The Province continue to work closely with its municipal partners to learn “on the ground” lessons of the financial impacts of the pandemic and to plan for future recovery.

2. Introduction

The current COVID-19 pandemic is causing major disruptions in the lives of Ontarians and presenting significant challenges for all levels of government to deal with the health and safety of residents, frontline health workers and others employed in critical economic sectors. The current circumstances are unlike any previously seen in Ontario or Canada. Supports for individuals, businesses and municipalities will need to be significant and sustained over an as yet unknown time period.

In Ontario, a state of emergency was declared on March 17 that included, among other things, the closing of non-essential businesses and the imposition of social distancing requirements. On April 14 and May 12, the emergency was extended. It is unknown if further extensions will be required.

The closure of non-essential businesses has put those businesses in jeopardy as well as those employed in those businesses. The loss of business revenue and employment has had a major impact on many municipalities':

- Revenues
    - Government tax revenues and user fees decline when businesses close and employees are laid off
- Services
    - Municipalities have closed facilities and eliminated non-essential services. While essential services continue, challenges have emerged in providing those services in light of social distancing requirements
- Employees
    - While some municipal workers are now working from home, many employees in non-essential services have being laid off as the state of emergency continues. Workers in essential services who are not able to work at home must have work environments that are safe and healthy.

This paper is an early examination of the impact of the COVID-19 pandemic on the finances of Ontario municipalities. It is a preliminary analysis as we are still in the early days of understanding the full implications of the pandemic on municipal fiscal health. We expect to provide further updates to this report as time goes on and more information becomes available.

This paper, and its preliminary recommendations, are informed by significant dialogue with our members. MFOA has had numerous discussions with a full cross section of our members in an attempt to understand how the pandemic has impacted municipal revenues and expenses as well as service provision on the ground. We have prepared this paper to facilitate ongoing dialogue with the Province about the issues we are seeing in the sector and possible solutions that are being discussed. We are fully convinced that the only sensible path forward involves intergovernmental coordination, extensive information sharing and a willingness for all levels of government to do what they can to address our common challenges.

We wish to thank our members who have collaborated with us and shared information, reports and thoughts with us to enable MFOA to present their concerns to the Province. Our members have not only worked closely with us but are dedicated to working with each other to understand common problems and find workable solutions. Finally, we also thank the Province of Ontario and the Government of Canada who have already undertaken important initiatives to address the pandemic and to provide financial relief to individuals and businesses. We hope that this paper will build on the existing desire to work together over the coming months that will include dealing with the pandemic and the subsequent economic recovery.

3. About MFOA

The Municipal Finance Officers' Association of Ontario (MFOA), established in 1989, is the professional association of municipal finance officers with more than 2,300 individual members. We represent individuals who are responsible for handling the financial affairs of municipalities and who are key advisors to councils on matters of finance policy.

MFOA promotes the interests of our members in carrying out their statutory and other financial responsibilities through advocacy, information sharing, networking opportunities, and through the promotion of fiscal sustainability. We also provide members with training and education to enable continuous professional development and to support excellence in municipal finance.

Since the beginning of the pandemic, MFOA has provided its members and the wider municipal sector with free just-in-time training on key areas of municipal finance, as well as opportunities for staff to share information with their peers on a regular basis. These sessions have allowed municipal staff to learn from experts as well as each other and help build communities of practice and support during these unprecedented times.

4. Principles

MFOA takes policy positions on a range of municipal finance issues. In each instance, the association adopts recommendations that are consistent with our long-standing principles. These include:

- Long term financial sustainability
- Flexibility
- Autonomy
- Permissive governance framework.

4.1 Long-term Sustainability

For a number of years MFOA has promoted the concept of long-term financial planning as a means to ensure financial sustainability. Sustainability requires long-term financial plans that are:

- Comprehensive
  - Includes all services (internal and external) and all municipal departments
- Integrated
  - Incorporates requirements in corporate strategic plans, operating and capital budgets, master servicing plans, development charges studies, asset management plans.
- Resilient
  - Contains provisions for managing revenue fluctuations (e.g. variable water consumption) and contingencies
- Long-term
  - Incorporates a long-term view of future financial requirements including future asset management requirements and growth-related capital and operating requirements.

In the context of the current pandemic, the principle of sustainability is of vital importance. Ensuring that municipalities can manage financially in 2020 is, of course, an immediate priority, but it should not be done at the expense of financially crippling them in 2021 and beyond.

4.2 Flexibility

Ontario municipalities differ dramatically in a number of ways, including the services they provide, population, area, assessment base, incomes of residents, levels of urbanization, staffing and a host of other variables. It is why it is commonly said that when it comes to municipal finance policy "one size does not fit all." For this reason, MFOA usually advocates for a broad array of policy tools for municipalities recognizing that some tools are more appropriate for some of our members than others. Having a broad array of policy tools that are discretionary allows municipalities to use the tools in creative ways to address local circumstances.

With respect to the current pandemic, this means that some policy recommendations in this paper might not be appropriate for all of our members. Some will be better positioned to deal with revenue losses or increased costs than others and this reality is reflected in our recommendations.

4.3 Autonomy

It is understood that no government is fully autonomous. But MFOA provides recommendations that support autonomy by leaving decisions that are local in nature with their duly elected local councils. Municipalities must have sufficient authority to be able to respond to local needs in ways that central governments cannot.

With respect to the pandemic, municipalities must have autonomy to play a role in dealing with the crisis and managing to the post pandemic period that will almost certainly require new approaches to public health and emergency planning.

4.4 Permissive Governance Framework

Building on the principles above, a permissive governance framework provides a flexible and varied array of policy tools for dealing with municipal issues and services. Uniform and rigid approaches seldom succeed and the legislative framework that governs municipalities and municipal finance needs to recognize this.

5. Objectives

Our objectives in writing this report are to make recommendations that:

- Leave municipalities in a financial position to continue to offer vital services (no ongoing major financial burdens that will impair them for years), and
- Maintain essential services during the pandemic and into the recovery period.

6. What Municipalities are Doing

Municipalities have a key role in mitigating the impact of COVID-19 on its communities; both to implement policies and procedures aimed at reducing the spread of COVID-19 as well as minimizing the economic repercussions of the pandemic on citizens. This section highlights some of the municipal actions amid the current pandemic, although this is not an exhaustive list.

6.1 Tax relief measures

At the onset of the Province’s State of Emergency, many municipalities put in place tax policy changes to waive new penalties and interest for non-payment or late payment of property taxes. This decision provided immediate financial relief for many citizens.

Some municipalities have taken a step further to defer property tax due dates by weeks or months to help provide cash flow relief for citizens.[1]

In addition, a number of municipalities have made the decision to waive interest charges on water/wastewater billing until at least June 2020 or as late as January 2021. In one example, a municipality has made the decision to maintain 2019 stormwater, wastewater, and water rates until 2021.[2] Given the pandemic's impact on the hospitality industry, many municipalities are also deferring or providing exemptions to the Municipal Accommodation Tax.

The decision to defer or waive penalties for property tax and utility bills cannot be taken lightly, as these charges are important sources of both revenue and cash on hand for municipalities. These funds contribute to the operation and maintenance of essential services which must continue during the pandemic. As such, MFOA appreciates the Province's action to defer the required municipal quarterly remittance of education tax collections by 90 days, which provides some financial relief for municipalities.

It is still too early to know the full impact of these measures since due dates have been pushed back in many places. The dates themselves can also differ from municipality to municipality. A municipality with a February due date may report different collection ratios than municipalities with due dates after the State of Emergency was declared. To date we have heard from some members that property tax collection is still strong compared to previous years, but this is not expected to be true everywhere.

6.2 Closing facilities

The Province's State of Emergency on March 17th resulted in the immediate closure of municipal facilities such as parks, libraries, recreation centres, and more. The closure of these facilities is necessary to help reduce the spread of COVID-19, but there are significant revenue losses as a result. For instance, arenas are unable to collect for ice rentals during the hockey season which is a major source of funds from public arenas in the winter season. Pools are unable to run programming. Additionally, municipalities are incurring expenses through the increased use of bylaw officers to enforce restrictions.

As the pandemic began at the end of the winter season, the lost revenues are a one-time occurrence. However, if the pandemic persists into the Summer/Autumn season it will result in further significant revenue losses for municipalities. After water/wastewater and transit, recreation fees are a major revenue source for lower tiers and single tiers. While there may be cost savings related to closing the facilities, these are not sufficient to offset the revenue losses. And unlike property taxes, which are largely deferred, this is a permanent loss.

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[1] City of Mississauga. (2020). Interim tax payment deferral, https://www.cbc.ca/news/canada/ottawa/city-defer-property-tax-1.5501420; Chianello, J. (2020, March 18). City (of Ottawa) to defer property taxes in light of COVID-19, CBC News, https://www.cbc.ca/news/canada/ottawa/city-defer-property-tax-1.5501420

[2] Town of Richmond Hill. (2020). COVID-19, https://www.richmondhill.ca/en/find-or-learn-about/novel-coronavirus.aspx

6.3 Reducing user fees

To further provide financial relief, municipalities have either reduced or removed fees for various services. Many upper- and single-tier municipalities are providing free transit and providing rear door entry until the State of Emergency is lifted, which ensures essential workers can still get to work and minimizes contact with transit operators. Similarly, municipalities are waiving city parking.[3] To contain the spread of COVID-19, many municipally-owned landfills have modified service levels for the general public. Some municipalities are also temporarily waiving fees for garbage tags and increasing their garbage limits.

6.4 Other supports

Municipalities are also helping the most vulnerable members of their communities through a range of supports and partnerships. The City of Toronto has partnered with a local developer to provide interim housing for people sleeping outdoors.[4] The City of Thunder Bay is providing emergency funding to local non-profits to backstop organizations that have taken on a larger role during the COVID-19 pandemic.[5] The County of Renfrew placed free wi-fi access points across the County.[6]

6.5 Cost reduction strategies

Municipalities continue to assess the financial impacts of COVID-19 and implement short-term strategies to minimize the impact of revenue loss. Municipalities have identified incremental cost savings in the form of reduced utilities in now-closed facilities, as well as savings due to lower fuel prices. However, these savings do not offset the losses.

In the short-term, staff in non-essential work are either being redeployed to essential jobs or are being laid off, many under Declared Emergency Leave. Likewise, some municipalities have made the decision to not hire summer students, as well as cancel summer recreation programs. While several municipalities have yet to lay off staff, if the State of Emergency continues in the coming weeks this situation is likely to change.

Municipalities have begun to defer smaller projects such as planting flower beds, but under the Emergency Management and Civil Protections Act, essential maintenance work continues such as road work.

As the crisis continues and municipalities continue to analyse the financial impacts, we can anticipate further cost reduction strategies. MFOA has heard of some

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[3] Tsekouras, P. (2020, March 18). Some parking offences suspended amid COVID-19, CTV News, https://toronto.ctvnews.ca/some-parking-offences-suspended-amid-covid-19-outbreak-1.4858577

[4] City of Toronto taking action to fight COVID-19 by providing interim housing to people sleeping in encampments

[5] Kaufman, I. (2020, April 29). Non-profits get emergency funding from city, tbneswatch.com

[6] County of Renfrew. (2020, April 3). COVID-19, https://www.countyofrenfrew.on.ca/en/covid-19.aspx

considerations, these range from strategies such as a moratorium on professional development and personal equipment, to deferrals of ongoing tenders, studies (such as development charge studies), and potential deferral of capital projects into 2021. At this time, it is unknown whether municipalities will need to implement these cost saving measures, but it is an important consideration when analyzing the longer-term effects of COVID-19 on municipalities.

7. Financial Challenges

The COVID-19 pandemic is creating major challenges for municipalities. The closing of non-essential businesses translates into reduced revenues while at the same time municipalities are incurring additional costs related to the pandemic. These realities mean that 2020 will be financially problematic for many Ontario municipalities and the financial fallout could continue into 2021 and beyond.

Ontario is a vast province, counting 39% of the population and 10.8% of the area of Canada[7,8]. Its diverse urban, rural, and northern municipalities not only face different economic, geographic, and demographic challenges, but also deliver different suites of services. Like individuals, no two municipalities will experience the current crisis and the post-crisis recovery period in the same way. (Refer to Appendix A for a snapshot of changes in employment by sector across Ontario)

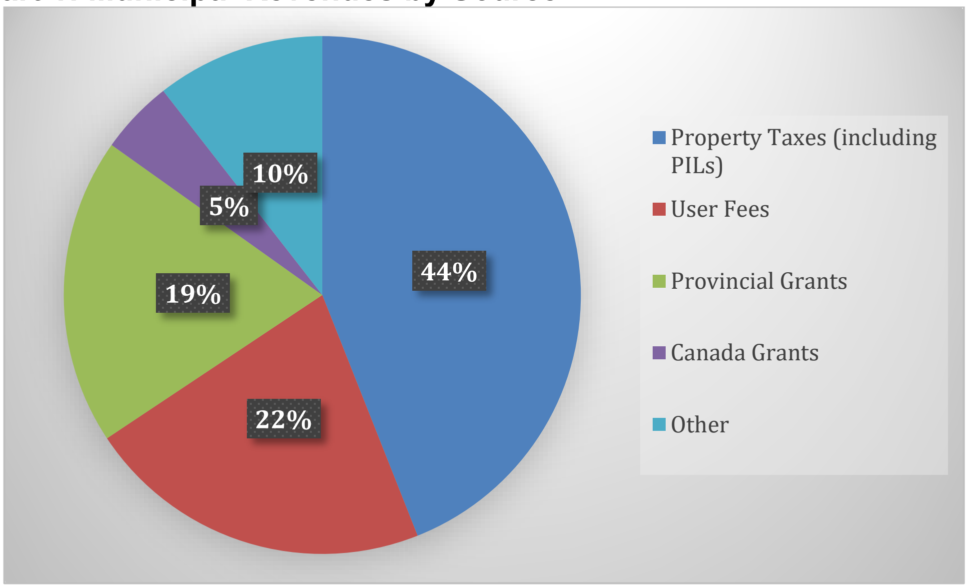
Further, given the unprecedented nature of the crisis, it is important to note that the financial challenges identified below reflect municipal understanding and forecasts to a point in time. As time goes on, the picture will become clearer. Actual impacts will only be known after the dust has settled and the recovery is well underway.

7.1 Revenue Shortfalls

The primary sources of revenue for municipalities include property taxes, user fees, provincial and federal grants and a range of other revenues that could include investments, fines and penalties, licenses, asset sales and others. Chart 1 below illustrates 2018 municipal revenues by source for the entire Province.

[7] Statistics Canada. Table 17-10-0009-01 Population estimates, quarterly
[8] Statistics Canada. Table 15.7 Land and freshwater area, by province and territory

Chart 1: Municipal Revenues by Source[9]



The shares shown in the chart will vary among municipalities in the Province. The revenue distribution for Wilmot Township (Waterloo Region) included in a recent webinar to MFOA members shows a significantly higher reliance on property tax revenues than the provincial totals in Chart 1.[10] A decline in property tax collection can have a major impact in a municipality such as this.

Notwithstanding the variations from the provincial average, it is the case that property taxes and user fees will account for a significant portion of total revenues almost everywhere.

Revenue losses are not all the same. For example, there is a strong expectation that property tax in particular will eventually be paid, or largely paid. There are powerful tools available in legislation to encourage payment up to and including as a last resort, tax sales. However, transit fares and recreation revenues are different. Lost revenues are lost permanently. There is no way to charge people for trips that they did not make. In cases where the service continues to be provided, the remaining revenues will be insufficient to meet costs. This will contribute dramatically to in year deficits.

Almost all municipalities are experiencing declines in the full range of revenue sources that includes property taxes, user fees, development charges, and investment income, but to different degrees.

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[9] The chart includes cash revenue sources only and excludes revenues, such as the municipal land transfer tax, that is unique to the City of Toronto. Refer to Appendix B for unadjusted municipal revenues.
[10] MFOA. (2020, April 14). Financial Impacts of COVID-19: Part 1 Panel Discussion. http://mfoa-assets.s3-ca-central-1.amazonaws.com/Financial_Impacts_COVID19.mp4

- Per the City of Greater Sudbury's report dated April 9, total estimated lost revenues between March 17th and April 30th are $2.2M (primarily comprised of losses in transit, leisure/recreation, investment, OLG slot revenue) slightly offset by $185,047 (additional long-term care and social services funding received) for a net loss of $2M for the seven week period. Total 2020 operating budget is $619.7M.[11]

- Per the Township of Malahide's report dated April 2, total estimated lost revenue to year end 2020 is over $537,000 (primarily comprised of losses in permit fees, penalties and interest, lottery and tax certificates). Total 2020 operating budget is $13.9M.[12]

- Per the Municipality of Port Hope's presentation dated April 29, total estimated lost revenue to June 30th is $507,000 (primarily composed of losses in recreation, permits, parking) offset by $144,000 in reduced salaries for a net loss of $363,000. Total 2020 operating budget is $20.2M.[13]

- Per the City of Mississauga's report dated April 6, total estimated lost revenue to June 30th is $67M (primarily comprised of losses in transit, recreation, parking, investment interest, POA) partially offset by cost containment of $8M (staffing) for a net loss of $59M. Total 2020 gross operating budget is $924.3M.[14]

7.1.1 Property taxes

As shown in Chart 1, property taxes accounted for approximately 44% of all revenue province wide in 2018. Municipalities typically bill property taxes in two billings. An interim bill is issued early in the tax year and it is set to raise approximately 50% of the prior year's levy. A final tax bill is issued later in the year and raises the balance of the municipality's tax requirements for the year. Both interim bills and final bills have one or several installments, each with its own due date. By April, interim bills have been sent that can have a range of due dates, some of which would have included dates prior to the declaration of a state of emergency by the Province or perhaps shortly after that date. Typically, municipalities will impose penalties and interest for unpaid tax amounts after the due date.

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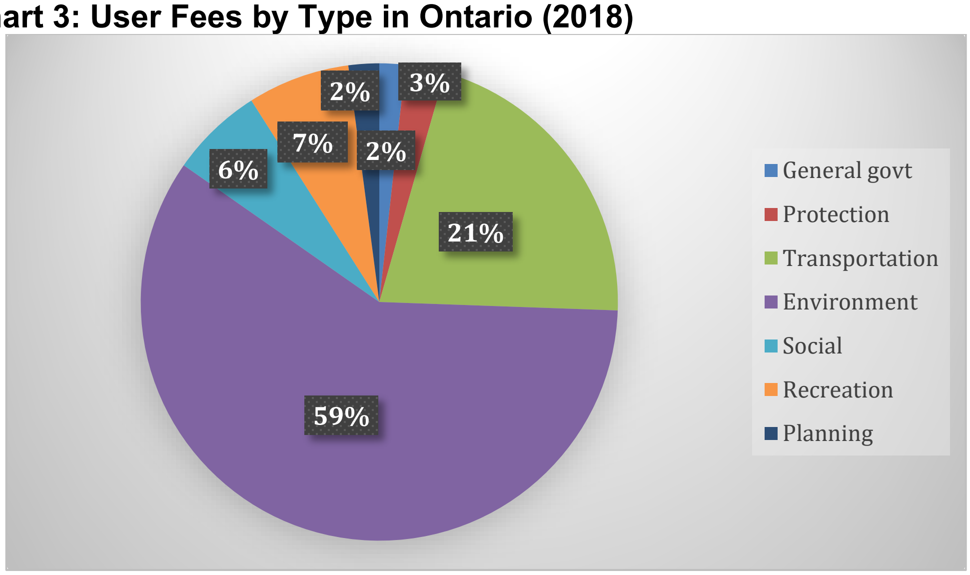
[11] Greater Sudbury. (2020). 2020 Budget. https://www.greatersudbury.ca/city-hall/budget-and-finance/2020-budget/
[12] Township of Malahide. (2020). 2020 Budget. http://www.malahide.ca/sites/default/files/2020_budget_public_summary.pdf
[13] Municipality of Port Hope. (2020). 2020 Budget. https://www.porthope.ca/budget
[14] City of Mississauga. 2020 Budget. https://web.mississauga.ca/wp-content/uploads/2019/11/27103505/2020_2023_Business_Plans__2020_Budget_COMPLETE_CONSOLIDATED_GFOA-1.pdf

Our members indicate that collection rates for these early dates may not be significantly impacted but there is concern that collection rates will fall with respect to later dates occurring after the closure of non-essential businesses and the layoff of their employees. Many municipalities have deferred payment dates and waived penalties and interest on unpaid amounts. This means that due dates are effectively pushed into the future. Therefore, it is too early to have an accurate estimate of the impact of the state of emergency on property tax receipts. However, it is highly likely that property tax revenues will be significantly lower in many jurisdictions. The full extent of the impact will be better known by the end of June perhaps, but even then, uncertainty will remain if no progress is made on reopening the economy. Unfortunately, numerous recent articles suggest that some small businesses may close permanently, putting further pressure on municipal property tax collections.

7.1.2 User fees

Province-wide, user fees account for 22% of municipal revenues. Again, this varies by municipality. Municipalities impose a wide range of user fees that include charges for water and wastewater, transit, recreation, solid waste collection, parking fees and others. Chart 3 below shows the major categories of user fees and their relative importance across the Province. The chart for individual municipalities could look very different in individual municipalities. For example, some municipalities will not have water and wastewater charges or transit fares. In these places it could be that recreation fees will be much more important.

Chart 3: User Fees by Type in Ontario (2018)



A picture is emerging of the impact on user fees caused by the pandemic and the closure of non-essential businesses. “Ridership on two of Ontario’s largest transit agencies is down between 80 and 90 per cent since the start of the COVID-19 pandemic, in a situation a national industry group said mirrors the experience of many local services."[15] In some cases, the service has been suspended and in other cases ridership is down as people are encouraged to stay home and work from home where possible. Some municipalities have restricted the number of riders on buses to allow for social distancing and have put more buses into service to accommodate demand on less crowded buses. This has increased costs at the same time as fares are falling. All municipalities have closed their recreation centres. This has resulted in a loss of revenues for space rentals. At this time, it is not known when these facilities will be re-opened.

Even when re-opened, residents may not participate at the same rate as originally forecast. In addition, the need for a staged re-opening may impact the rate of recovery with fewer participants but similar costs.

7.1.3 Other revenues

Municipalities are reporting losses of varying significance in a range of activities, including:

- Investment income
- Parking fees
- POA revenues
- Housing rents
- Child care parent fees
- Museum and other cultural facilities revenues
- Airport, marinas, etc
- Waste management
- Traffic infractions
- Development charges
- Permit fees

In its May 4th report to Council, the City of Thunder Bay has estimated that if the current measures continue beyond May, the impact would be approximately $1.1 million per month for tax support operations and $0.3 million per month for rate supported operations.[16] The City of London, in its April 28th report to Council, estimated multi-million dollar losses related to transit, water and wastewater treatment, investment income, police services, parking, accommodation tax, and event revenue based on a return to "normal" operations between June and August; while the Town of Aurora estimates significant financial impacts, in its April 28th report to Council, to development,

[15] Jeffords, S. (April 13, 2020). Transit ridership, revenue in steep decline during COVID-19 pandemic. National Post.

[16] City of Thunder Bay (2020, May 4). Financial Implications of COVID-19 Pandemic & Budget Variance Report #1, https://www.thunderbay.ca/en/city-hall/resources/Documents/Mayor-and-Council/AddInfo-Thurs-Apr-30-for-May-4-package-A.pdf

recreation including parks and advertising revenue, in addition to loss of property tax penalties. [17]

7.2 Cost pressures

In many instances, municipalities are experiencing increased costs as a result of the pandemic. As noted above, even though transit ridership is down, the requirements of social distancing and the need to get essential workers to work means that service needs to be maintained with more buses transporting fewer people. Also, depending on a municipality's suite of services, additional costs can relate to overtime (to maintain adequate staffing levels), additional personal protective equipment (PPE), and supplies.

Further, the need to socially distance has resulted in the purchase of additional technology to support remote work. It has also meant a fundamental change in how many municipalities and Councils operate in a very short time span. These types of changes have more resource implications and require more to implement than simply purchasing equipment, such as the need to adopt and train staff on new policies and procedures.

Municipalities are also subsidizing other key local services. For example, the City of North Bay will be providing a monthly subsidy to their local airport to offset the shortfalls due to a 70%-80% drop in passengers.[18] Local airports, such as the North Bay Jack Garland Airport, are not eligible for the federal government's airport funding supports.

7.3 Cost containment

Municipalities, overall, are good financial managers. Their culture of fiscal discipline is the result of multiple factors including the openness of municipal policy deliberation, the visibility of the property tax, and the legislative framework.[19] [20] Given this culture, municipalities have responded to cost pressures with an array of cost containment strategies that include:

- Elimination of staff training and travel
- Hiring freeze including not hiring summer students
- Layoffs for permanent, part-time, and casual employees

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[17] Town of Aurora. (2020, April 28). COVID-19 Financial Impact Forecast, https://www.aurora.ca/en/your-government/resources/Legislative-Services/Agendas-and-Minutes/2020-Council-and-GC-Documents/Council-Agendas/2020-04-28-Council-Agenda-bmk.pdf

[18] Lee, M. (April 22, 2020). Airport to receive taxpayer assistance through 2020, https://www.nugget.ca/news/local-news/airport-to-receive-taxpayer-assistance-through-2020

[19] Taylor, Z. (2016). Good Governance at the Local Level: Meaning and Measurement, https://munkschool.utoronto.ca/imfg/uploads/346/imfgpaper_no26_goodgovernance_zacktaylor_june_16_2016.pdf

[20] Kitchen, H., and Slack, E. (2003). Special Study: New Finance Options for Municipal Governments, https://munkschool.utoronto.ca/imfg/uploads/139/kitchenslack_new_finance_for_municipal_governments_2003.pdf

- Restricting overtime
- Reducing general maintenance on buildings
- Deferring 2020 capital projects where feasible
- Staff redeployment to reduce paid staff at home not doing work

There are additional offsets to some of these increased costs, but they tend to be minor. For example, municipalities report lower electricity costs and gasoline costs, but these are not significant enough to offset increases. Provincial and federal funding announcements have also helped address some costs. It should be noted as well that not all cost containment measures are available to all municipalities. In municipalities with few staff, layoffs could seriously impact core functions, while municipalities with unions may have less flexibility with respect to staffing decisions.

7.4 Other challenges

In conversations with members, they have identified a number of other challenges related to the pandemic. One which is cited frequently is staffing. Some municipalities that have a number of COVID-19 cases can experience staff shortages, others face challenges in accommodating staff working from home which requires secure internet service, and all municipalities with essential services report the challenges of providing personal protective equipment to front line workers (e.g. police, fire, paramedics, public health, long-term care homes).

8. Provincial and Federal Assistance to Date

All three orders of government are working to support individuals and businesses during these unprecedented times. For municipalities, much of this role is to continue to provide the essential services that residents and businesses rely on, both on and off the front lines. This includes police services, fire, transit, water, waste management, sewer, paramedic, social housing, and long-term care homes, in addition to public health. Municipalities are also working to provide property tax and other relief options to support residents and businesses.

As evidenced by various municipal reports on financial impacts, for the most part, these service amendments do not allow municipalities to mitigate costs at the same rate as decreases in revenues, which will result in net loss positions. Further, with deferrals of major revenue sources, without a compensating decrease in costs, some municipalities are facing cash flow problems.

Given these pressures, MFOA members appreciate the assistance that has been provided to date to both them and the residents and businesses they serve. The federal government's support, primarily directed at individuals and businesses, will help keep Canadians afloat during these unprecedented times. While public sector bodies are excluded from many of these programs, municipalities benefit from the Reaching Home program for those experiencing homelessness and decreases in the Bank of Canada's key interest rate target. They await to hear whether top up funding for essential workers will flow to municipalities.[21]

MFOA members also commend the Ontario government for trying to "ensure the necessary resources are in place to protect the health of our people and our economy in this province." The Province, through its mini-budget and evolving support programs, has provided more assistance directly to municipalities.[22] Funding announcements, cash flow supports, and regulatory changes for municipalities provided to date include:

- Deferral of the quarterly education property tax remittance to school boards (Action Plan, p. 11)
- Additional funding for long-term care homes, public health, ambulance and paramedic services, and emergency supports (Action Plan, pp.3-4)
- Electricity rate relief (Action Plan, p. 4)
- Creation of the COVID-19 Residential Relief Fund to help protect some of Ontario's most vulnerable people[23]
- Child-care services to essential municipal workers, including public health, power, water, and wastewater workers[24]
- Flexibility for redeployment and other measures where there is local need during the outbreak including public health, child care, social assistance, and by-law enforcement[25,26]
- Extensions of DC bylaws and certain reporting requirements, as well as clarification about planning services
- Temporary Pandemic pay for certain frontline workers

All three orders of government have a shared responsibility for the wellbeing of Canadians. As the pandemic continues, light is shed and evidence is built with respect to the needs of residents, as well as municipalities. Municipalities appreciate the assistance provided to date and look forward to additional support through the crisis and its recovery. Support of the vital services municipalities provide acknowledge that there is only one taxpayer and that all governments are in this together.

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[21] Aiello, R. (2020, April 15). Essential workers to get salary top-up, eligibility for emergency benefit expanded: PM, CTV News, https://www.ctvnews.ca/health/coronavirus/essential-workers-to-get-salary-top-up-eligibility-for-emergency-benefit-expanded-pm-1.4897017
[22] Government of Ontario. (2020, March 25). Ontario's Action Plan 2020: Responding to COVID-19, https://budget.ontario.ca/2020/marchupdate/pdf/2020-marchupdate.pdf
[23] Ministry of Children, Community and Social Services. (2020). COVID-19 Residential Relief Fund (CRRF), https://www.mcss.gov.on.ca/en/mcss/crrf.aspx
[24] TVO. (2020, April 17). COVID-19: What you need to know for April 17, TVO, https://www.tvo.org/article/covid-19-what-you-need-to-know-for-april-17
[25] O. Reg. 116/20 under the *Emergency Management and Civil Protection* (EMCPA)
[26] O. Reg. 157/20 under the EMCPA *Act* for municipal government with a similar order, O. Reg. 154/20, for District Social Service Administration Boards (DSSABs)

9. Looking Ahead

As of the end of May, the time that this report was prepared, we have not yet reached the end of the emergency period declared by the Province. The duration of the current crisis and the length of the shutdown is still unknown. Total financial impacts for 2020 and beyond are also not known. Nor do we know whether additional financial supports will be granted to municipalities. Given the degree of uncertainty, this report focuses on immediate term issues arising from the closure of businesses, the loss of employment and the temporary loss of several important municipal services. This immediate term focus is reflected in the recommendations that follow.

MFOA anticipates one or more additional reports on the state of municipal finance as more information becomes available. It is anticipated that future reports will also focus on the recovery period and have recommendations to stimulate the economy and potentially to amend the legislative framework governing Ontario municipalities. In addition, we expect to consult with members to ascertain their views on the implications of the pandemic for the future of public health services, emergency planning and the protection of frontline municipal staff.

10. Recommendations

The pandemic has had a major impact on municipal finances by reducing revenues as well as increasing costs. While cost mitigation strategies are being pursued by municipalities, they produce insufficient savings to cover the added costs and lost revenues being experienced around the Province. Further supports, beyond those identified in the previous section, will be required in order that municipalities be able to continue to provide vital services to residents and the necessary infrastructure to enable the economy to recover in 2021 and beyond.

10.1 Support FCM's recommendations in principle

In their April 23, 2020 paper, "Protecting vital municipal services", the Federation of Canadian Municipalities (FCM) makes the following four recommendations to the federal government:

- Deliver at least $10 billion in targeted emergency operating funding to all local governments as direct allocations using a hybrid formula modelled on both the federal Gas Tax Fund (GTF) and a ridership-based allocation for municipalities that operate transit systems.

- Deliver additional emergency operating funding to individual local governments facing unique financial pressures related to COVID-19 that are not fully met by the hybrid formula above.

- Commit to revisit the need for additional operating funding within four months.
- Provide local governments with the ability to transfer unused allocations to the federal GTF program for capital expenditures as part of Canada's COVID-19 economic recovery plan.

MFOA supports these recommendations in principle. In a time of crisis, support programs should be easy to administer to help money flow directly to those that need it in a timely way. Leveraging the existing administrative infrastructure of the federal GTF, where possible, achieves this objective.

The recommendations account for the disproportionate impact of the pandemic on transit providers, while providing support to all municipalities across the country. There is also a built-in review of the request to allow FCM to modify their ask as municipalities develop a better understanding of actual impacts and finetune projections.

Where we pause is understanding whether the compensation requested is tied to actual impacts of the pandemic. Given the diversity of the municipal sector and in the interest of fairness and equity, it is probable that the allocation formula will not accurately distribute assistance to municipalities based on the impacts of the pandemic.

Recommendation 1:
MFOA supports FCM's recommendations to the federal government in principle.

10.2 Support for Revenue Shortfalls

As we have noted, lost municipal revenues is a significant issue. Some revenue reductions might be manageable, but any significant reduction in property taxes, transit fares, water and wastewater billings or recreation fees without a commensurate reduction in costs might have large and potentially unmanageable consequences.

It is too early to estimate the magnitude of lost revenues from major revenue streams, but we would urge the Province to put in place a support grant to compensate for a significant portion of net lost revenues. [27,28] We further recommend that all Ontario municipalities be eligible for this grant. While many smaller jurisdictions may have impacts that are small relative to large urban municipalities, they may be large on a relative basis. Almost a quarter of Ontario municipalities would raise $20,000 or less if they raised their levy by 1%. A $200,000 impact would translate into a 10% levy

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[27] "The Canadian Urban Transit Association is seeking $400 million a month to keep services running as farebox and other revenue drop by up to 100 per cent. To maintain physical distance between transit operators and passengers, many systems are forgoing fare collection altogether." Public transit needs federal support now

[28] In this paper, net lost revenue is defined as the reduction in a revenue stream less direct savings, grants, subsidies, other contributions, and cost mitigation measures taken by the municipality. (i.e. Net Lost Revenue = Revenue reduction – [Savings + Grants + Subsidies + Other Contributions])

increase at a time when we need to provide support to struggling businesses, employees, municipal frontline workers, and residents.

As discussed, with the deferral of major revenue sources and the need for service modifications without compensating decreases in costs, some municipalities are facing significant cash flow issues. For some revenue streams, the money will never be recovered. For example, the loss of user fees from operating transit systems is permanent; as is the loss of penalties and interest for municipalities that waived these charges on property taxes, utility bills, and other receivable balances. With other sources of revenue, the issue is temporal. For example, municipalities may collect deferred property taxes at a later date from property owners or sadly recover amounts owing several years later via a tax sale.

Given these distinctions, we suggest that a support grant be targeted and related to demonstrable net lost revenues. The grant would be intended to work in tandem with other proposed funding supports, including the cost compensation grant.

We also suggest that the Province or federal government provide interest-free forgivable loans to municipalities to address current shortfalls that are more temporal in nature. For example, ones caused by deferrals and late payments of potentially recoverable amounts, like property tax. We further suggest that municipalities receive a lump sum as soon as possible. Municipalities would then pay back the loans based on actual amounts collected. Should no funds be collected on certain properties and tax sales ultimately fail, the loan provider would forgive that portion of the loan.

We believe taken together these two programs would help address current cashflow issues and help to reduce municipalities' need to tap into capital reserve funds which may be needed in the recovery period.

Recommendation 2:

a. **The Province establish a support grant to compensate municipalities for targeted net lost revenues resulting from the COVID-19 emergency. Targeted revenue streams include transit and recreation.**

b. **The Province or federal government provide forgivable interest-free loans to municipalities to address revenue shortfalls of a temporal nature.**

10.3 Cost Compensation Grant

Many municipalities in the Province are experiencing increased costs directly related to the pandemic. Such costs include: additional PPE for essential frontline workers; IT-related expenses to accommodate work from home; additional staffing costs related to the province's emergency measures (e.g. redeployments and the inability of employees to work at multiple long-term care homes); and more rigorous cleaning services.

In the past, the Province has provided a level of compensation for costs incurred to deal with emergencies, like natural disasters and the SARS pandemic. We recommend a continuation of this approach with respect to the current pandemic. To facilitate the process, we propose roughly modeling the program on the MMAH Municipal Disaster Assistance Recovery Program. Specifically, we recommend providing reimbursement for both operating and capital expenditures, as well as flexibility with respect to eligible costs. We also recommend that this include compensation for wages and other incremental staff-related expenses directly attributable to the pandemic. Due to the diverse nature of municipalities, types of expenditures may differ and a prescriptive listing of eligible expenses will fail to cover all local circumstances. Our members would welcome such a program and many have already started accounting for COVID-19 related costs separately.

One note of caution, while MFOA understands the need for accountability, we advise against the imposition of burdensome reporting requirements such as the application requirements for the former Ontario Disaster Relief Assistance Program (ODRAP). According to our members, the ODRAP requirements to recover expenses for damage caused by the 2013 ice storm were such that some municipalities believed that the cost of applying for relief outweighed the potential benefit.

Recommendation 3:
The Province establish an emergency cost recovery grant to compensate municipalities for increased costs directly related to the COVID-19 emergency.

10.4 Predictable, Stable Transfers

As noted above, federal and provincial transfers are an important source of revenue in almost all Ontario municipalities and a major source in many. We recommend that funding from existing transfers remain stable in the coming years. The scale and speed of jobs lost to the end of April 2020 as a result of the pandemic is unmatched in Canadian history.[29] Material drops in transfer payments places more upward pressure on municipalities' existing tax base during the recovery, when residents and businesses may continue to experience the effects of the pandemic. This pressure could result in decreases in service levels or continued deferral of capital projects in the near term, both of which could hurt the recovery process.

One specific transfer to consider at least maintaining is the Ontario Municipal Partnership Fund (OMPF). As the largest unconditional provincial grant to municipalities, OMPF is an important source of funding for many. In fact, some municipalities report more OMPF funding than own purpose taxation.

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[29] Boisvert, N. (2020, May 8). Ontario has now lost more than 1 million jobs during the COVID-19 pandemic. CBC, https://www.cbc.ca/news/canada/toronto/ontario-covid19-april-jobs-1.5562034

The Province and municipalities have a complex, intertwined relationship with transfers to municipalities covering a wide range of services.[30] As such, municipal transfers should be reviewed holistically and aligned with provincial-municipal priorities. For example, the anticipated benefit of an infrastructure stimulus grant could be undermined if paired with a cut to other infrastructure supports such as the Ontario Community Infrastructure Fund (OCIF).

We also recommend that the Province provide information about the status of municipal transfers as early as possible. Providing information earlier in the process allows municipalities to plan strategically and optimize their limited resources. While timeliness has always been valued by municipalities, its importance has only increased due to the high degree of uncertainty attached to all phases of the pandemic and recovery.

In addition, we recommend paying transfers up front, rather than in instalments to assist municipal cash flows. MFOA also recommends, where appropriate, providing transfer payment and grant recipients discretion to focus on current priorities, similar to the time-limited flexibility offered by the Ministry of Children, Community and Social Services[31]. This would include:

- Having the flexibility to shift funding within the organization and across program areas to focus on critical services and needs in relation to COVID-19
- Not being held accountable to meet predefined service targets or performance measures
- Not be required to return funds if there is any underspending to address COVID-19 related pressures.

Recommendation 4:
The provincial and federal governments, under existing programs, maintain committed transfer payments to each municipality as planned for 2020-2022.

10.5 Extend Statutory and Non-Statutory Deadlines

At the onset of the Province's State of Emergency, municipalities were quick to mobilize staff and resources towards implementing the measures as well as provide relief and reassurance to the community where possible. Simultaneously, municipal staff have had to adjust to social distancing rules by working from home with little to no access to municipal offices. Coupled with the required day-to-day municipal operations that remain essential, municipal finance staff have had to drastically change their usual work plans.

Given these pressures, municipal staff currently do not have the capacity to complete regular reporting duties as required, both for legislative requirements and for non-statutory requirements, such as transfer payment agreements. This disruption will likely

[30] Eidelman, G., Hachard, T., & Slack, E. (2020). In It Together: Clarifying Provincial-Municipal Responsibilities in Ontario. Ontario360, https://on360.ca/policy-papers/in-it-together-clarifying-provincial-municipal-responsibilities-in-ontario/
[31] As per a memorandum dated March 24, 2020 from the Ministry of Children, Community and Social Services to regional stakeholders regarding COVID-19.

bleed into the post pandemic period as even once the State of Emergency is lifted, municipal resources will be devoted to recovery efforts.

Last year, the provincial government successfully worked with municipal associations to reduce the reporting burden. Despite this work, the issue persists. As such, MFOA recommends that in recognition of the ongoing pressures on municipal staff stemming from the pandemic, the Province extend their reporting deadlines. In the short-term, this will help municipalities focus on pandemic management. In the long-term, extending timelines will ensure municipalities can produce meaningful work that embodies the spirit of the required reporting.

For instance, the requirement for mandatory asset management plans for core assets under O. Reg. 588/17 of the Infrastructure for Jobs and Prosperity Act, 2015 is meant to encourage municipalities to use their asset management plans to inform capital project planning and budgeting. This process requires time and resources that are not available during the pandemic. Similarly, the implementation of changes to the Planning Act and Development Charges Act, especially the new Community Benefits Charge authority, will demand municipal staff time and money for consultants (see Appendix C).

In addition, MFOA has heard from municipalities concerned that they will have to repay large grants if they are unable to meet deadlines created in a pre-pandemic world. For some, extending deadlines addresses issues with changes to construction schedules due to physical distancing requirements, among other changes. An extension recognizes that we are operating in abnormal circumstances and helps municipalities deliver essential services without added pressure to complete burdensome reporting.

MFOA recognizes the importance of statutory requirements and the value that reporting and data have for evidence-based decision-making. Deferring deadlines will ensure municipalities meet these important requirements as well as enabling municipalities to target resources to pandemic management and recovery right now.

Recommendation 5:
The Province extend statutory and non-statutory reporting deadlines: 1-year deferrals for new requirements and 6-month deferrals for existing reporting deadlines. Timelines should be reviewed in tandem with the easing of restrictions.

10.6 Continue Intergovernmental Discussions

The pandemic is unprecedented and its impact on municipal finance is sweeping. MFOA has found that in a policy environment that is moving and changing as rapidly as this, that wide-spread and frequent dialogue is required. Regional and large single tier treasurers, who normally meet every other month, now have virtual meetings every week. Treasurers in regions or counties are meeting far more regularly as well. MFOA is hosting a number of information sessions on the financial impacts of COVID-19 to provide a vehicle for our members to share information, identify common problems and explore workable solutions. This has been invaluable. However, the dialogue with respect to municipal issues in general, and finance in particular, needs to include all levels of government. Such dialogue will be critical as we manage our way through the existing phase of the pandemic and transition to some type of new normal which will almost certainly require new approaches to emergency planning and the protection of health care services and workers. We urge the Province to continue to include municipal finance representatives in discussions about moving forward as municipalities will have a vital role to play. Any departure from the existing cooperative and inclusive discussions will be problematic.

Recommendation 6:
The Province continue to work closely with its municipal partners to learn the "on the ground" lessons of the financial impacts of the pandemic and to plan for future recovery.

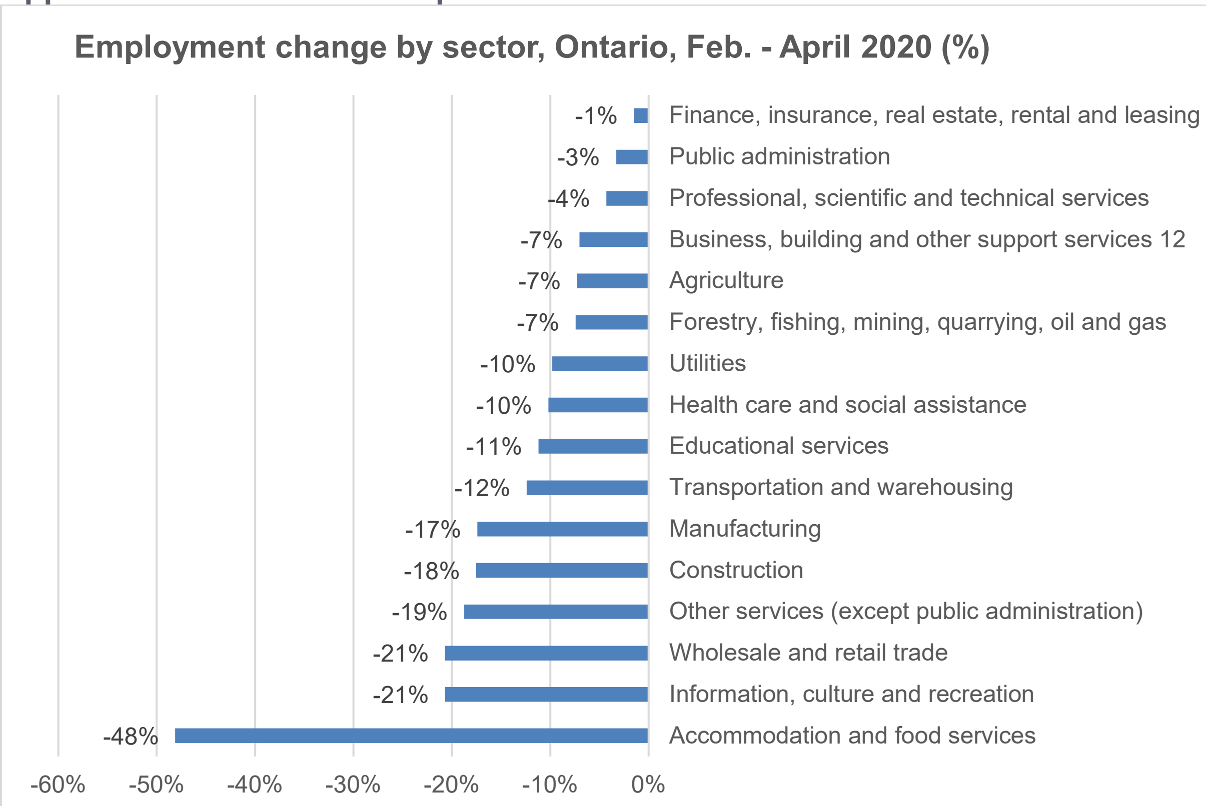
11. Conclusion

At the time of writing this report, we are still in the early days of understanding the long-term effects of the COVID-19 pandemic, both from a public health and economic perspective. The current pandemic is unprecedented and requires all orders of government to come together as partners to manage the pandemic's reach for the safety of the entire province and nation. Once the pandemic is contained, the orders of government must continue to work together on efforts for economic recovery.

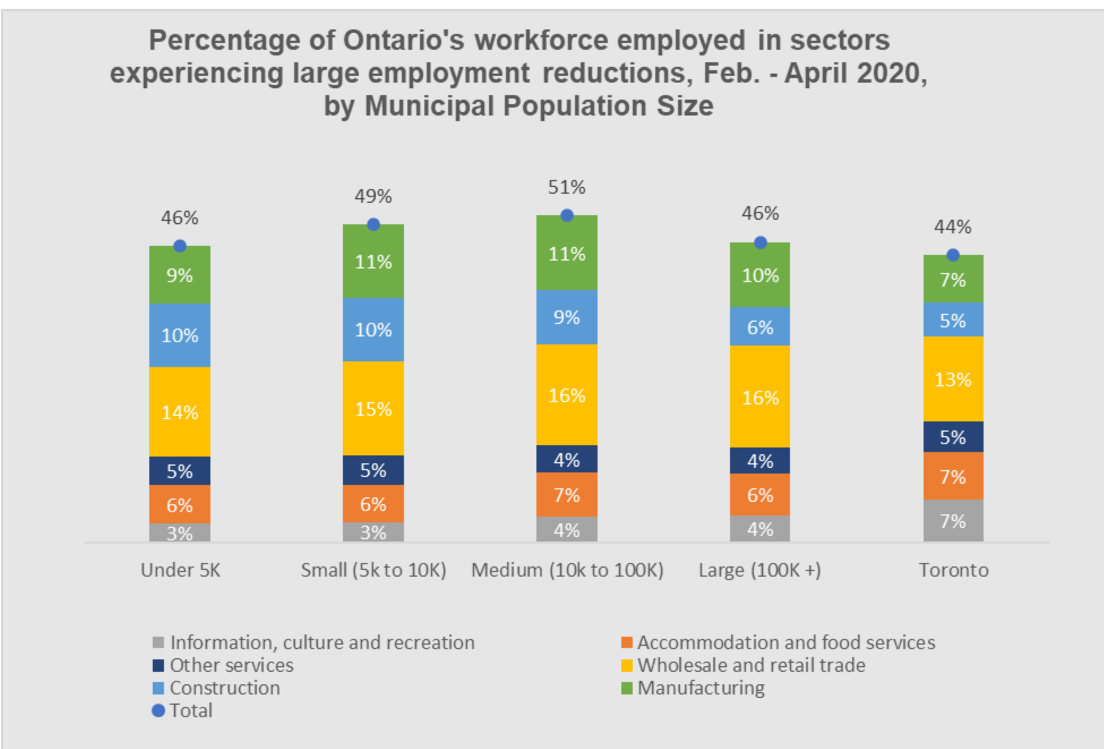
Municipalities are all unique in their size and circumstances, and the impact of the COVID-19 pandemic will vary widely across the province. This report documents a number of recommendations for both the federal and provincial government, but it is an important reminder that a "one size fits all" policy approach will not be an equitable process to mitigating the municipal financial impact of the pandemic. Instead, focus should be on providing flexible policy options that allow municipal leaders to use funds and resources where it is needed most in their community. Municipalities must continue to be partners in the economic recovery process to ensure that funding initiatives are tied to the principle of long-term municipal financial sustainability.

MFOA thanks all orders of government for their demonstrated leadership in this time of crisis. We hope that this paper will build on the existing desire to work together over the coming months that will include dealing with the pandemic and the subsequent economic recovery. We would be pleased to elaborate on any of the issues discussed in this report.

Appendix A: Sector Impacts across Ontario

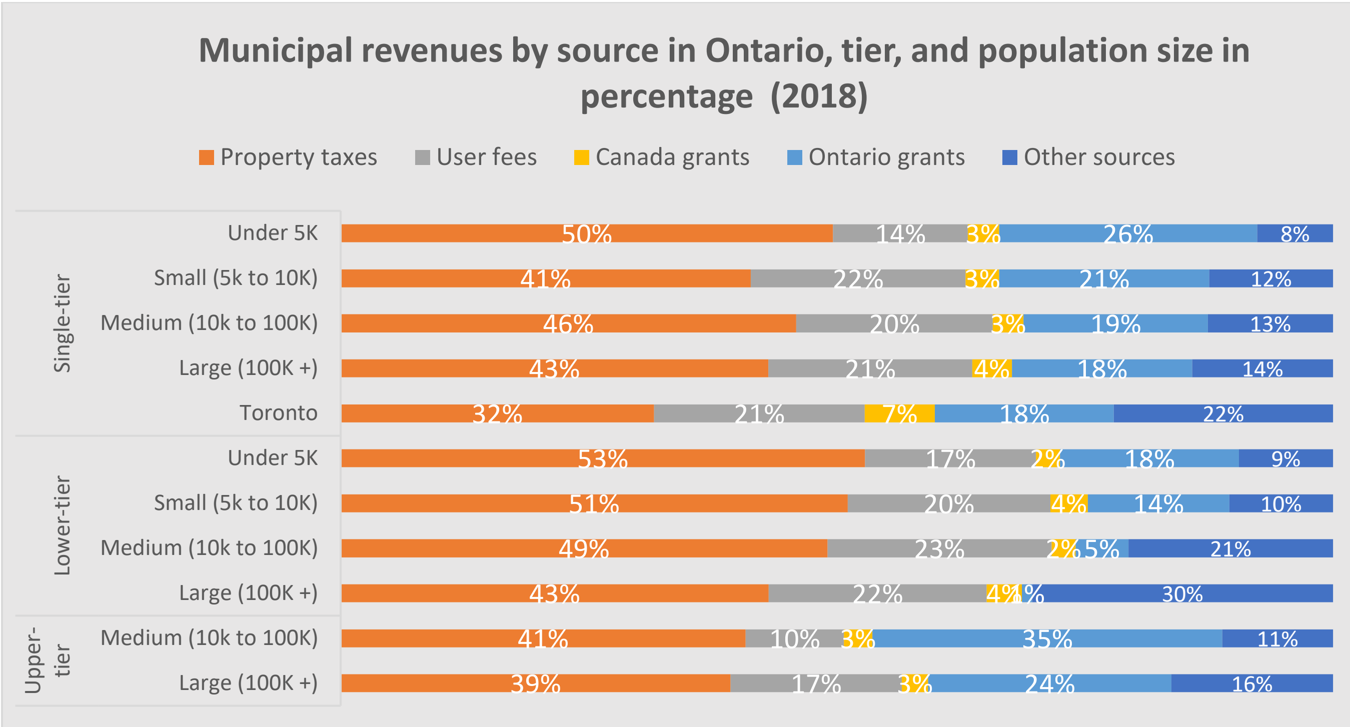


Source: Statistics Canada. Table 14-10-0355-02. Employment by industry, monthly, seasonally adjusted (x1,000)

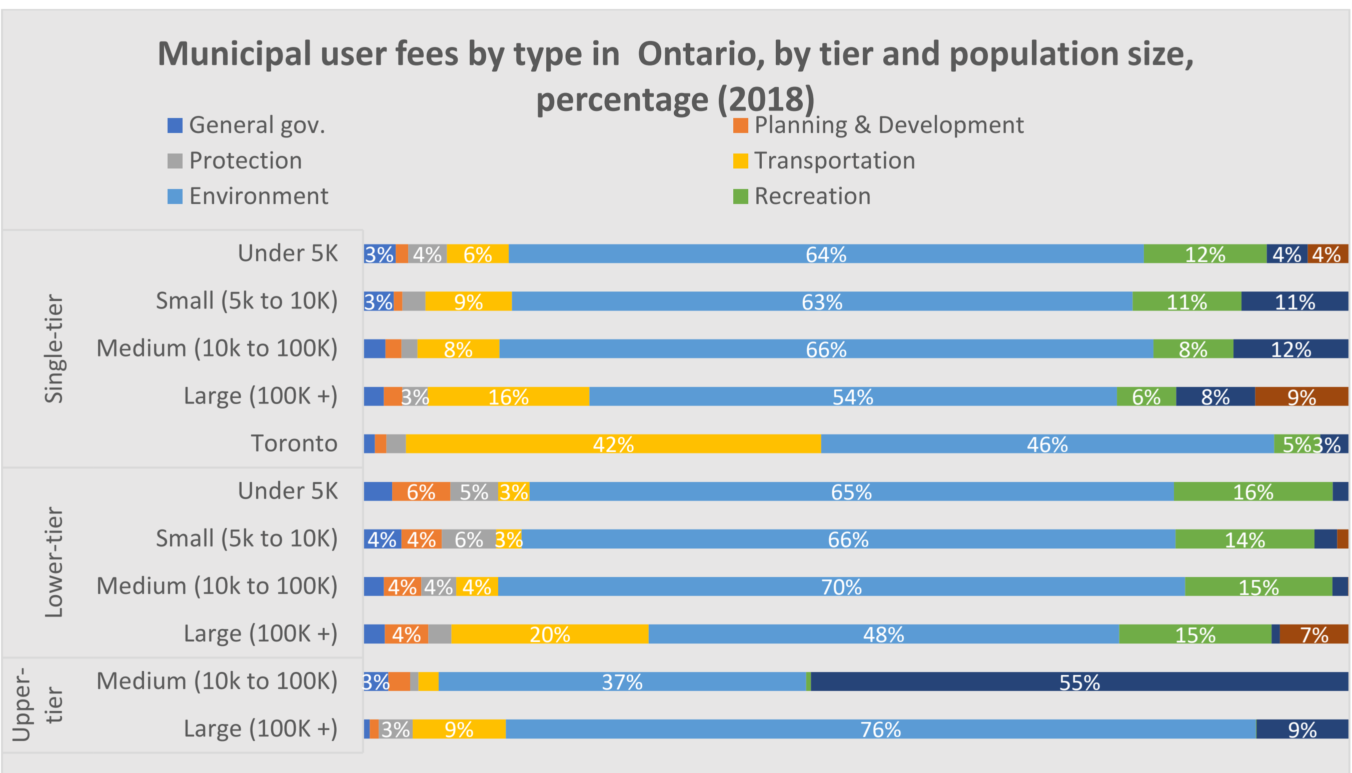


Source: 2016 Census of Population, Statistics Canada Catalogue no. 98-400-X2016329.

Appendix B: Municipal Revenue Sources (Unadjusted)



Source: MMAH Financial Information Return



Source: MMAH Financial Information Return

Appendix C: Community Benefit Charge

There have been changes made to the legislative framework governing how municipalities recover growth-related costs. Until recently, most growth-related costs were recovered through the Development Charges Act (DCA), though various provisions of the Act resulted in municipalities paying for a portion of growth-related costs. Other costs, such as parkland acquisition were dealt with through the Planning Act (PA) while other costs were captured through density bonussing provisions of that Act. Amendments to both the Development Charges Act and the Planning Act changed some of the services that were recoverable from the DCA and eliminated provisions in the PA regarding density bonusing. A new Community Benefits Charge (CBC) was introduced into the PA to enable the recovery of growth-related costs for certain “soft” services, which are no longer eligible services for the purposes of the DCA. CBC charges are to be capped based on a percentage of land values in a municipality.[32]

MFOA is recommending that the introduction of the CBC be deferred for at least 12 months. First, transitioning to the charge will be very labour intensive. The CBC requires a strategy plan and new DC by-laws require a background study, both of which need to be integrated with a common growth and employment forecast and growth-related capital budget. In addition, a parkland master plan will almost certainly be required to optimize revenue for parkland acquisition. This workload is extremely demanding on finance departments that will be occupied with a host of pandemic issues and pressures during the remainder of 2020. We sense that the Province appreciates this situation as it recently made amendments to the DCA to extend existing DC by-laws. This action was appreciated.

Secondly, it is far too soon to know what impact the pandemic will have on land values which provide a cap for the CBC. If land values are affected, it is not clear how long they will be affected. This makes revenue forecasting under a CBC very problematic.

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[32] MFOA’s commentary on changes to the DCA and PA related to the CBC, can be found on the MFOA website.

Appendix D: Provincial and Federal Assistance (June – July 8, 2020)

Since the release of MFOA's first paper on municipal financial supports during the COVID-19 pandemic, the federal and provincial governments have continued to provide much-needed assistance to Canadians.

The federal government continues to direct their efforts to supporting residents and businesses that live within municipal borders. Municipalities appreciated the accelerated federal gas tax funding announced on June 1, 2020. The $2.2 billion (nation-wide) distributed as one lump sum as opposed to two instalments allows municipalities to fund infrastructure projects sooner. However, municipalities continue to wait for further pandemic-related support from the federal government, as Prime Minister Trudeau called this the "first step in supporting towns and cities".[33]

MFOA members also appreciate the continued support from the Ontario government during the COVID-19 pandemic. Since the release of MFOA's first paper, the Province has continued to provide a diverse array of support through initiatives such as:

- An additional $150 million in funding for municipal service managers and urban Indigenous community agencies to provide critical services to vulnerable people in communities. This is on top of the $200 million previously provided in March 2020;[34]
- An additional $10 million for the Connecting Links program. This increase equates to an additional nine municipalities in the program;[35]
- The new Emergency Order to speed up the process for municipalities to approve temporary by-laws for expanded restaurant and bar patios, as well as the changes made to regulations under the *Liquor Licensing Act* to allow temporary patio expansions beyond 14 days with municipal approval. This change allows municipalities to assist their local service industry;[36] [37] and,
- The creation of Infrastructure Ontario's Deferred Payment Program to provide municipalities in financial need with the ability to defer interest and principal payments for up to three months without penalty.

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33 Justin Trudeau, Primer Minister of Canada. (June 1, 2020). Prime Minister announces support to help communities create jobs and restart the economy. Retrieved from: https://pm.gc.ca/en/news/news-releases/2020/06/01/prime-minister-announces-support-help-communities-create-jobs-and

34 Office of the Premier. (July 2, 2020). Ontario Provides Additional Funding to Support Municipalities and Urban Indigenous Community Partners. Retrieved from: https://news.ontario.ca/opo/en/2020/07/ontario-provides-additional-funding-to-support-municipalities-and-urban-indigenous-community-partner.html

35 Ontario Ministry of Transportation. (June 30, 2020). Ontario Building a Safer, More Reliable Transportation System. Retrieved from: https://news.ontario.ca/mto/en/2020/06/ontario-building-a-safer-more-reliable-transportation-system.html

36 Office of the Premier. (July 3, 2020). Ontario Supporting Restaurants as Province Safely Reopens. Retrieved from: https://news.ontario.ca/opo/en/2020/07/ontario-supporting-restaurants-as-province-safely-reopens.html?utm_source=ondemand&utm_medium=email&utm_campaign=p;

37 Alcohol and Gaming Commission of Ontario. (June 8, 2020). Information Bulletin: Liquor sales licensees may extend their patios for the duration of 2020 once permitted to open. Retrieved from: https://www.agco.ca/bulletin/2020/information-bulletin-liquor-sales-licensees-may-extend-their-patios-duration-2020-once

Municipalities appreciate the support provided to date by the Federal and Provincial government and look forward to working with the other levels of government to provide support for its communities through the ongoing crisis and recovery period.

Appendix E: Fiscal Impacts of the Pandemic (June - July 8, 2020)

Since the release of MFOA's first paper, updated data about the financial impact of the COVID-19 pandemic on municipalities has been made available. In this appendix, we present a summary of the financial impact information released by six municipalities since the end of May.

It is important to note that this is a tiny sample. While the sample highlights differences in how the pandemic is unfolding across the Province, it is not representative of the experience of the sector as a whole. In addition, as the environment changes and more information becomes available, assessments of the financial impact of the pandemic will likely be revised. For example, the impact on property tax collection is challenging to predict as final tax bills for many municipalities are due later in the year. Further, some incremental costs associated with COVID-19 will depend on future decisions with respect to the reopening of municipal facilities and the provision of services.

- As per the City of Greater Sudbury's report dated July 3 [38]:
    - The municipality estimates $6.4 million of lost revenue from March 17th to the end of July. Two thirds of the losses will be from leisure/recreation ($2.7 million) and transit ($2.3 million) user fees. The remaining will be from the waiving of penalties and interest on overdue tax accounts, and lost revenue associated with the *Provincial Offences Act*, casinos and racetrack slots, Municipal Accommodation Tax, and investment income.
    - By the end of July, unplanned costs incurred as a direct result of the COVID-19 response are estimated to be $6.3 million. These costs include additional salaries, materials and contract services. The acquisition of safety supplies such as PPE, the changes to operations and health and safety measures will cost $637,000.
    - The City generated $3.89 million in cost savings by reducing expenditures in salaries ($900,000), increasing the salary gapping ($550,000), suspending the hiring of summer students ($1.25 million); and as result of lower expenditures in transit services ($741,000), energy ($23,486) and non-transit fuel ($420,500). [39]
    - The City estimates that the total incremental impact to the end of July will be a $5.1 million deficit which could rise to $10.1 million by year end. This projected deficit represents about 3.6% of the City's 2020 operating expenditures budget ($284 million).

- Per the Township of Malahide's report dated July 9 [40]:

[38] City of Greater Sudbury. (July 3, 2020). Report on the Financial Implications Associated with the Corporation's COVID-19 Response. Retrieved from https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&attachment=30681.pdf

[39] See in Appendix B – COVID expense (pp. 21 -22), incremental costs for lines: salary savings, energy savings, salary gapping, summer students, transit services and fuel savings (excluding transit).

[40] The Corporation of theTownship of Malahide. (July 9, 2020). Report FIN 20-12: Financial Report to June 2020. Retrieved from: http://www.malahide.ca/sites/default/files/documents/july_9_2020_-_regular_agenda_combined.pdf

  - In spite of the pandemic, receipts from the interim tax billing were fairly typical during the first six months of 2020. This could be attributed to the large portion of the municipality's assessment that is farmland and residential, rather than commercial or industrial.
  - However, the decision to waive interest and penalties on unpaid taxes, as well as water and sewer billings generated a revenue loss of $30,000 as of June 2020 which could rise to $60,000 by year end.
  - In addition, from January to June, the Township incurred $60,000 in COVID-19 pandemic emergency expenses. This pandemic-related costs could reach $100,000 by year end, mainly due to higher costs for janitorial services, material and supplies.
  - The projected year end impact of the emergency is $160,000, which represents less than 1% of their annual expenditures budget for 2020 ($25.2 million).

- Per the City of London's report dated June 23 [41] :

  - As of June, the City lost $32.1 million in revenues and expects to lose $46.1 million to the end of August. The losses were caused by reductions in transit fare, water and wastewater, and investment revenue. In addition, revenue short-falls are related to tourism-related sources such as OLG and the Municipal Accommodation Tax revenues.
  - In June, the additional costs related to COVID-19 were $9.8 million and are projected to reach $11.3 million in August. These costs include PPE, additional materials and supplies, and cleaning.
  - As of June, the City has generated $25 million in cost savings and expect to generate $35.8 million through August. Cost mitigation was achieved by reducing casual/part-time staffing, transportation costs (fuel and fleet repairs/maintenance) and energy consumption. The City also received additional federal/provincial funding to support vulnerable populations.
  - As of June, the estimated net impact for the City was a $16.9 million deficit, which, according to projections, will reach $21.8 million to end of August. The estimated net financial impact in August would represent about 2.2% of the 2020 operating budget ($999.5 million).

- Per the Township of Leeds and the Thousand Islands' report dated July 13, the municipality has seen the following financial impact, as of June 30, 2020:[42]

  - Lost revenue of $750,000 due to the closure of casino operations and $77,500 due to the waiving of penalties and interest on taxes and utility bills.
  - An increase of 34% in current year property tax arrears compared to 2019.

[41] City of London. (June 23, 2020). COVID-19: Financial Impacts - Update. Retrieved from: https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=73306

[42] Township of Leeds and the Thousand Islands. (July 13, 2020). Retrieved from: https://leedsthousandislands.civicweb.net/FileStorage/364E5F6190FC415C8D634FDC33A46081-FN-020-20.pdf

  - A significant reduction in the number of building permits issued (66% decline compared to last year) and related revenue ($143,400 less).
  - Incremental costs of $34,000 related to COVID-19 which included laptops, fencing, signage, vehicle rental costs and cleaning supplies.
  - A reduction of $363,400 in the operating budget.

- Per the City of Mississauga's report dated June 24 [43]:

  - The City projects a year-end revenue shortfall of between $92.4 and $114.1 million, depending on when indoor facilities can reopen. About 70% of the losses are projected from transit and recreation user fee revenues. Other losses are related to the waiving of tax penalty and interest, and lost revenue from the Provincial Offences Act, parking enforcement, as well as investment income.[44]
  - The COVID-related expenditures in 2020 are forecast between $3 and $6.3 million which includes emergency management costs, such as communications and PPE, as well as other related expenditures.
  - The municipality could generate between $28.9 and $49.3 million in savings by implementing cost mitigation measures such as staff layoffs, temporary hiring freeze, reductions in discretionary costs, deferral of capital projects and
  - Even after cost mitigation, the City expects the overall deficit in 2020 to be between $58.9 and $63.4 million. The projected deficit would represent between 10.9% and11.8% of the City's annual net operating budget ($538 million).

- Per the Town of St. Marys' report dated June 23 [45]:

  - As of May 2020, the Town generated $1.6 million in revenue, excluding property tax, compared to $1.9 million in May 2019, which is a $370,901 reduction.
  - The revenue reduction is due in part to a decline in user fees, charges and program revenue which attained $851,357 in May 2019 and only $475,278 in May 2020.
  - As of May, the cumulative COVID-related costs were $93,220.

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[43] City of Mississauga. (June 24, 2020). Financial Recovery Pillar, 2020 Financial Update & Preliminary 2021 Operating Budget: Presentation to Budget Committee. Retrieved from: https://www7.mississauga.ca/documents/committees/budget/2020/REVISED_Agenda_Package_-_BC_Jun24_2020.pdf

[44] See the Financial Projections ($M) table in page 7 of the report. This revenue short-fall amount excludes the lines Emergency management costs and Various other COVID-related expenditures, as they refer to expenditures. For Jun. 30, revenue short-fall = 95.4 – 1.6 – 1.4 = 92.4 million.

[45] Corporation of the Town of St. Mary's. (June 23, 2020). FIN 18-2020 June Monthly Report (Finance). Retrieved from: https://www.townofstmarys.com/en/index.aspx