

Addressing the Financial Challenges of COVID-19

Standing Policy
Committee on Finance

April 27, 2020

Economic Scenario Analysis

“The spread of the coronavirus (Covid-19) is an unprecedented shock to the global economy. The virus and the confinement measures to limit the number of patients that need intensive care have put large parts of the global economy on pause for several weeks. In addition, there is the risk that,” until a vaccine or an efficient treatment is developed and distributed globally, countries may undergo additional waves of contagion after they recover from the initial effects of the pandemic.

The Bank for International Settlements, April 6, 2020

“As Premier Doug Ford warned in advance, Ontario’s model made for grim reading. It currently estimates that by the time the virus has run its full course, perhaps 18 months to two years in the future...”

New York Times, April 3, 2020

Presentation Outline

- What others are saying
- Our approach
- Three types of economic impacts
- Three types of economic scenarios
- Plausible Implications
- The Role of Municipal Government in Economic Recovery
- Summary

What others are saying

- Bank of Canada (BoC) modelled two scenarios: Containment measures are relaxed soon and no long term damage to the Canadian economy or it's trading partners; Containment measures have a more severe/persistent impact causing a longer term recovery
- Parliamentary Budget Office (PBO) – modelled a combined COVID-19 and oil shock scenario, assumed social distancing measures in place until August
- IMF – baseline forecast assumes a gradual recovery beginning in the second half of 2020. They also provide three alternative scenarios on varying combinations of the containment measures lasting longer and possible second wave in 2021.
- Manitoba Finance Conesus of Forecasters real GDP for 2020 has been dramatically revised downwards for from +1.3% to -3.7%

What others are saying

- City of Vancouver:
 - “The research is clear—the city’s finances are going to be negatively affected by COVID-19 due to lost revenues and hard-hit homeowners defaulting on their property taxes,” Mayor Kennedy Stewart in a news release. “It’s illegal for Vancouver and other local governments to run deficits, so the only way we can stay afloat is with the help of the federal and provincial governments.
 - “Otherwise, local governments will be forced to take drastic measures that will hurt residents and businesses, and significantly slow any post-pandemic economic recovery.”

Source: <https://www.straight.com/covid-19-pandemic/mayor-kennedy-stewart-releases-results-of-survey-showing-grim-economic-impact-of-pandemic-on>

The Approach Of Our Analysis

- The baseline of our analysis is the Conference Board of Canada's January 2020 economic forecast for the City of Winnipeg (CMA)
- The City Economic Research Staff have run three different scenarios of what the impact of COVID-19 could be on Winnipeg's economy. To do this analysis we have to ask two questions:
 - Over what period(s) of time will COVID-19 be a threat to Manitoba's public health?
 - How does this threat to Manitoba's public health directly impact Winnipeg's economy and what additional impacts do government policy responses (e.g. social distancing, shutting down non-essential businesses) have on our economy?

Economic Impacts

- The three economic impacts are:
 1. The social distancing impact: We assume that most businesses are able to carry on with their operations. Notable industries that are severely impacted are commercial airlines, public transit, taxis, hotels, restaurants, bars, dental offices, various arts industries, sporting events, gambling venues, libraries and various types of recreation facilities. We also assume a 5% decline in manufacturing (excluding food related and pharmaceutical industries).
 2. Significant economic contraction: We do not have any economic data for what has happened in Winnipeg since COVID-19 became a global pandemic. Therefore we are assuming industries that contracted in 2009 will do so again by the same rate (not including the industries listed in the social distancing impact) . The growth rates for the remaining industries are left untouched from the Conference Board forecast.

Economic Impacts

- The three economic impacts are (continued):
 3. Provincial government shuts down non-essential businesses: This is the most severe type of impact we consider in this analysis. We have modelled this based upon the list of industries that the Government of Manitoba has deemed essential and allowed to remain operating. If a business in Manitoba was deemed essential then we used the growth rate as used in the significant economic contraction impact for this impact. Otherwise we assume the remaining business operations are fully shut down. While we recognize non-essential businesses are able to remain in operation through telephone/online orders, we expect this to be have a negligible impact on the economy at the macro level. Manitoba's list of essential businesses was quite long and covered approximately 90% of the list of industries we use (not weighted by their GDP size).

Economic Scenarios

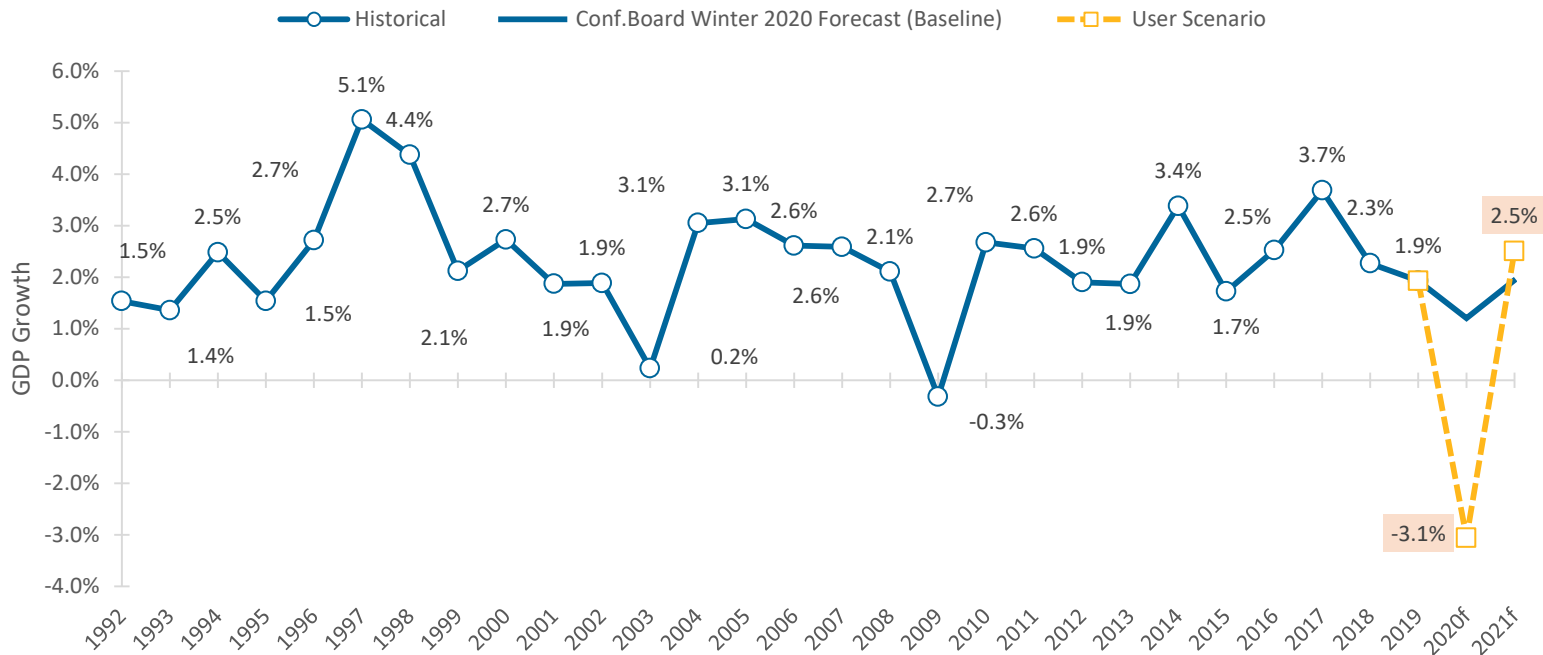
- The second part of this analysis was to determine when these different impacts would happen. Here we considered three different scenarios of how COVID-19 could impact Winnipeg. This was done using publicly available information from research papers and public commentary from senior government officials such as Dr. Theresa Tam (Chief Public Health Officer of Canada) and Dr. Brent Roussin (Chief Medical Officer of Manitoba).

Scenario 1: Low

- Spring/Summer 2020 COVID-19 Scenario: The first scenario assumes COVID-19 is a public health issue for only the Spring and Summer of 2020.
- March: Social Distancing Impact
- April – May: Provincial government shuts down non-essential businesses (recall this also includes a major economic decline)
- June the provincial government allows non-essential businesses to reopen, however a severe economic contraction persists
- July/August we assume social distancing measures to remain in place and the beginning of a global economic recovery
- September the scenario returns to the Conference Boards baseline forecast
- GDP contracts by 3.1% in 2020 and then grows by 2.5% in 2021.
- The unemployment rate increases to 12.1% in 2020 with a modest drop to 10.3% in 2021.

Scenario 1: Low

Winnipeg CMA Year-over-year GDP Growth Projection - COVID-19 Scenario 1

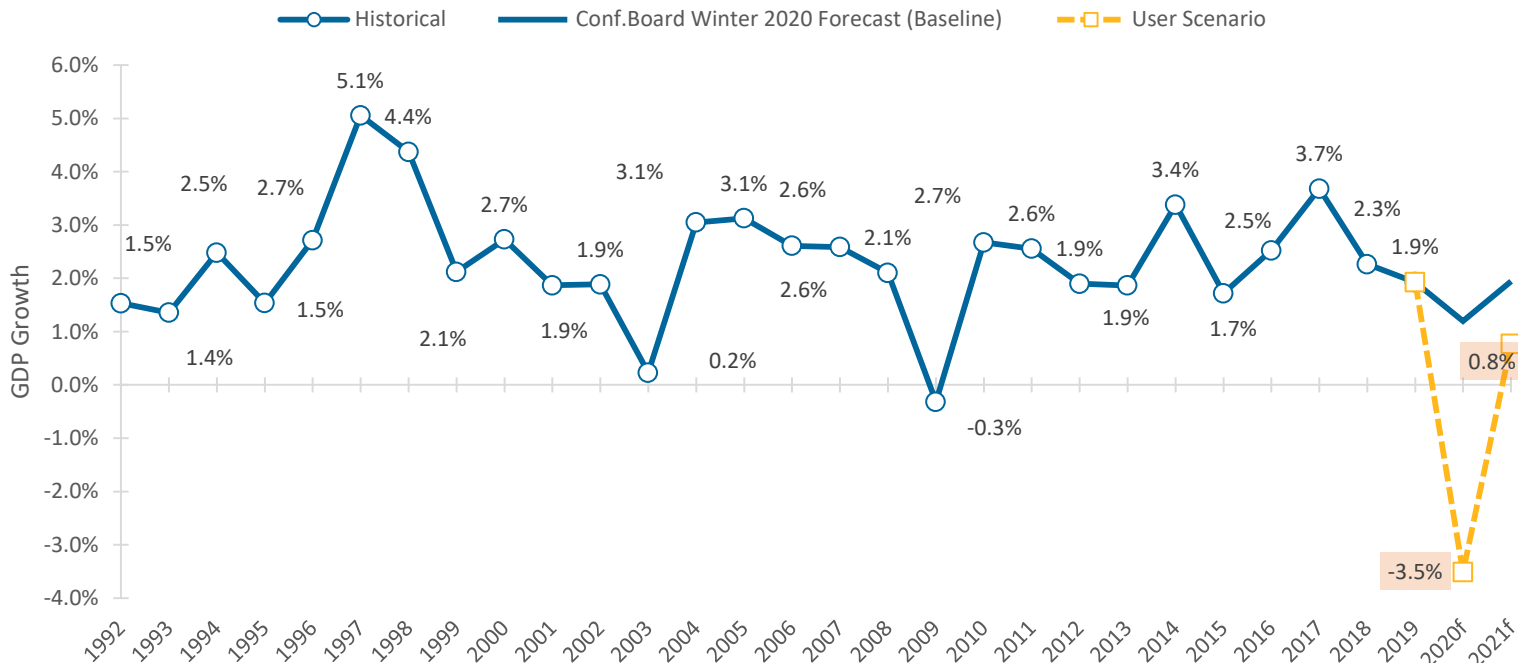


Scenario 2: Medium

- The second scenario builds off of the first scenario, but we assume that a second wave of COVID-19 begins in December 2020.
- From December 2020 through April 2021 we assume social distancing measures are once again put in place having adverse impacts on select industries.
- GDP contracts by 3.5% in 2020 and then grows by 0.8% in 2021.
- The unemployment rate increases to 12.9% in 2020 with a further increase to 13.8% in 2021.

Scenario 2: Medium

Winnipeg CMA Year-over-year GDP Growth Projection - COVID-19 Scenario 2

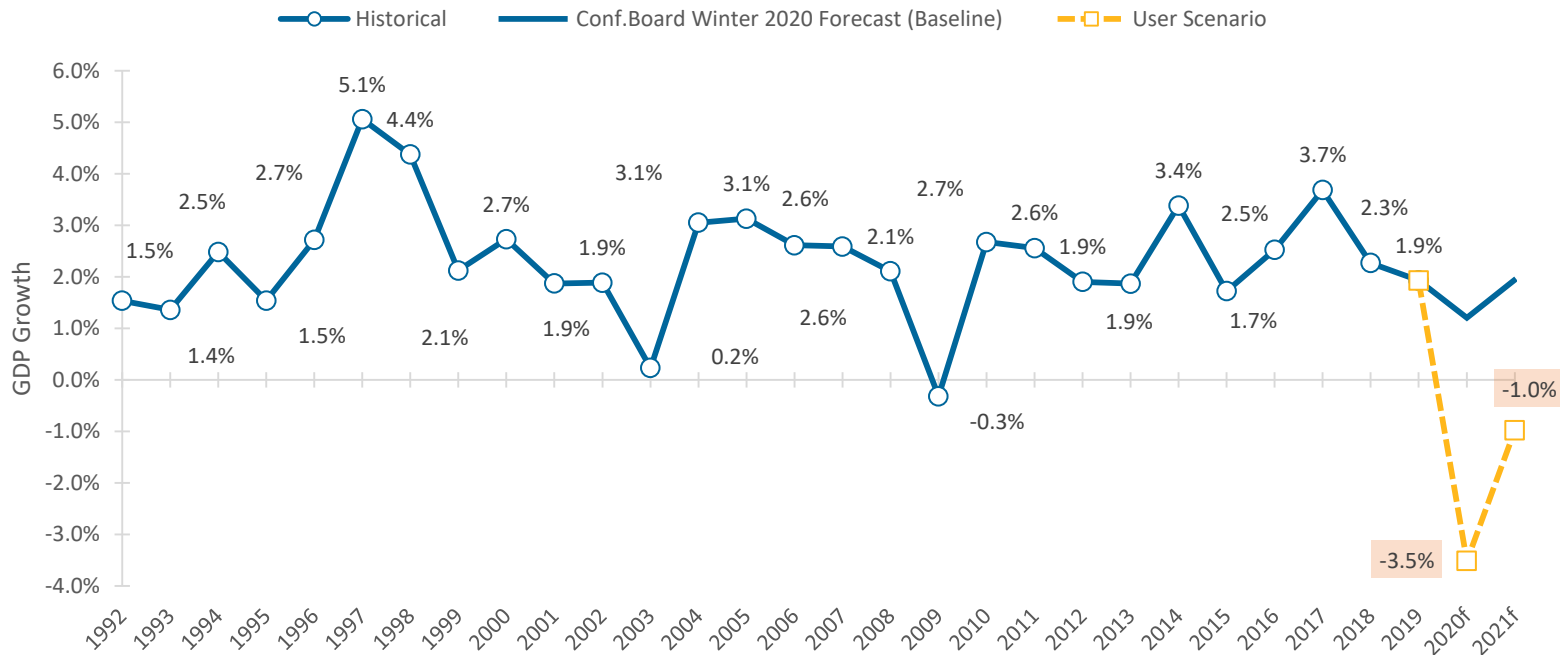


Scenario 3: High

- The third scenario is similar to the second scenario, but we assume that a second wave of COVID-19 is more severe with a greater impact on the economy.
- In December 2020 we assume social distancing measures are again put in place.
- January 2021 through March 2021 we assume the provincial government again shuts down non-essential businesses and there is another global economic slowdown.
- In April 2021 we assume the provincial government allows non-essential businesses to being operations again, but social distancing measures remain in effect.
- Beginning in May 2021 social distancing measures are removed for the remainder of the year.
- GDP contracts by 3.5% in 2020 and a further contraction of 1.0% of GDP in 2021.
- The unemployment rate increases to 12.9% in 2020 and to 15.6% in 2021.

Scenario 3: High

Winnipeg CMA Year-over-year GDP Growth Projection - COVID-19 Scenario 3



Scenario Results

Conference Board of Canada Baseline Forecast (January 2020) – Winnipeg (CMA)

	2019	2020f	2021f
Real GDP	+1.9%	+1.2%	+1.9%
Unemployed Persons	24,900	26,100	25,100
Unemployment Rate	5.3%	5.5%	5.2%

Scenario 1: Low – Winnipeg (CMA)

	2019	2020f	2021f
Real GDP	+1.9%	-3.1%	+2.5%
Unemployed Persons	24,900	57,400	49,700
Unemployment Rate	5.3%	12.1%	10.3%

Scenario 2: Medium – Winnipeg (CMA)

	2019	2020f	2021f
Real GDP	+1.9%	-3.5%	+0.8%
Unemployed Persons	24,900	61,400	66,900
Unemployment Rate	5.3%	12.9%	13.8%

Scenario 3: High – Winnipeg (CMA)

	2019	2020f	2021f
Real GDP	+1.9%	-3.5%	-1.0%
Unemployed Persons	24,900	61,400	75,100
Unemployment Rate	5.3%	12.9%	15.6%

Plausible Implications

- City of Winnipeg
 - There may be both increases and decreases experienced
 - Revenue and expenses may be impacted – discussion by CFO
- Labour market
 - In the short run, labour will be unemployed, but the Federal government is offering unprecedented support through various programs;
 - Moreover, labour may seek educational opportunity therefore increasing productivity in the long run;
- Population growth
 - International in migrants may be on pause, but interprovincial outmigration may also be on pause (and natural birth rate may change);
- Households:
 - Household debt is at record high, uncertain how federal and private programs will alleviate debt obligations of individuals;
- Others as more information becomes available

The Role of Municipal Government in Economic Recovery

- Potential Role of Municipal Governments in Economic Recovery:
 - Short term
 - Aim to sustain employment both privately and publically
 - Work in partnership with Federal and Provincial governments to coordinate the gradual re-opening of closed sectors in the local economy
 - Long term
 - Be prepared to identify major shovel-ready infrastructure projects: Federal Government may wish to engage in fiscal stimulus including infrastructure projects
 - Determining which projects will be best for local short-term and long-term economic growth will be important
 - Utilizing macroeconomic analysis, such as Input/Output analysis
 - The City of Winnipeg's 2020 Infrastructure Plan outlines 45 projects with costs above \$5 million

The Role of Municipal Government in Economic Recovery

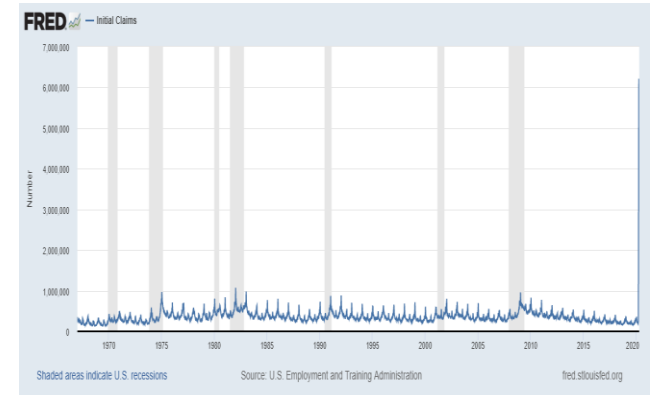
Example: Impact of 2020 Capital Budget on Local Economy is estimated to create over 2,300 construction-related jobs and add over \$220 million to Manitoba's economy for the year: ¹

Department	2020 Capital Budget Expenditure (\$ Millions)	Estimated Impact on Manitoba's GDP (\$ Millions)	Estimated Jobs (Full-time Equivalents for 1 Year)
Public Works	\$164.7	\$100.5	1,067
Water and Waste	\$115.8	\$72.0	738
Other Departments	\$49.0	\$32.7	340
Transit	\$26.4	\$9.2	117
Community Services	\$13.6	\$7.1	89
Total 2020 Capital Budget	\$369.5	\$221.5	2,351

¹ Source: Calculations by City of Winnipeg Economic Research staff using Statistics Canada Table 36-10-0595-01, Input-output multipliers, provincial and territorial, detail level, for Manitoba (within-province, most recent 5-year average using 2012 to 2016 data)

Summary

- As of April 17, 2020, around 7.5 million Canadians have received the Canada Emergency Response Benefit (CERB) ¹
 - Represents 37% of Canada's Labour Force ²
- The economic and financial impact of COVID-19 on Winnipeg is real and likely quite substantial. In the coming weeks and months once economic data begins to be released we can begin to assess the various impacts COVID-19 has had on Winnipeg's economy.



¹ Source: Canadian Prime Minister Justin Trudeau's daily address to the Nation on April 17, 2020

² Source: Statistics Canada Labour Market Indicators, March 2020, By province and census metropolitan area, seasonally adjusted

“We perhaps just need to accept, uncomfortable as it may be, that we are living in a world in which the “experts” and leaders to whom we normally turn for guidance just don’t have all the answers that we’re looking for. Nobody fully understands this virus yet. Nobody knows where the exit door is.”

Financial Times, April 7, 2020

COVID-19 Crisis Cash Flow Management Plan

Takeaways



SOURCE: KPMG - Strategies for Managing your Finances Through COVID-19 (April, 2020)

VITAL



- Wastewater
Water
- Disaster Preparedness & Response
Fire Service
Medical Response
Police Service/Crime Prevention
- Bridges – Regional
Land Drainage & Flood Control
Public Transit
Roads – Regional
Solid Waste
- Active Transportation
Bridges – Local
City Planning
Community Liveability
Contact Centre – 311
Development Approval, Building
Permits & Inspections
Parks – Regional
Roads – Local
Urban Forests
- Animal Services
City Beautification
Economic Development support
Insect Control
Library
Neighbourhood Revitalization
Parking
Parks – Local
Recreation
Recycling
- Arts, Entertainment & Culture Support
Cemeteries
Golf Services
Heritage Conservation

Service Importance

- Service Importance is meant to distinguish between important services and those core services most critical to ensuring fundamental needs of residents are being met. Although all services are important, the degree of service importance varies between vital services and desired services.
- Those services which can be characterized by a high degree of public necessity, health and safety, and are essential to the sustainability of life are considered vital.
- Beyond this, there are several other services which residents have a daily dependence on to provide a reliable standard of living with minimal interruption to social and economic performance.
- As fundamental service needs are met, additional services become desirable which focus on building communities, fostering family relationships, providing access to leisure, and promoting entertainment and culture.
- Excerpt from Infrastructure Plan document

DESIRED

- **OEM – Pandemic Principle Objectives**
 - ***Protect the safety and wellness of City employees and Winnipeg residents – Save lives***
 - ***Protect and ensure City Essential Services continue through Business Continuity Planning (BCP) process using our ten categories of essential services***
 - ***Maintain internal and external communications***
 - ***Engage in advanced planning for analysis and recovery operations***

- **OEM – Pandemic Principle Objectives**

- ***Ten categories of essential services***

- 911 dispatch centres
- Police, Fire & Paramedic services
- Continuity of Government
- 311 and Corporate Communications
- Water treatment operations
- Water and Waste critical operations
- Transit and transportation system
- Public Works - Streets and critical operations
- Public Works - Traffic Systems
- Information technology – IT

- **COVID-19 Crisis Cash Flow Management Plan**
 - Financial (Budget) Forecast
 - Liquidity

• Financial (Budget) Forecast – Update

<i>(in millions of dollars)</i>	Event Ends July 31	Event Ends August 31
Estimated financial projections budget impact		
Tax Supported	(\$41.4)	(\$40.5)
Transit	(\$27.9)	(\$30.3)
Special Operating Agency	(\$3.9)	(\$7.3)
Utilities and Other	\$0.0	\$0.0
	<u>(\$73.2)</u>	<u>(\$78.1)</u>

- Includes significant non-COVID financial impacts

• Financial (Budget) Forecast - Update

<i>(in millions of dollars)</i>	Event Ends	
	July 31	August 31
Estimated Impacts to the Financial Stabilization Reserve Fund		
Opening balance - Financial Stabilization Reserve	\$ 107.8	\$ 107.8
Add:		
Estimated net interest earnings	1.1	0.7
Budgeted transfer from the General Revenue Fund	5.4	5.4
Less:		
Transfer for Community Centre Renovation Grant Program	(2.1)	(2.1)
Tax Supported - estimated financial projections budget impact	(41.4)	(40.5)
Transit - estimated financial projections impact	(27.9)	(30.3)
less: usage of Transit unaudited unallocated retained earnings	9.6	9.6
	<u>(18.3)</u>	<u>(20.7)</u>
Estimated closing balance - Financial Stabilization Reserve	<u>\$ 52.5</u>	<u>\$ 50.5</u>

- No levers pulled

Tier One Lever Pulled

Tier One Lever Pulled *	Estimated Impact on:	
	Financial Stabilization Reserve	Liquidity
Reduce discretionary spending	\$0.5m	\$0.5m
Temporary layoff of non-permanent Community Services staff	\$4.4m	\$4.4m
Freeze on fleet purchases	\$1m	\$5m

* Includes actions undertaken by way of authority delegated to CAO under SoLE (April 3/20)

- Ongoing discussion/monitoring for aid from Federal and Provincial governments

Tier One Levers to be Pulled

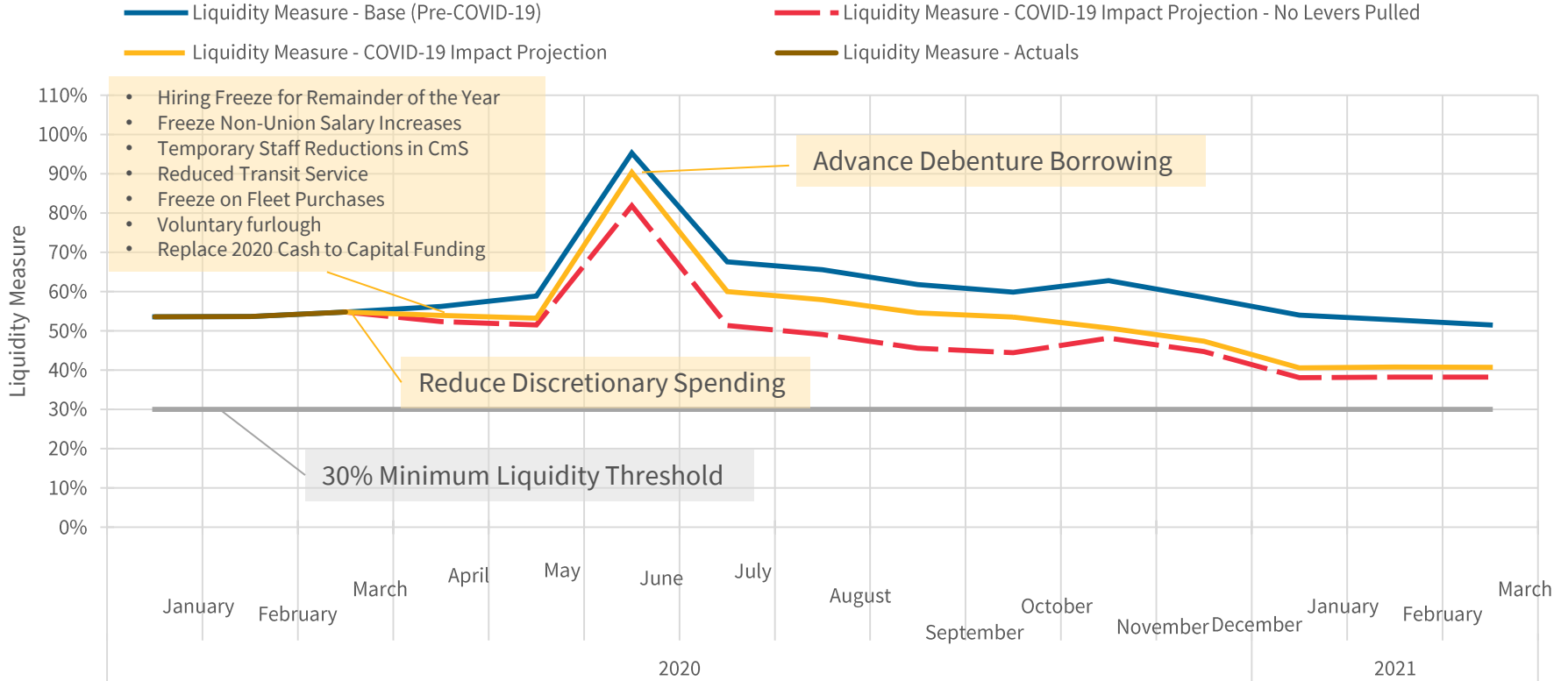
Tier One Levers to be Pulled *	Estimated Date	Estimated Impact on:	
		Financial Stabilization Reserve	Liquidity
Hiring freeze for remainder of year	April	\$2m	\$5m
Temporary reduction of Transit service	April	\$4m	\$4m
Replace 2020 cash to capital funding with other financing	April	\$23m	\$23m
Transfer unallocated equity from Land Operating Reserve	April	\$8m	-
Defer transfer for CCRGP to 2021	April	\$2m	-
Freeze non-union salaries	April	\$0.5m	\$0.5m
Voluntary furlough program	April	\$0.5m	\$0.5m
Advance planned debenture issuance timing	June	(\$1m)	\$100m

* Includes actions undertaken by way of authority delegated to CAO under SoLE (April 3/20)

Other Levers Under Consideration - Tier Two and Three

Other Levers under Consideration (Tier Two and Three)	Estimated Impact on:	
	Financial Stabilization Reserve	Liquidity
TIER TWO		
Expanded line of credit	TBD	\$75m
TIER THREE		
Reduce capital spending in 2020 (defer to 2021)	TBD	TBD
Other Reserve transfers (eg./)		
- Environmental Projects	\$166m	-
- Impact Fee	\$30m	-
Negotiate temporary wage reductions for all employees	TBD	TBD
Extend accounts payable terms from 30 to 45 days, where applicable	\$-	\$10m
Other service reductions/layoffs	TBD	TBD

City of Winnipeg Liquidity Measure Baseline vs. Projection

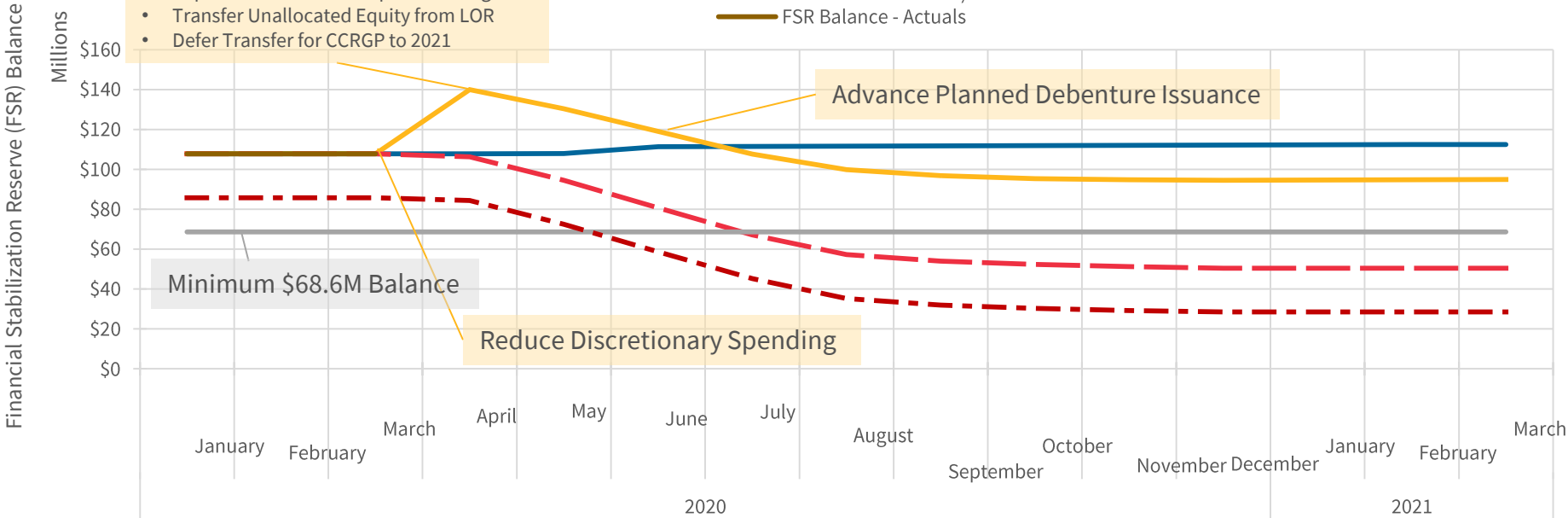


City of Winnipeg Financial Stabilization Reserve

Baseline vs. Projection

- Hiring Freeze for Remainder of the Year
- Freeze Non-Union Salary Increases
- Temporary Staff Reductions in CmS
- Reduced Transit Service
- Freeze on Fleet Purchases
- Voluntary furlough
- Replace 2020 Cash to Capital Funding
- Transfer Unallocated Equity from LOR
- Defer Transfer for CCRGP to 2021

- FSR Balance - Base (Pre-COVID-19)
- FSR Balance - COVID-19 Impact Projection
- - FSR Balance - COVID-19 Impact Projection - No Levers Pulled
- - FSR Balance - COVID-19 Impact Projection - No Levers Pulled (\$22.0 million multi-year budget balance factored out)
- FSR Balance - Actuals



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Thank you