



TO: GENERAL COMMITTEE

SUBJECT: 2021 BUSINESS PLAN AND BUDGET DIRECTIONS

WARD: ALL

PREPARED BY AND KEY CONTACT: J. KUEHL, MANAGER OF BUSINESS PLANNING AND BUDGETS, EXT. 4425
J. COWLES, SENIOR MANAGER OF CORPORATE FINANCE AND INVESTMENT, EXT. 5347
C. MILLAR, DIRECTOR OF FINANCE AND TREASURER, EXT. 5130

SUBMITTED BY: M. PROWSE, CHIEF ADMINISTRATIVE OFFICER
D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES
A. MILLER, RPP, GENERAL MANAGER OF INFRASTRUCTURE AND GROWTH MANAGEMENT
R. JAMES-REID, EXECUTIVE DIRECTOR OF ACCESS BARRIE
I. PETERS, DIRECTOR OF LEGAL SERVICES

GENERAL MANAGER APPROVAL: D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES

CHIEF ADMINISTRATIVE OFFICER APPROVAL: M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

RECOMMENDED MOTION

1. That staff prepare the 2021 Business Plan with a cap of 1.95% for the tax supported budget as well as an identification of any service level changes required to achieve this target.
2. That staff review and recommend an additional amount for the Dedicated Infrastructure Renewal Fund not to exceed 1%.
3. That a letter from the Treasurer identifying the 2021 Budget Directions target and a copy of the report EMT002-20 be forwarded to the respective Agencies, Boards and Commissions as follows:
 - a) Barrie Police Service
 - b) County of Simcoe
 - c) Barrie Public Library
 - d) Lake Simcoe Region Conservation Authority
 - e) Nottawasaga Valley Conservation Authority

- f) Simcoe Muskoka District Health Unit; and
 - g) Lake Simcoe Regional Airport.
4. That staff prepare the 2021 Business Plan for rate supported services that includes:
- a) Recommendations for changes to user fees that reflect the full cost of providing the program or service, including fixed assets, net of any subsidy approved by Council; and,
 - b) Contributions to reserves that are consistent with the Financial Policies Framework and Council direction that reflect, to the extent possible, the anticipated current and future commitments against the reserves.
5. That any significant impacts to the 2021 budget be presented for consideration, including:
- a) New investments and changes in level of service;
 - b) Changes in staff complement levels; and
 - c) User fees that are added, removed, or increased/decreased by 5% or more.
6. That a ten year Capital Plan be prepared that includes a one year capital budget, a four year forecast, and a five year capital outlook, addressing both growth and renewal of infrastructure, with consideration to the maintenance of the City's AA credit rating and fiscal health.
7. That the 2021 Budget Development Schedule identified in Appendix "A" to Staff Report EMT002-20, be used to develop the 2021 Business Plan for Council's review and approval no later than January 2021.

PURPOSE & BACKGROUND

8. The purpose of this report is to seek Council direction and approval of the guidelines and schedule staff will follow when preparing the 2021 Business Plan and Budget. It will also highlight some of the challenges that will need to be taken into consideration in the preparation of the budget.
9. Over the last number of years, staff and Council have prepared the annual Business Plan and Budget guided by the following key principles included in the City's Financial Policy Framework:

Principle	Meaning
Respect for the taxpayer	<ul style="list-style-type: none"> • Constant search for excellence and value with due regard to economy, efficiency and effectiveness. • A City that lives within its means with predictable tax levels
Maintain and enhance the City's financial condition	<ul style="list-style-type: none"> • Sufficient revenues are raised to fund operations, while maintaining appropriate levels of reserves and debt • Credit ratings sustained and/or improved • "User pay" is an operating principle considered for all program areas

	<ul style="list-style-type: none"> • Identify new funding sources/financing methods • Maintain assets
Pursue innovation	<ul style="list-style-type: none"> • Continuously find efficiency and quality improvements in the way we manage and deliver services

10. COVID-19 has had a significant impact on the City's 2020 operations and is expected to have an impact on the City's 2021 Business Plan and Budget. While the specific details of the changes are still unclear, staff will continue to monitor and provide updates throughout the development of the 2021 Business Plan and Budget.
11. The 2021 Business Plan and Budget will align with Council's Strategic Plan, with continued focus on the execution of Growth Management Plans and investment in renewing the City's current infrastructure to the greatest extent feasible given the status of reserve levels. Based on Council direction and guiding principles, staff will be bringing forward a recommended capital plan that does not compromise the City's existing financial condition and credit rating.

ANALYSIS

Business Plan Development and Schedule

12. Previous to the 2020 Business Plan and Budget, Council had approved the Budget at the end of January. The 2020 Business Plan and Budget was approved in December and the 2021 budget was planned for similar timing. However, COVID-19 changed priorities for staff in the spring and staff are now anticipating Council approval of the 2021 Business Plan and Budget in late January 2021. A high-level timeline is provided in Appendix "A".
13. The Corporation's business planning approach integrates three phases: departmental work plan development; operating and capital budget development; and, Public engagement and reporting to Council.
14. Staff will prepare the 2021 Business Plan and Budget in line with a number of parameters and principles that are outlined in Appendix "B".
15. In an effort to improve the understanding of how tax dollars are spent, the following is a listing of public education/engagement activities planned for the 2021 Budget and Business Plan:
 - a) Continue to enhance "*Understand Where Your Tax Dollars Go*" public education campaign;
 - b) Dedicated web page on Barrie.ca for budget information including Budget Allocator;
 - c) Online surveys and public engagement via social media to seek input into the proposed service level changes;
 - d) Dedicated email address for public feedback;
 - e) Education and promotion of engagement opportunities via print, digital monitors, online and radio; and
 - f) Post Budget – media release, full page information in the Barrie Advance and tax bill insert.

AA Credit Rating

16. The City maintains an AA credit rating, reflecting the growth and diversification of the local economy, strong financial management, sound financial policies, an experienced management team and liquidity that has been sufficient to cover debt service obligations.
17. This credit rating provides the City access to favourable capital financing rates which minimize the long-term capital financing costs related to infrastructure.
18. Maintenance of the AA rating comes with an expectation that the elevated levels of capital spending on infrastructure will be followed by materialization of external funds, mainly development charges and developer front ending.
19. Changes to the provincial funding structure in recent years, and the impact of COVID-19 on the City's liquidity, will cause downward pressure on the credit of municipalities. Staff will bring forward a plan that attempts to preserve the credit rating, while addressing impacts from COVID on the City's reserve levels and opportunities to support infrastructure required for growth in the City's employment lands.

Financing Growth

20. Development charge revenues are crucial to the City for financing growth. The consolidated development charge reserve balance is currently in a deficit balance but is expected to recover over time as more development comes online. Revisions to the capital plan will be aligned with updated growth forecasts to keep approved projects in line with growth, to the greatest extent possible.
21. Financial impacts will be felt from the changes to the Development Charge (DC) Act and the Planning Act, through Bill 108. As of January 1, 2020, DC rates are frozen (inflated by interest only) at the time of site plan or zoning amendment application for a maximum of two years. Also, effective January, rental housing, institutional development and non-profit housing pay development charges (plus interest) over 5 or 20 years. This is anticipated to have a significant negative impact on the City's cash flow, as the City will receive DC revenues from these projects later than planned. While staff anticipate future changes to eligible services in the DC Act, the details have not yet been determined or enacted. Changes to the Planning Act that will impact parkland dedication and collection amounts through a new community benefit charge (CBC) are expected but the details and timing of the changes are also still unknown.
22. The investment of significant funding in growth related infrastructure drives necessary increases to operational and support resources, which can be much more difficult to define. These resources need to be brought online with a reasonable lead time ahead of residents and businesses moving in. Staff presented a financial strategy for on-boarding these resources as part of the 2020 Budget and will evaluate the feasibility of continuing this strategy in light of COVID-19.

Asset Management

23. The City's approach to asset management planning will form the foundation for the consideration of asset renewal and replacement projects throughout the development of the 2021 Capital Budget. As in previous years, this approach will consider the condition and remaining useful life of the Corporation's assets, as well as their criticality in service delivery. It will reflect a decision-making framework that considers a comprehensive risk assessment process and lifecycle cost analysis.

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24. The Corporation's requirement to invest in assets exceeds the City's affordability thresholds. The 2020 Capital Budget was prepared with an extensive prioritization process undertaken by the Capital Prioritization Committee and completed in alignment with the City's Corporate Asset Management Strategy. The City's affordability thresholds have not improved in the past year, while resources are being stretched. For the 2021 Capital Plan staff will be advancing and implementing new projects only where absolutely necessary and will offset these impacts by cancelling or delaying previously forecasted capital projects unless new funding sources become available.
 25. Continued effort will be directed towards capturing the operating and maintenance savings/or expenditures associated with capital investments in a manner that allows those savings and/or expenditures to be captured in the operating budget for 2021 and beyond.
 26. The City's Capital Project Control Policy allows for multi-year approvals for project phases that will span multiple years. As such, through previous capital plans, funding has been committed for 2021 and future years. With the approval of the 2020 Capital Plan, approximately \$46.9M (gross) was committed for 2021.

Managing Reserves and Reserve Funds

27. The 2021 Business Plan will continue to emphasize the importance of managing the City's financial condition. The City's financial condition will be measured based on guidance from the Public Sector Accounting Board (PSAB), Canada's standard-setter for public sector financial reporting and methodology for assessing a government's financial condition. The key elements of financial condition (i.e. sustainability, flexibility, and vulnerability) can be described using a series of indicators.
28. Reserves and reserve funds help a municipality accomplish two goals – achieve tax and user rate stability and contribute to the consistent provision of services. Typically, reserves are a way of financing large capital expenditures and determining affordability thresholds for the ten-year capital plan. They also provide a source for funding unplanned events or emergencies or are used to take advantage of opportunities that were not anticipated when the budget was prepared. A year end operating deficit for 2020 is anticipated to be offset by the stabilization reserves, putting the City at further risk in 2021 if the reserves continue to be underfunded.
29. The need for a healthy reserve balance through continued contributions to reserves has been highlighted in 2020, as municipalities are not permitted to run a deficit and require these reserves to offset operating losses in emergency circumstances, such as the COVID pandemic.

Water and Wastewater Rate Supported Budgets

30. Staff recommend 2021 rate increases that are sufficient to accommodate capital reserve contributions at a level that will meet the City's capital commitments, after taking in to account operational needs. The Water and Wastewater Financial Plans are being updated in 2020 and are expected to provide a forecast for annual rate increases.

Parking Rate Supported Budgets

31. While Parking has realized improvements to operational revenue from sources such as waterfront lots in recent years, the service continues to generate an operating deficit. The reduction in parking enforcement during COVID has resulted in less payments for parking permits and a resulting decrease in revenues.

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32. Over the last year, staff had been working with the IBI Group Inc. to develop the Parking Strategy Update which was originally planned to go to Committee on April 6, 2020. In light of the COVID pandemic, staff intend to bring that report forward to Committee in Q4 2020. The update will make recommendations on parking services for Council consideration to ensure the parking user rate is sustainable in both the short and long-term. Any changes to parking rates or other parking by-law parameters, such as hours of enforcement, will be recommended as part of this report. For the interim period, staff will continue to seek ways to increase revenue and mitigate the draw on the Parking Reserve.

2021 Budget Pressures and Opportunities

33. Historical tax rate increases for the last several years, have averaged approximately 2% plus an additional 1% for the Dedicated Infrastructure Renewal Fund, however only a portion of this goes toward maintaining service levels for current City operations. The 2014 FIA (Financial Impact Analysis) model had projected that tax rate increases of 5% would be needed in some years to support funding for the City's growth plans. Staff have always sought opportunities to enact responsible process efficiencies to save money without a detrimental impact to services and will continue to do so. It is these efficiencies that have helped keep tax rate increases lower than would otherwise be needed. However, the City has reached a point where services can't be maintained at the current level without higher tax rate increases. Appendix "C" expands on known budget pressures and opportunities likely to be significant factors in the 2021 Business Plan.
34. A number of legislative changes that were introduced and/or implemented by the Province of Ontario in 2019 have placed financial pressure on municipalities. Due to the additional financial pressures of COVID-19, the implementation date of changes expected in 2020 have been postponed. Some of these pressures will be felt directly, while others will impact the City indirectly through the City's service partners. The legislative environment continues to evolve, and there is a continued need to advocate for financial assistance from senior levels of government to support City services. Staff will be actively monitoring the situation and reporting to Council as new information becomes available. For the 2021 Budget, staff will isolate and report on the financial impact of legislative changes and COVID-19 to provide better transparency and accountability over the 2021 tax rate increase.

Service Partner Budgets

35. As stated, the subsequent phases of a number of legislative changes introduced and/or implemented by the Province will impact the City indirectly through its service partners. Given the potentially significant financial impact to the City, staff recommend that service partners be required to specifically identify the financial impact of legislative changes in their budget submissions to the City. This will provide Council with greater transparency over a substantial portion of the City's budget.
36. Service partners have indicated a number of COVID related financial pressures that will be addressed as part of their budget submissions. Increases in costs and reductions in revenue as a result of the pandemic are being monitored and mitigated where possible. Ultimately, it is expected that the pandemic will result in 2020 operating shortfalls and impacts to the 2021 service partner budgets. Financial assistance from senior levels of government will be explored as they are announced.
37. The County of Simcoe has noted a number of shared services that have been considerably affected by COVID. Long Term Care facilities have required additional staffing and shifts while ensuring appropriate screening of staff/visitors, enhanced cleaning measures, additional uniform cleaning protocols, and extra meal shifts. These measures are planned to continue even as the Province relaxes restrictions. Personal protective equipment costs have increased significantly for Long

Term Care staff as well as Paramedics. Ontario Works has noted a spike in caseloads due to the economic damage suffered from the COVID pandemic, and there is an expected need for increased staffing in 2021 if the caseloads remain elevated. It is not clear at this time the degree to which these expenses will be met with increased levels of funding from other levels of government.

- 38. The Barrie Police have a number of financial pressures expected for 2021 including contractual obligations with staffing, ongoing WSIB presumptive legislation impacts, mandated NG911 requirements, and uncertainty surrounding continued Provincial grant funding.
- 39. The City's Service Partner budgets made up approximately 35% (approximately \$89M) of the total 2020 operating budget. The following are the services provided to the City of Barrie property owners by these boards, commissions and agencies:

Service Type	Service Provider
Policing	Barrie Police Services Board
Library	Barrie Public Library Board
Social Services	County of Simcoe (Ontario Works, Social Housing, Child Care, and Long-Term Care)
Land Ambulance	County of Simcoe
Museum & Archives	County of Simcoe
Airport	Lake Simcoe Airport Corporation
Tourism	Tourism Barrie
Environment	Lake Simcoe Regional Conservation Authority and Nottawasaga Valley Conservation Authority
Health	Simcoe Muskoka District Health Unit, Royal Victoria Hospital, and Physician Recruitment

- 40. These organizations need to develop their 2021 operating budgets concurrently with the City. Subject to General Committee's feedback about the recommendations in this report, staff will contact each Service Partner to coordinate budget plans and timelines.
- 41. Service Partner budgets include both operating and capital requirements. However, with the exception of the County of Simcoe, the capital requirements have remained relatively stable over time. The fluctuation in the County of Simcoe capital program is being managed through the County of Simcoe Capital Reserve, with an annual reserve contribution to minimize the year over year impact to the tax base.

ENVIRONMENTAL AND CLIMATE CHANGE IMPACT MATTERS

- 42. There are no environmental and/or climate change impact matters directly related to the recommendations.

ALTERNATIVES

43. The following alternatives are available for consideration by General Committee:

Alternative #1

General Committee could establish a lower maximum acceptable tax levy and/or user fee threshold.

The average tax rate increase over the last number of years, has been 2% plus an additional 1% for the Dedicated Infrastructure Renewal Fund. This rate has made it possible to continue to deliver services but has not been sufficient enough to maintain some service levels in the face of growth pressure and reach the reserve levels indicated in the City's Financial Policy Framework. The target in this report is even lower than historical norms and may need to be achieved through reductions in specific services and/or service levels.

That being said, staff recognize that tax levy and/or user fee increases create the risk that taxation and fee levels could exceed residents' ability/willingness to pay.

Alternative #2

General Committee could change the proposed Business Plan development schedule.

This alternative is not recommended. The City of Barrie's Business Plan schedule has been developed with consideration of the current and future pressures on resources as the COVID-19 lockdown is eased and re-opening occurs within the City. The budget planning process involves a coordinated and phased approach across the entire organization, which will apply Council's direction and provide community engagement on the issues related to the 2021 Business Plan. The anticipated approval no later than January 2021, allows staff to adequately plan and execute all required tasks.

FINANCIAL

44. There are no direct financial implications for the Corporation resulting from the proposed recommendations as this is direction only with respect to the preparation of the 2021 Business Plan and Capital Plan.

LINKAGE TO 2018-2022 STRATEGIC PLAN

45. The recommendation(s) included in this Staff Report support the following goals identified in the 2018-2022 Strategic Plan:
- Growing Our Economy
 - Fostering a Safe and Healthy City
 - Building Strong Neighbourhoods
 - Offering Innovation and Citizen Driven Services
 - Improving the Ability to Get Around Barrie
46. The approved annual business plan and budget reflects the real-world efforts to implement Council's strategic goals. Directions provided in this staff report are an opportunity for Council to ensure the City's resources continue to be expended in a manner consistent with these goals.



APPENDIX "A"

Proposed 2021 Business Plan Development Schedule

Date	Activity
June 29 th 2020	Committee/Council approval of the 2020 Budget Directions
July - November 2020	Staff produce work plans; draft operating, capital, and rate budgets as well as proposed user fees; executive management review; public engagement; production of budget and business plan materials.
December 2020	2021 Business Plan presentation and binder distribution to Council
January 2021	Committee/Council review and approval

APPENDIX "B"

Budget Development Guidelines

Operating Budget

- Staff will develop one budget year and three forecast years
- The budget will present the cost of maintaining current service levels and the annualization of prior period decisions
- The budget will include an estimate of assessment growth based on the value of newly assessed property throughout 2020
- Contributions to reserves will be consistent with the Financial Policies Framework
- User fees will be assessed to strive for reduced taxpayer subsidy and full cost recovery where appropriate

Capital Budget

- Staff will develop an updated 10-year capital plan consisting of a 1-year budget, 4 year forecast, and 5 year outlook
- Staff will first look to fund projects using external opportunities such as grants or development related funding wherever possible, and then the City's own reserves
- Capital projects are being budgeted with schedule and cost certainty to plan for allocation of resources

APPENDIX “C”

Budget Pressures & Opportunities

Description	Pressure/Opportunity	Comments
Labour & Related	Pressure	<p><u>Collective Agreements</u> The City is party to various collective agreements negotiated with its unionized workforce and manages compensation for its non-unionized staff on an annual basis.</p> <p>The CUPE agreement expires at the end of 2020. The BPFPA agreement calls for an annual 1% increase in January followed by an additional 1% increase in July.</p> <p><u>Benefits</u> Benefit cost increases are driven by usage, total number of covered employees, and the cost of items covered under the plan. Updated rates will be available later in the budget process.</p> <p><u>Presumptive Legislation</u> The financial risk associated with Presumptive Legislation for cancers, PTSD, and other WSIB related claims continues to be an exposure for the City. A Workplace Safety and Insurance Board (WSIB) reserve has been placed under greater pressure in the last two years and is now depleted and in a negative balance. A larger contribution to the reserve is necessary going forward. Currently \$250K is contributed annually, and this amount would need to be at least doubled based on recent trending.</p>
Utilities	Pressure	<p>The Energy Management Group will seek to maximize the financial benefit of grants and subsidies that may become available and will continue to monitor industry news to provide the best information available. Preliminary information suggests that:</p> <ul style="list-style-type: none"> • Rates for electricity will increase by 5% from 2020 budgeted values. In addition, consumption is expected to decrease 0.5% resulting from efficiency initiatives. • Rates for natural gas are expected to be flat. • Conservation activities target a 3% reduction in consumption which would result in a moderate increase in total utility budgets year over year, given the rate increase for electricity.



Contractual Obligations	Pressure	The City is party to various operating contracts (e.g. Transit, Winter Control, Waste Collection, and Security). Generally, these contracts contain provisions for annual increases tied to indices such as the Consumer Price Index. For example, the cost for the City's transit contract is expected to increase for 2021 based on an estimated 1.9% CPI inflationary adjustment.
Fuel	Opportunity	Fuel costs are expected to decrease in 2021 compared to the 2020 budget of \$1.14/litre. The COVID-19 pandemic has resulted in significantly lower prices currently, but prices are expected to recover somewhat into 2021.
Repairs & Maintenance	Pressure	<p>City owned assets such as infrastructure, buildings, and equipment continue to age.</p> <p>Many of the departments responsible for maintaining these assets have conducted reviews of spending for repairs and maintenance. The results of these reviews indicate that historical budgets have been insufficient to maintain assets in a manner that will achieve optimum economic life.</p>
Investment Income	Opportunity	The effects of COVID-19 will reverberate in 2021 in the form of heightened volatility in financial markets. This will most likely cause yields to remain low. However, as we transition to a Prudent Investor Standard portfolio, there might be some opportunities to pick up yield by adding more asset classes to the current investment portfolio.
Reserve Management	Pressure	<p>The Dedicated Infrastructure Renewal Fund contribution will be reviewed with any changes not to exceed the historic tax rate increase of up to 1%.</p> <p>In addition, 2021 will be the second year of the Fleet Renewal Reserve phase-in. The phase-in will increase the contribution to the reserve by \$450K in 2021.</p> <p>In the 2020 Business Plan, a draw from reserves of \$2M was enacted to help smooth the cost of growth over several years. In 2021 that draw from reserves decreases by \$500K which puts additional pressure on the tax rate.</p> <p>Finally, the contribution to the Landfill Closure reserve will increase by another 10% as required by City's Financial Policies.</p> <p>Staff will continue to review the adequacy of reserves and make recommendations for adjustments to contributions.</p>



Debt Servicing Costs	Opportunity	Interest rates are expected to remain low through 2021 to support economic recovery. This provides a window of opportunity to take on additional debt at favourable rates.
Development Charges	Pressure	<p>Development charges are of critical importance to the City as they are used to fund growth related infrastructure. While the future economic impacts owing to COVID-19 are highly complex and not yet clearly understood, there is a possibility that any prolonged economic recovery would ultimately affect the amount of development activity and thus delay the receipt of funds that the City is heavily reliant on. There may be increased requests for waiving or discounting development charges, however this places an even greater strain on these revenue sources.</p> <p>Additionally, the Province continues to consider future changes to both the Development Charges Act and the Planning Act as a result of Bill 108. It is anticipated that such changes will negatively impact the amount of funds received by the City from incoming development. These funds are used to pay for growth related capital costs as well as growth related debt. The full extent of future changes to municipal finance and planning tools as well as the timing of their implementation are unknown at this time.</p>
Service Partners	Pressure	<p>The City's Service Partners are facing similar challenges to the City relating to the COVID-19 pandemic. Revenues are under pressure, and partners are attempting to offset this through various expenditure controls.</p> <p>It is too early to get accurate budget information from partners at this time, however it is expected that there will be challenges in meeting lower than average rate increases.</p>
User Fees, Service Charges, Passes, and Memberships	Pressure	<p>Growth has taken longer to come on-line than previously thought. The further impact of COVID-19 on development has yet to be assessed.</p> <p>After the decreased revenues in 2018, Court Services saw an increase of revenues in 2019 along with the first Quarter of 2020. This held promise with additional increased revenues for the City of Barrie given the increase in charge volumes received during the same period. With the onset of the COVID-19 pandemic in mid-March; the Order to close the courts until at least July 3rd; the Extended Order to suspend due dates on fines, driver license suspensions and civil enforcement until September 11th; along with an 86% decrease in local charge volumes during the State of Emergency, anticipated to continue at least until the end of June, Court Services is expecting a substantial negative impact to achievable revenues in 2020 which is anticipated to continue into 2021.</p>



Transit Fares	Pressure	Since the beginning of the COVID-19 pandemic transit ridership has dropped to as low as 20% of pre-COVID ridership levels. At the time of preparing this reports ridership has grown to 35% and as the province continues to open the economy it is anticipated ridership will continue to grow further. Staff will continue to review the service levels for cost saving measures, however with the physical distancing requirements staff are unable to reduce service significantly without impacting a base coverage for riders to achieve essential travel.
Recreation Revenues	Pressure	The impact of COVID is expected to materially affect Recreation revenues continuing into 2021. Significantly lower revenues resulting from decreased class sizes, program registrations, special events, facility rentals, and restricted facility capacities are expected. The preliminary estimate is for a \$2.2M reduction in revenue as compared to the 2020 budget.
Parking	Pressure	Parking revenues are down significantly due to COVID-19. Currently, enforcement of many parking restrictions has been re-focused to other by-laws and emergency orders to address COVID related calls. In addition, non-residents are restricted from utilizing the waterfront lots, and there is a possibility of downtown paid parking being suspended in order to support downtown businesses. If some or all of these measures continue into 2021 there will be further losses, and ultimately there may be an impact on the Tax Rate as strategies to achieve financial sustainability for the Parking Rate will be difficult or impossible to implement within the current environment.