



## Staff Report

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**Report To:** General Government Committee

**Date of Meeting:** September 28, 2020

**Report Number:** FND-035-20

**Submitted By:** Trevor Pinn, Director of Finance/Treasurer

**Reviewed By:** Andrew C. Allison, CAO

**By-law Number:**

**File Number:**

**Resolution#:**

**Report Subject:** COVID19 Cash Flow Update

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### Recommendation:

1. That Report FND-035-20 be received for information.

## Report Overview

The COVID-19 pandemic has impacted the ability of the Municipality to provide all of the services as approved in the 2020 Budget. This report focuses on the cash flow impacts of the pandemic on the Municipality for the remaining part of the year, recognizing that the timing of when cash would be received by the Municipality is likely deferred from typical years.

The cash flow analysis is not reflective of financial statement reporting but is a management tool to inform decisions on timing and capacity to complete tasks as originally planned.

Overall, the Municipality has the financial resources to continue to operate to December 2020 based on the assumptions as outlined in this report.

## 1. Background

### COVID-19 Pandemic

- 1.1 On March 13, 2020, the Municipality of Clarington cancelled all programs and activities including March Break Camps, drop-in programs and facility rentals. Recreation facilities were also closed. Limited recreation programs started in July 2020 with recreation facilities opening starting in July with the Orono Public Pool.
- 1.2 On March 16, 2020, the Municipality of Clarington closed to the public all remaining facilities. While closed, services were still provided by staff from these locations. The Municipal Administration Centre (MAC) was reopened to the public on July 13, 2020.
- 1.3 On May 4, 2020, [FND-010-20](#) was received by Council which outlined the cash flow forecast of the Municipality at that time. At the time, staff were forecasting a cash shortfall (this is not considered lost money as most of the change is a result of timing delays rather than lost funds) of \$7.7 million.
- 1.4 This report is an update to the previous report. The prior report assumed that recreation programming and services would be back to normal by September 1, 2020. This report will update the assumptions based on the currently known information.

### Safe Restart Funding

- 1.5 On July 27, 2020 the Province of Ontario announced the Safe Restart Agreement which would provide up to \$4 billion in emergency funding to municipalities.
- 1.6 On August 12, 2020, the Province of Ontario provided details on the Municipality's Phase 1 allocation of the Safe Restart Program. The Municipality will be receiving \$2,135,500 through this phase of the program.

- 1.7 Phase 1 provides financial support to municipalities on a per household basis and is provided for the purpose of addressing priority COVID-19 operating and cost pressures. Provincial staff have since updated municipal staff that there will be no guidance on what qualifies as a cost or pressure; however the Treasurer is required to sign off on the fact that the funds were used to address COVID-19 costs and pressures. It should be noted that capital expenses are not eligible.
- 1.8 Phase 2 has a deadline of October 30, 2020 and requires a resolution from Council as well as a significant amount of financial information. This phase will be allocated to municipalities based on a demonstrated need. Mitigating steps, financial resources and costs will be determining factors for potential award through Phase 2. It should be noted that Phase 2 is solely for 2020 costs and pressures which are in excess of the allocation under Phase 1. It is my opinion that the costs and pressures in 2021 will be greater than in 2020 as we look to reopen services under a significantly different landscape.

## **2. COVID Related Costs and Revenue Pressures**

- 2.1 The following section provides an estimate on the COVID-19 related costs and revenue pressures to date. These are gross numbers and do not reflect mitigation steps which have been taken to offset these costs. They are shown to indicate how the Municipality may be able to utilize the funding provided by the Province.
- 2.2 Cost and revenue pressures to date, which qualify for the Safe Restart Program, include:

<b>Financial Category</b>	<b>Financial Impact</b>
<b>Staffing costs</b>	\$102,800
<b>Small capital items</b>	31,455
<b>Penalty and Interest on Taxes</b>	352,780
<b>Rent Relief to Not-for-Profits</b>	24,029
<b>Community Services Refunds</b>	713,465

Financial Category	Financial Impact
Cleaning Supplies and Signage	99,360
Information Technology	3,942
Community Support Grants	100,000
Clerks' Refunds	135
Other Expenses	19,570
	<b>\$1,447,536</b>

- 2.3 Staffing costs are estimated at \$102,800 and represent the costs for screening shifts at Municipal facilities as well as additional hours for Municipal Law Enforcement Officers in order to enforce the Provincial orders.
- 2.4 Small capital includes retrofits to establish webcasting of meetings, integration of Teams and the Council chamber, hygiene screens, and IT hardware (laptops).
- 2.5 The Municipality provided a waiver for two months of penalties and interest to taxpayers. The impact of this foregone revenue directly attributed to the Municipality's response to the pandemic was \$352,780.
- 2.6 Council approved rent relief to tenants of municipal buildings that were not able to have access to their facilities as a result of the shutdown.
- 2.7 In March, Community Services provided refunds to users which had already registered and paid for programs which were subsequently cancelled. Potential revenue which was lost as a result of the pandemic are not included in the above calculation at this time.
- 2.8 Cleaning supplies, personal protective equipment, COVID-19 warning signs and other related supplies in excess of the typical year are approximately \$99,360.

- 2.9 The Municipality approved a grant program for not-for-profit organizations of \$100,000 which was fully subscribed.
- 2.10 Clerks' refunds relate to lost revenue for services which were paid and cancelled as a result of the pandemic.
- 2.11 Other expenses include costs for items which are not easily determined to be in another above group. Mainly small items which are likely cleaning or minor repairs/changes to facilities.
- 2.12 The above does not include the impact of COVID-19 on the Municipality's investments. Since March 2020, the investment returns available on maturing investments have been dismal. Further, the impact on the Municipality's investment in Elexicon is hard to quantify. The Municipality's equity portfolio with ONE Investment is similar now to pre-COVID despite a significant drop in March; however fixed income investment (bonds, GICs) rates are significantly lower this year than the maturing investments.
- 2.13 Elexicon has to date provided a 25% advance on the 2020 budgeted dividends, staff will not know until December 2020 if the remaining 75% will be declared. In 2020, this dividend was budgeted at \$1,045,000.
- 2.14 After the above, approximately \$652,400 remains unallocated. These funds can be used to offset the revenue shortfall in Community Services or other related costs in the third and fourth quarters of 2020 as we reopen.
- 2.15 The above does not include the savings that the Municipality has obtained through its mitigation steps to date. It is my understanding for Phase 1 that those savings remain the Municipality's.

### **3. Cash Flow Assumptions**

#### **General Assumptions**

- 3.1 Maturing investments in both the general fund and the reserve funds have been assumed to be reinvested.
- 3.2 The current "Stage 3" situation is assumed to be in place to the end of the year with no further lock-down or closures of municipal buildings expected.

## Property Tax

- 3.3 In the previous analysis, cash receipt modelling was projected assuming Pre-Authorized Payment (PAP) receipts monthly for \$4.4 million in April to June with an increase to \$4.5 million from June onwards. Tax receipts on installment dates were forecasted assuming 25% was received in the month prior to due date and the remaining 75% in the month of the due date. This is an estimate based on the fact that there is a portion of the tax base which will pay early.
- 3.4 As a result of tax relief approved by Council on March 23, 2020 as outlined in report [FND-007-2020](#) several changes to these assumptions were made:
- a. The April payment was moved to June with 25% paying in May and 75% paying in June;
  - b. The regular June payment was moved to July with 25% paying in June and 75% paying in July; and
  - c. Interest for May and June was adjusted from \$208,700 to \$0.
- 3.5 As a result of announcements from the Province of Ontario in April 2020, it was assumed that the remittances for school boards were moved 90 days later in the year. The December 2020 remittance would be the equivalent of two payments (September and December).
- 3.6 As a result of anticipated financial impact to taxpayers the following assumptions were also made to the tax collection cash flow analysis:
- a. Taxes collected on time would be 60%;
  - b. Taxes collected one month late would be 10%;
  - c. Taxes collected two months late would be 10%;
  - d. Taxes collected three months late would be 5%;
  - e. Taxes collected four months late would be 5% (except the September payment which would be collected in December not January 2021);
  - f. Taxes not collected in 2020 would be 10% (this is double the normal uncollected rate);
  - g. Supplemental taxes would not be collected in 2020, this is a conservative assumption; and

- h. PAP for May to August would be lower by \$100,000 with it being caught up in September to December for no net impact by the end of the year.
- 3.7 As MPAC has restarted their assessments, for this cash flow analysis the assumption on supplemental taxes has been adjusted to reflect that 50 per cent would be collected in 2020. This is felt to be conservative.
- 3.8 The Municipality averages taxes receivable of 5% of the annual tax levy. The assumption from the previous analysis doubled that assumption. There has also been an assumption that taxes outstanding from 2019 or earlier would not be collected at this point, this is a conservative assumption.
- 3.9 As at October 9, 2020 outstanding taxes compared to the prior year are approximately five per cent higher. It should be noted that the tax levy would was approximately two per cent higher than in 2019; therefore, an increase in taxes receivable of approximately two per cent is reasonable. Staff are not concerned with the increase in taxes receivable as this appears to be in line with past trends.
- 3.10 The tax receipt analysis has been adjusted to assume that all payments were collected on time, except for 5% which will not be collected this year. Based on the year to date trend this appears to be reasonable.

### **Investment Income**

- 3.11 The Municipality has investments maturing during the year. It is currently assumed that these investments, totalling \$3.2 million in the general fund and \$14.2 million in the reserve funds would be reinvested.
- 3.12 It was assumed that the dividends from Elexicon Energy Inc of \$1,045,000 would not be received in the calendar year but will be deferred to 2021. The 2019 dividend and one quarter of the budgeted 2020 dividend have been received since May 2020. We continue to assume any remaining dividend will be received in 2021.
- 3.13 It is assumed, based on interest rates decreasing and the use of cash by the Municipality, that investment revenue would be approximately \$935,000 lower than what was budgeted from April to December (approximately 50% decrease).

### **Community Services**

- 3.14 At the time of writing of this report, fall programming registration has started with modified programming and services being offered.

- 3.15 Revenues for September to the end of the year have been reduced by 50% while staffing costs have also been reduced by 50%. This is reflective of the modified programming and in consultation with the Director of Community Services.

### **Public Works**

- 3.16 Field rentals were assumed to be \$0 from April until August in the previous analysis. We did see a partial reopening in the summer however most of the rental permits would have been lost during the summer months; however, we have seen steady use in the fall season as sports are trying to have a partial season.
- 3.17 No other adjustments have been made at this time.

### **Capital Projects**

- 3.18 Between previously approved budgets being completed and the approved 2020 budget there is approximately \$22.0 million in capital projects resulting in payments between May and December 2020.
- 3.19 Community Services identified \$500,000 in capital work for the Courtice Community Complex which was unable to be completed in 2020 and is therefore going to be deferred to 2021. This was adjusted in the cash flow analysis in May.
- 3.20 We have removed the cash in-flow from the debenture for the South Bowmanville Recreation Centre which was included in the 2020 budget as that program has been delayed. This is approximately \$4 million in cash which will not be received in 2020, however the corresponding cash outlay is also delayed.
- 3.21 Most of the 2020 capital projects continued during the year although timing may have been delayed a couple of months as a result of the pandemic and sourcing service providers or goods.

## **4. Cash Flow Impacts**

- 4.1 The Municipality had approximately \$55.6 million in the general bank account and \$23.2 million in reserve fund bank accounts at the end of September 2020 for a total of \$78.7 million (please note that half of the taxes collected on behalf of the Province have been collected to date and are to be remitted in December, therefore do have approximately \$20.2 million which is due to the school boards). The analysis would expect the end of year an ending balance of \$55.8 million (\$52.8 million projected in the previous report).



- 4.2 The increase in the cash position includes the receipt of the funding from the Province of Ontario of \$2.1 million. Taxes which were expected to be received in October to December appear to have already been received, which indicates that there has not been a significant increase in arrears as a result of the pandemic.
- 4.3 At this point, it is my opinion that the Municipality remains in a strong position to continue operations to provide services to the residents of the Municipality and continue the capital investment as planned and approved by Council as part of the 2020 and previous budgets.
- 4.4 There remains the flexibility to adapt to meet the fiscal constraints that the Municipality may face.

## **5. Concurrence**

This report has been reviewed by the Director of Community Services and the Director of Public Works who concur with the recommendation.

## **6. Conclusion**

It is respectfully recommended that this report be received.

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Attachments:

Attachment 1 – Cash Flow Analysis

Interested Parties:

There are no interested parties to be notified of Council's decision.