



Staff Report

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Report To: Council

Date of Meeting: May 4, 2020

Report Number: FND-010-20

Submitted By: Trevor Pinn, Director of Finance/Treasurer

Reviewed By: Andrew C. Allison, CAO

By-law Number:

File Number:

Resolution#:

Report Subject: COVID-19 Cash Flow Analysis

Recommendation:

1. That Report FND-010-20 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, 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. The largest assumption in the cash flow analysis is the timing and collectability of taxes, we have assumed a longer time to collect and a higher uncollected amount in 2020.

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

Budgeting vs Financial Reporting

- 1.1 Under the *Municipal Act, 2001* the Municipality of Clarington is required to follow Public Sector Accounting Board (PSAB) standards for financial reporting. These standards are an accrual-based accounting framework which focuses reporting on when revenues are earned and expenses are incurred rather than the timing of cash receipts or payments. Under this method assets such as roads and buildings are capitalized and expensed over the period of their useful life.
- 1.2 Also, under the *Municipal Act, 2001* the Municipality of Clarington is required to, and does, budget using a modified cash-flow approach. The Municipality is required to have a balanced budget annually and is not allowed to use debt financing for operating expenses. Any deficit needs to be recovered in the following year through taxes, this could be funded from reserves and reserve funds, if available.
- 1.3 With the impact of COVID-19, there may be a greater discrepancy between the Municipality's revenues and expenses for financial reporting and its cash flows. The primary reason for this would be that taxes are earned during the year for accounting purposes, however the timing of the receipt of those taxes may be longer than typically expected.
- 1.4 The survival of an organization rests with cash flow. Successful businesses and organizations have had positive financial results and still struggled because of cash flow issues. Staff have started on a cash flow analysis and continue to modify based on changing circumstances, in order to ensure that the Municipality has sufficient cash resources to meet its obligations.

COVID-19 Pandemic

- 1.5 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.
- 1.6 On March 16, 2020, the Municipality of Clarington closed to the public all remaining facilities. While closed, staff have continued to provide services through these offices.

2. Cash Flow Assumptions

Property Tax

- 2.1 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.
- 2.2 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.
- 2.3 As a result of announcements from the Province of Ontario, 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).
- 2.4 At this point there has been no assumed change in the remittances to the Region of Durham. There is an agreement that the April payment could be the equivalent of the portion of taxes collected with the remaining portion due July 8, 2020. For cash flow purposes, we assumed the Region's taxes would be remitted on time.
- 2.5 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.
- 2.6 As a result of direction provided on April 14, 2020, through resolution C-168-20, an assumption is made that any tax relief would not result in a cash outlay as it would be applied directly to the taxpayer's account.
- 2.7 The Municipality averages taxes receivable of 5% of the annual tax levy. The above assumption would double that mark. 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.
- 2.8 The Municipality's April 23, 2020 instalment date resulted in approximately 83.6% of the interim taxes being collected based on the interim tax levy. This compares to 2019 when 88.5% were collected. The 4.9% change supports the assumption made in paragraph 2.5(f).

Investment Income

- 2.9 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.
- 2.10 It is assumed that the dividends from Elexicon Energy Inc of \$1,045,000 will not be received in the calendar year but will be deferred to 2021. It is assumed that the final dividend for 2019 will also be deferred to 2021. This is consistent with statements made by other hydro companies regarding dividend payments to municipalities and is conservative.
- 2.11 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

- 2.12 At the time of writing of this report, the spring programming has been cancelled and plans are underway to have the summer program take place.
- 2.13 User fees and revenues for Community Services have been reduced in April to June to reflect the estimated \$1.1 million loss in revenues in programming, facility rentals and drop-ins.
- 2.14 The lost revenue is offset by savings in part-time wages and salaries of \$480,400 in April and May. At this point, no adjustments have been made to June onwards to regular part-time staff.
- 2.15 The cash flow analysis assumes that there would be no Community Services revenue for the months of July and August. As such, part-time staff would be assumed to return in September.

Operations

- 2.16 Operations is currently responsible for the booking of fields. The current closure of fields is to May 31, 2020. Revenue for April and May has been eliminated.
- 2.17 To be consistent with an ultra-conservative approach, it has been assumed that the monthly revenue in July and August for field bookings would also be \$0. At this time, this decision has not been made; it is simply looking at worst case cash flow scenarios.

Capital Projects

- 2.18 At this point, there have been no adjustments to capital projects. Staff are reviewing the timing of projects to determine if they can be completed in 2020. Some projects have a very specific window in which work can be completed if we miss this window the work cannot be completed. At this time, we are still within that timeframe, unless identified below.
- 2.19 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.
- 2.20 Community Services has identified \$500,000 in capital work for the Courtice Community Complex which is unable to be completed in 2020 and is therefore going to be deferred to 2021. This has been adjusted in the cash flow analysis.
- 2.21 We have assumed that both the debenture for South Bowmanville Recreation Centre and the costs budgeted this year are completed in 2020; however, we are still waiting on determination of grant approval. If the project does not receive grant approval, then

both the expense and the debenture would not occur (this has no net impact on the cash flow analysis).

- 2.22 Given that most capital projects are completed between late May and November, at this point we are anticipating that projects will go ahead. This is a conservative approach to cash flow analysis and supports both service delivery and economic stimulus priorities.

General

- 2.23 The Municipality has placed a hiring freeze on staff during the COVID-19 pandemic. This has resulted, as outlined section 2.12 of report [CAO-012-20](#), in 26 positions remaining vacant. An adjustment to the wage costs of approximately \$200,000 per month has been made to reflect these cash savings. These have been assumed to be in place until the end of August.
- 2.24 Revenue from Development Charges has not been included in this analysis as historic practice has been that any receipts immediately go into reserve funds for use in future years. This is also conservative in that there is an implied assumption that there are no development charges received this year.

3. Cash Flow Impacts

- 3.1 The Municipality had approximately \$41.8 million in the general bank account and \$22.1 million in reserve fund bank accounts at the end of March 2020 for a total of \$63.9. The analysis would expect the end of year an ending balance of \$52.8 million, this does not take into account any DC receipts during the year as mentioned in paragraph 2.24.
- 3.2 With the assumed changes in cash flow, the cash balance at the end of the year would be lower by \$7.7million. This is mainly a reflection of the assumed deferral of collection of 10% of the tax levy, this is an impact of \$5.6million. It is anticipated that these funds would be collected in 2021 to 2023. Based on the analysis, the ending cash balance would approximate \$44.0 million. At the end of the year a rebalancing of the general bank account and the reserve bank accounts would occur to reflect the activity during the year.
- 3.3 At this point, it is my opinion that the Municipality is 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.
- 3.4 There remains the flexibility to adapt to meet the fiscal constraints that the Municipality may face.

4. Concurrence

Not Applicable.

5. Conclusion

It is respectfully recommended that this report be received.

Staff Contact: Trevor Pinn, Director of Finance/Treasurer, 905-623-3379 ext 2602 or
tpinn@clarington.net

Attachments:

Attachment 1 – Cash Flow Analysis

Interested Parties:

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