

Subject: COVID-19 Financial Impact Forecast**Recommendation:**

BE IT RESOLVED THAT Council receive Report #2020-0074-Corporate Services; and

WHEREAS during this time of pandemic, Pelham residents and businesses expect all levels of government to work in close co-operation to help communities overcome the effects of the pandemic;

AND WHEREAS the federal and provincial governments depend upon municipalities delivering accurate, reliable data and projections on the financial impacts COVID-19 has on communities to effectively distribute appropriate programs and funding;

AND WHEREAS it is anticipated that the coronavirus pandemic will have long-term adverse effects on local and Regional services, businesses, residents and the local economy in general;

AND WHEREAS funding and program support from the federal and provincial governments will be vital to the social, health, and economic recovery of the entire Niagara region;

AND WHEREAS a single holistic view on the region's challenging economic situation and the financial difficulties confronting its municipalities will provide stronger justification for support;

AND WHEREAS successful advocacy for government supports will require a united, consistent approach that involves co-operation among the Region and all 12 local area municipalities and alignment with municipal stakeholder groups (such as AMO and FCM);

THEREFORE, BE IT RESOLVED THAT Council receive Report #2020-0074-Corporate Services and formally endorse motions that support the collaboration between all of Niagara's communities and the Niagara Region to submit one request to the Federal and Provincial governments for relief funding of the effects of the COVID-19 pandemic on the Town of Pelham.

Background:

- The magnitude of the impact of COVID-19 on the Town of Pelham is not fully understood, however the existing social distancing measures and economic

shut-down impacts have already been significant.

Since March 18th , the federal government has announced a series of relief programs that are targeted at the most vulnerable residents and businesses including:

- \$52.4 billion in direct assistance for eligible small and medium businesses
- \$55 billion to help meet liquidity needs and stabilize the economy, which includes deferral of income tax payments and the waiving of interest
- \$30 billion in cash flow and liquidity assistance for businesses, which includes deferral in Goods and Services Tax (GST) remittances and customs duty payments

Many of Ontario's municipalities have explored further financial relief measures to those already announced by the federal and provincial governments. The most common measures being implemented by municipalities include the extension of payment deadlines and the waiving of late payment penalties for tax and water balances owing.

On March 23rd the Town of Pelham announced its own financial relief measures being the waiving of late payment penalties for tax and water & wastewater balances owing for the month of April.

On March 25th the provincial government announced the Ontario Action Plan for fighting COVID-19 which includes \$17 billion offering various supports to healthcare, people and jobs, as well as cash flow support for businesses. The province also announced a 90-day deferral of the June 30 and September 30 quarterly municipal remittances of the education property tax receipts.

On April 23rd Niagara Region Council approved the motion requesting that the Niagara Region works together with the 12 area municipalities to coordinate the response and required strategies for the federal and provincial governments for financial relief related to COVID-19.

On April 29th Area Treasurers discussed Regional Council's approval of the concessions in CSD 31-2020 regarding collections from the local municipalities for taxes, water and wastewater and the offset of payments due to the municipalities from the Region. The Town will pay the Region the percentage of property taxes and water and wastewater collected.

On May 4th, Council approved the extension of waiving late payment penalties to June 30th for unpaid water and tax bill amounts. Due to the tight

cash flow pressures facing the Town, deferral of the June 30th and September 30th bill payment dates could not be extended without causing serious financial harm to the municipal corporation. Residents have been encouraged to sign up for pre-authorized tax payments and spread their property tax payments over 12 months without incurring any interest and penalties throughout the year. Many residents have signed up for this payment method which will help them with their personal cash flow on a monthly basis, and avoid burdening them with larger lump-sum payments toward the end of the year.

Analysis:

2020 Tax Levy Impact: A tax levy operating deficit of approximately \$408,666 has been forecasted to the end of June as a result of COVID-19 which could increase to approximately \$849,820 by December 31st should the present situation remain unchanged until the end of the year. Please refer to Appendix 1 for the forecast from March 13, 2020 to June 30, 2020 and Appendix 2 for the forecast to December 31, 2020.

The most significant drivers of the projected deficit include:

- Lost recreation revenues from the Meridian Community Centre, which are partially offset by program/service delivery cost savings, including the temporary layoff of staff.
- Lost development revenues.
- Lost tax and water interest and penalty revenues.
- Lost park operation revenues.

From Appendix 1, the total costs incurred relating to salary and benefit costs for staff working as part of the Emergency Operating Committee, unable to work due to self-isolation, or needing to care for sick family members directly associated with COVID-19 is \$212,157, which is being supported by the 2020 operating budget. Additional costs to June 30 for direct costs related to managing the emergency, including salary, benefits and overtime, and purchases to support the pandemic (e.g. cleaning supplies and services, PPE, advertising) is \$77,127. Total lost revenue relating to recreation, waiving interest and penalties for April to June, cancellation of special events, and other municipal revenues lost due to the shutdown is \$782,972. These revenues include decisions made by Council prior to June 30 relating to special events cancellations. These costs have been mitigated in part by incidental cost savings as a result of the shutdown (e.g. reduced travel costs,

reduced electricity and cancelled events) for savings of \$278,254. The Town has also taken strategic steps to mitigate the additional COVID-19 costs by adopting cost-saving measures (e.g. reduced non-emergency repair work, reduced transit service costs and staff layoffs), for savings of \$173,179. The total net cost of COVID-19 to June 30 is \$620,823. The Total deficit to the budget is \$408,666, which is 2.7% of the tax levy.

Should the Town's present situation remain unchanged for the remainder of the year, the total deficit related to COVID-19 is projected to become \$849,820. This deficit is specific to the impact of COVID-19 and does not reflect other operational variances.

User Rate Supported Impact:

The impact to the Water and Wastewater only pertains to the waiving of interest and penalties for the period April 1 to June 30, which equates to approximately \$5,000 in lost revenues. The Town of Pelham has the lowest water and wastewater rates in the Niagara Region amongst the 12 municipalities, and no rate adjustments or deferral of water payments have been recommended past June 30.

Building Department Permit Fees Impact:

There will be an anticipated reduction to the building permit fees collected by approximately \$112,000 as a result of the slowing of construction. Building permits are not being issued since the Province has stopped new building construction. The Town continues to receive building permits and the staff are doing plans review, but holding off on issuance of the permits due to Provincial restrictions. Any surplus or deficit in the building department is covered by the Building Department Reserve, therefore it will not have an impact on the tax levy.

Cash Flow for 2020

From mid-March to the end of April, the cash flow impact of COVID-19 had been a reduction of property taxes collected, development charges and parkland dedication cash collected and building permit fees. The April impact alone is approximately \$314,000 from projected cash flow, mostly from Development Charges (DC) & Parkland Dedication collections of approximately \$183,000 and property taxes of \$70,000. If this trend continues it will cause major cash flow pressure on the Development Charges Obligatory Reserve Fund, which had a balance at December 31, 2019 of

\$1,708,046, while DC debenture interest and principal payments will total \$1,588,624 in 2020. For the first four months, the Town has collected \$271,700 in DC & Parkland Dedication revenue. The Town needs to collect at least \$1,316,924 over the next 8 months in order not to dip into the reserve funds collected in prior years. The projected DC revenue reduction will be approximately 25% reduction from our original cash flow projection. This equates to \$350,000. This is a timing issue because we know that the growth will happen in the Town. The Development Charge Study is based on this growth happening but because of COVID-19, the Town could be facing a delay in collecting this revenue. The current DC obligatory reserve fund balance is only sufficient to cover one year's worth of interest and principal payments.

Capital Projects have been reviewed in detail to see which projects can be deferred in order to free up cash. There are two projects are being deferred: Sulphur Springs, (RD-13-20 & RD 14-19) Foss Road resurfacing (RD 15-20) and Foss Road Sanitary (WST 06-20) for a total of \$1.5M in 2020. These projects will be done in 2021. Deferring these projects will help with the cash flows for the Town.

The focus of the Town has been to keep replenishing the cash balances in order to have cash on hand for the Obligatory Reserves and at minimum the Reserves and Reserve Funds relating to rate supported reserves (i.e. Water and Wastewater and Building Department Reserves). This cash is not available for operating purpose and cannot be used to cover expenses related to COVID 19. If the current situation remains unchanged and there are no funding announcements from senior levels of government, the Town will have to borrow against the line of credit to fund cash shortfalls from COVID-19 and additional expenditures shown in Appendix 1 to June 30 of \$408,666 and Appendix 2 to December 31 of \$849,820. The Town has increased its line of credit amount in anticipation of increased borrowing.

Impact on Budget 2020 and 2021

If the current situation continues and the Town runs an operating deficit in 2020 as a result of COVID-19, \$100,000 is recommended to be set aside for COVID-19 in the working funds reserve from the 2019 surplus allocation. The Niagara Region is advocating on our behalf for Federal and Provincial funding relief to cover the shortfall. If this does not happen, then the 2020 deficit would be added to the 2021 budget and tax levy. The \$408,666 deficit is equivalent to a 2.7% tax levy increase. The \$849,820 is equivalent to a 5.7% tax levy increase.

Financial Considerations:

The Town is projecting that the tax levy operating budgets will be negatively impacted by COVID-19 regardless of how long the situation lasts throughout the year. Given the amount of uncertainty around timelines and availability of funding sources, it is difficult at this time to quantify the full impact of individual items as well as the overall impact to the Town.

The Town needs its reserves and reserve funds to carry out capital projects within the forecast and avoid taking on additional debt. It will rely on financial support from the Federal or Provincial governments or the deficit will have to be added to the 2021 budget.

As the COVID-19 pandemic impacts are quite fluid, staff will continue to monitor its financial impacts and report back to Council on a regular basis.

Alternatives Reviewed:

Council could choose not to support the recommendation to work with the Niagara Region and the other local area municipalities, in which case the Town may not benefit from the coordinated effort of the municipalities working together.

Strategic Plan Relationship: Strong Organization

By working together with the Region and other local area municipalities, the Town can participate in a united and consistent approach to seek relief from the Federal and Provincial governments.

Consultation:

The Senior Leadership Team

Other Pertinent Reports/Attachments:

Appendix 1: Financial Impact to June 30, 2020

Appendix 2: Financial Impact to December 31, 2020

Prepared and Recommended by:

Teresa Quinlin, MBA, CPA, CA
Director of Corporate Services/Treasurer

Prepared and Submitted by:

David Cribbs, BA, MA, JD, MPA
Chief Administrative Officer