Subject: Financial Implications Associated with COVID-19
FYI Report Number: Treasury-2020-07
Meeting Date: Monday, May 11, 2020

Report:

Background:
Staff have been monitoring and assessing the potential financial impacts to the Municipality since the onset of the pandemic. Only two months after approving the 2020 budget, a variety of operating expenditures and revenues are now expected to be impacted. While it is still too early to quantify all of the potential impacts, some of the more significant expected variances are outlined in this report.

Revenue Losses:
Municipal staff have been tracking the financial impact of COVID-19 from the date of the Provincial State of Emergency announcement on March 17, 2020 onward. The Municipality has experienced expenditures as well as revenue losses related to the COVID-19 crisis. This report will provide estimates of the financial impact on the Municipality to the end of June 2020. The current forecast to June 30th estimates a loss of revenue of nearly $596,000, offset by expense reductions of $377,000, resulting in a projected net budgetary loss of $218,000. Schedule A provides a summary of both estimated revenue loss as well as expense reductions to the Municipality.

Recreation:
The Municipality is estimating revenue losses totaling $269,000 relating to the closure of facilities such as pools, arenas, and community centres.

The most significant source of the lost revenue is due to facility closures which are estimated at $162,000 and primarily include health club membership fees of $48,000, followed by the pool admission fees of $44,000. Revenue loss from recreation programming is estimated to be $100,000, primarily due to cancellation of aquatic lessons ($43,000) and fitness classes ($16,000). These revenue losses are expected to continue until the crisis is over.
With the closure of recreation facilities, there are also offsetting expenditure reductions that have been projected in order to quantify the overall budgetary impact. Excluding labour costs (discussed further below), total cost reductions amount to $98,000 resulting from decreased energy consumption, fewer purchases of supplies and materials, and reduced contracted grounds maintenance.

Combined, this amounts to an unfavourable budget impact of $172,000 (excluding labour costs). When labour costs are included in the calculation of the total recreation budget, the unfavourable impact is reduced to $32,000.

**Waste Management**
The landfill sites have been closed to residential property owners resulting in approximately $105,000 of lost revenue up to the end of June. These revenue losses may be temporary, as residents may be holding onto their waste until the landfill reopens. There is also a forecasted reduction in contracted disposal costs of $20,000, offset by an increase in costs related to the new compost centre of $3,500. Combined, the total unfavourable impact of the landfill closures amounts to $88,500 up to the end of June 2020.

Bruce Area Solid Waste Recycling (BASWR) has also indicated that additional expenses relating to recycling during the pandemic may be incurred, however the additional cost burden has not yet been quantified.

**Building Permits**
The Municipality has forecasted revenue losses due to a reduction in local construction activity. Building permit revenues have been estimated to decrease by 30%, as well as a 25% reduction in plumbing permits and occupancy permits. An overall 10% decrease has been estimated for other administrative fee revenues relating to building. Combined, this equates to a total revenue loss of $117,000 up to the end of June 2020. As the building department operations are intended to be revenue-neutral, this shortfall with have no impact on the overall budget as any deficit would be funded from the Obligatory Building Permit Reserve Fund.

**Interest Loss on Overdue Tax and Utility Accounts**
With the Municipality’s decision not to charge penalty or interest on all overdue 2020 tax and utility billings for the months of April – July, the lost revenue is estimated at $85,000. This includes the waiver of all NSF charges, returned payment fees, and arrears statements.

**Interest Income**
As a result of providing financial relief to ratepayers by waiving interest on 2020 tax and utility billings and allowing opt-out of Pre-Authorized Payment Plans (PAPs), it is anticipated that cash flow during this period will be reduced. The decrease in cash flow will result in lower bank balances and less interest revenue.
Also, the Bank of Canada has reduced the overnight interest rate to 0.25% and as a result, interest income will be further reduced. The impact of lost interest revenue on the operating budget is estimated at $5,000/month, or $15,000 up to June 30th.

There would be an offsetting decrease in interest costs for borrowed funds, including the 9/21 Project for which $4.25 million will be funded through debt. The operating budget includes $85,000 in annual interest costs. With the decline in interest rates, the annual interest payment will decrease by $50,000 (60%). While this assists with cash flow, these costs are ultimately funded by the developer through ASDCs and therefore do not represent true cost savings for the Municipality.

**Expenditures:**

**COVID-19 Related Expenses**
Staff have created a new cost centre to track costs related to the COVID-19 pandemic in the areas of salaries, materials and contracted services. As of April 30th 2020, total direct pandemic costs amounted to $46,000 and consist primarily of overtime wages, as well as IT purchases for laptops in order to facilitate working remotely. Other costs include cleaning products, sanitation wipes, gloves, as well as new signage and traffic barriers. These costs are expected to continue in the near term and are estimated to reach ~$104,000 by June 30th. (Note: This amount is inclusive of a $12,000 financial contribution to Meals on Wheels).

**Labour Impacts**
Permanent part-time, seasonal contract and casual employees, who held positions directly impacted by the closures outlined in the Emergency Order from the Provincial government, have been placed on unpaid Declared Emergency Leave. Seasonal contract employees with start dates effective this Spring have been deferred to a later date and all employment opportunities advertised online have been placed on hold with no new offers of employment will be extended until further notice. Labour cost savings would amount to $290,000 up to the end of June 30th.

**Building Maintenance**
A reduction to building maintenance activities performed in municipal facilities are either reduced or deferred due to facility closures and are estimated to reduce costs by $18,000.

**Conferences & Travel**
Due to the pandemic, non-essential travel has been prohibited and therefore several conferences and training sessions have been cancelled or will be delivered online. Total anticipated savings amount to $35,000.

**Office Supplies**
A reduction in office supplies has been estimated at 20% due to employees working remotely and increasing their reliance on technology. This would translate to cost savings of ~ $14,000.
Potential Longer-Term Impacts
Depending on the duration of the pandemic, there are longer-term impacts that should also be considered should the crisis continue for an extended period of time:

- Interest rates: a lower cost of borrowing reduces debt servicing costs, but also impacts interest allocations to reserves and reserve funds

- Property taxes: the economic disruption could lead to a material increase in tax write-offs and lower net assessment growth

- Building Activity: If construction activity is significantly reduced for an extended period, this would result in a lower amount of supplementary taxes collected during the year and lower assessment growth in future years.
  - Reduced level of development charge collections, potentially impacting the Municipality’s ability to fund growth-related capital projects. In addition, it would negatively impact repayment of borrowed funds for the Connaught Park Sewage Pumping Station project (2018), which was to be funded primarily through Development Charges.

In the event of an operating deficit at the end of 2020, the amount of the deficit would need to be recovered through the 2021 budget and would likely necessitate a tax rate increase. Alternatively, the Municipality may utilize funds from the Contingency Reserve to offset the deficit thereby eliminating the need to make up the shortfall on the 2021 tax rate.

Review of 2020 Capital Budget:
Municipal staff have reviewed the 2020 Capital Budget to identify any capital projects that could be deferred to 2021 in order to alleviate the pressures on cash flow and staffing resources during the pandemic. Schedule B contains the list of approved capital projects for 2020. Comments on the status and/or justification of each project has been included on the capital listing.

In total, 15 projects have been recommended for deferral either in full or in part until 2021, amounting to a total cost of $9,475,000. This will assist in reducing the cash flow burden for the Municipality in the short-term. If the Province relaxes its restrictions over the coming weeks, Staff will re-evaluate the capital list to determine whether certain projects could proceed in 2020.

As a precautionary measure, staff have initiated a temporary increase in our revolving line of credit from $3 million to $5 million. This increase will only come into effect if an amended borrowing by-law is approved by Council prior to August 31, 2020, otherwise it will expire. It is unlikely that this increased limit will be required.
Senior Levels of Government Assistance:

Both the Federal and Provincial governments have created multiple programs to assist residents and businesses in Ontario with lost revenue and wages and increased expenditures during the COVID-19 response. The programs available to municipalities are few and their impacts to date are relatively modest. They involve the delay of remittances without penalty (e.g. WSIB premiums, Employer Health Tax, GST) or payments (e.g. municipal payment of educational taxes collected). The benefit of these delays is associated with the interest that can be earned by holding these remittances and payments and earning interest on them.

On April 23rd, the Federation of Canadian Municipalities (FCM) released the report “Protecting vital municipal services” (attached) which includes recommendations to the Federal government for providing financial assistance to municipalities. FCM is seeking $10 billion in federal funds and suggests a basic allocation of $35 per capita per month for each month of social distancing. The program should be designed to provide maximum flexibility to apply the funds towards all operating impacts associated with COVID-19 and to assist with infrastructure investment. For Kincardine, this would equate to a monthly payment of ~$420,000. Staff will continue to monitor Federal and Provincial announcements and to collect the direct and indirect costs and lost revenues of our COVID-19 response.

Conclusion
Current estimates indicate the total financial impact of Covid-19 to the Municipality to the end of June is approximately $218,000. Staff will continue to monitor these costs and provide regular updates to Council.

Attachments:
Schedule A – 2020 Operating Budget Impacts
Schedule B – 2020 Capital Projects listing
Schedule C – Q1 Operating Budget Variance Report
“Protecting Vital Municipal Services”, April 23, 2020, Federation of Canadian Municipalities