

## Report to Council

<b>Report Title:</b>	COVID-19 Financial Implications Update 3		
<b>Prepared By:</b>	Trish Serratore, Chief Financial Officer		
<b>Department:</b>	Finance		
<b>Date:</b>	May 12, 2020		
<b>Report Number:</b>	FIN2020-19	<b>File Number:</b>	C11FIN, P03
<b>Attachments:</b>	Schedule A – Financial Projections as of June 2020 Schedule B – Capital and Special Projects Listing		

### Recommendation:

That the Council of the Municipality of Brockton hereby approves Report Number FIN2020-19 – COVID-19 Financial Implications Update #3, prepared by Trish Serratore, Chief Financial Officer and approves deferring the Capital and Special Projects described in Schedule B and further approves in principle the proposals made by staff in relation to the operating expenses.

### Report:

#### Background:

Staff have been continuously reviewing and discussing the current and potential future financial impacts to the Municipality since the onset of the pandemic. It has been nearly two months since the municipality first experienced the effects of COVID-19 which has had a significant impact on our operations. 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.

#### Analysis:

##### 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 had 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 \$434,483, offset by expense reductions following Department Heads recommended actions of \$565,664, resulting in a projected net budgetary **saving of \$131,182**. 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 \$291,450 relating to the closure of facilities such as the pool, arena, and community centres.

The most significant source of the lost revenue is due to the facility closures which are estimated at \$180,650 and primarily from the Cargill Community Centre event cancellations, followed by the pool recommended closure for a budgeted revenue loss of \$61,000. Revenue loss from recreation programming is estimated to be \$28,300, and finally the revenue loss from Parks is due to the delay of opening Lobbies camp ground and possible cancellation of sports activities, staff have projected a revenue loss of \$21,500. 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 \$283,456. The majority of the savings are derived from the closure of the pool. Staff have estimated that \$133,372 in expenses would be saved noting that there are some fixed costs that will still be incurred for the season. Additional savings in recreation resulted from fewer purchases of supplies and materials, no wages for contracted instructors for various programs, and reduced contracted grounds maintenance.

At this time staff are not able to analyze and quantify the total savings from the reduced hydro consumption due to facility closures.

Combined, this amounts to an unfavourable budget impact of \$7,689 (excluding labour costs). When labour costs are included in the calculation of the total recreation budget, the favourable impact is reduced to approximately \$77,811 in total savings.

**Brockton Child Care Centre:**

Due to the provincially mandated closure of the Brockton Child Care Centre, staff are estimating revenue losses totaling \$134,016. This is primarily due to the fees associated with child care being uncollectable from the closure, which staff has estimated to be \$211,835 to the end of May. However, the County of Bruce has continued to support the child care centre and have provided \$77,820 in grant funding to assist with operational costs, wages and direct COVID-19 expenditures. The generous support has assisted the child care centre during this difficult time and provided significant financial support.

**Expenditures:**

Excluding labour which was including in the above noted savings. The Brockton Child Care Centre is currently saving \$14,239 in operating expenses. This saving is from the reduced costs of food and the waiver of rent from the Catholic School Board.

**EDC**

Staff have projected a total savings of \$10,000 from the EDC budget due to the deferral of special projects. To comply with the required social distancing, staff do not foresee the following events taking place in 2020, B2B Awards Banquet, the Greenock Swamp Tour and cancellation of the Walkerton 2020 event.

## **Heritage & Special Committee**

The Municipality is estimating a total savings, not including labour, of \$4,000. With the closure of the library and many other facilities, as well as the restrictions due to social distancing, staff are projecting the cancellation of the annual Art Show, this being a total saving of \$4,000. In addition, staff are recommending delaying any special projects that were planned by special committees. The recommendation would provide financial relief by only incurring expenditures that are essential at this time, however it would also be staff's recommendation that any committee that does delay their planned projects have their budgeted funding transferred into a reserve fund at year-end to allow the committees to recommence their projects in 2021.

## **General Government:**

The Municipality is estimating revenue losses totaling \$9,017 relating General Government Revenue deferrals.

## **OPG DGR Payment**

The municipality did not budget or anticipate any payment in 2020 from OPG for the Deep Geologic Repository (DGR) Hosting Agreement due to the termination of the agreement on March 30<sup>th</sup>, 2020. On April 30<sup>th</sup>, 2020 staff received notification from OPG that we would receive \$26,419 on April 30<sup>th</sup> which represented 50% of the inflation-adjusted annual payment that was stipulated in Schedule A. This additional unforeseen revenue has a positive impact on our financial projections which will help off-set some of the addition expenses incurred by the municipality due to COVID-19.

## **Interest Income**

As a result of providing financial relief to ratepayers by waiving interest on 2020 taxes 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 \$5,176 up to June 30<sup>th</sup>.

## **Interest Loss on Overdue Tax and Utility Accounts**

With the Municipality's decision not to charge penalty or interest on all overdue tax accounts for the months of April – June, the lost revenue is estimated at \$30,260.

## **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 supplies, legal, and contracted services. As of April 30<sup>th</sup> 2020, total direct pandemic costs amounted to \$27,649 and consist primarily of IT purchases for laptops in order to facilitate working remotely and legal counsel on various staffing matters. Other costs include cleaning products, sanitation wipes, gloves, as well as new signage and traffic barriers.

## **Labour Impacts**

Due to the provincial mandated closure of the Municipal Daycare 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. Staff have also recommended delaying the replacement of the certain vacant positions within the municipality, the total labour cost savings would amount to \$308,543 up to the end of June 30th.

## **Benefits**

On April 24<sup>th</sup> staff received communication from Manulife that the Municipality will receive a reduction in our April premium for 10% of the extended health benefits, including prescription drugs and 50% relief for the total dental premium. There will be no changes in coverage for the employees. Staff have estimated this savings to be \$5,076.

## **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 \$13,000.

## **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 outstanding tax arrears which could lead to increased properties in financial hardship leading to potential tax sale
- 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. However, the building department is not seeing a slow down at this time.

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. At this time the expense reductions proposed by Department Heads are substantial to minimize or negate a deficit scenario.

## **Review of 2020 Capital & Special Projects Budget:**

Municipal staff have reviewed the 2020 Capital and Special Projects Budget to identify any projects that could be deferred to 2021 in order to alleviate the pressures on cash flow and staffing resources during the

pandemic and mitigate further debt payments into 2021. Schedule B contains the list of the recommended projects for 2020 that will be deferred.

In total, 13 projects have been deferred either in full until 2021, amounting to a total cost of \$4,211,000. This will assist in reducing the cash flow burden for the Municipality in the short-term. Although most of the projects were not funded from the tax rate, by deferring projects that were also funded from borrowing and reserve funds, allows for better management of our cash flow as well as staff time needed to oversee each project. Any project that was funded from grants (Gas Tax and OCIF funding) will either be reallocated to 2020 eligible projects, or reserved for 2021. Staff will continue to review the financial resources available to them and if any changes are required, staff will provide an update to Council.

Staff time is limited to move forward with the strategic action plan at this time. However, as we continue to move forward through this pandemic, staff will evaluate the benefits of continuing with the plan or deferring the project till 2021. The strategic action plan was funded from the One Time Grant funding received in 2019 so does not affect the tax rate. Depending on the duration of the pandemic it may be beneficial to Council and staff start 2021 with actions and priorities determined through this plan.

### **Sustainability Checklist:**

What aspect of the Brockton Sustainable Strategic Plan does the content/recommendations in this report help advance?

- |   |     |
|---|-----|
| • Do the recommendations help move the Municipality closer to its Vision? | Yes |
| • Do the recommendations contribute to achieving Cultural Vibrancy?       | Yes |
| • Do the recommendations contribute to achieving Economic Prosperity?     | Yes |
| • Do the recommendations contribute to Environmental Integrity?           | N/A |
| • Do the recommendations contribute to the Social Equity?                 | N/A |

### **Financial Impacts/Source of Funding:**

- Do the recommendations represent a sound financial investment from a sustainability perspective? Yes

The above noted changes currently have a positive financial impact on the municipality, however the projected total savings of \$131,182 are only to the end of June, 2020. Costs will need to be incurred when the recovery phase begins, and it is important to curb expenditures to ensure sufficient cash flow.

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### **Respectfully Submitted by:**



**Trish Serratore, Chief Financial Officer**

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**Reviewed By:**

A handwritten signature in black ink, appearing to read "Sonya Watson", with a long, sweeping flourish extending to the right.

**Sonya Watson, Chief Administrative Officer**

**Schedule A**  
**COVID-19 Financial Projections**

	<b>June 30, 2020</b>
<b>Lost Revenues</b>	<b>(Estimate)</b>
OPG DGR Payment (not budgeted)	26,419.00
Daycare Fees	(211,835.55)
Daycare County Grant Funding Received	77,819.94
Recreation Programming	(28,300.00)
Recreation Facilities	(180,650.00)
Recreation Parks	(21,500.00)
Recreation Pool	(61,000.00)
Interest income	(5,176.10)
Treasury - Penalty & Interest	(30,260.00)
<b>Lost Revenues Subtotal</b>	<b>(434,482.71)</b>
<b>Expense Reductions</b>	
Recreation Programming	20,084.00
Recreation Facilities	85,000.00
Parks	45,000.00
Recreation Pool	133,372.00
EDC	10,000.00
Heritage	4,000.00
Daycare Operating Expense	14,238.84
Training, Conferences & travel	13,000.00
Labour - postponed, layoff or cancellation	308,542.54
Benefits	5,075.64
Enviromental Clean-up	(45,000.00)
Direct Pandemic Costs	(27,648.73)
<b>Cost Savings Subtotal</b>	<b>565,664.29</b>
<b>Total Operating Budget (Shortfall)/Surplus</b>	<b>131,181.58</b>

Dept.	Project	Estimated Cost	Continuing in 2020	Projected Start Date	Reserve Fund	Borrowing	Grant	Tax Rate
ERBP	East Ridge Road Construction	1,795,000	No - defer to 2021	Defer to 2021	435,000	1,360,000		-
General Government	Strategic Action Plan	20,000	Unsure at this time		20,000			
Public Works	Warden St	30,000	No- defer to 2021	Defer to 2021			30,000	
Public Works	Concession 14 Engineering (County Rd 19 to SDR 20)	25,000	No- defer to 2021	Defer to 2021				25,000
Public Works	Concession 8 Bridge Repair	525,000	No- defer to 2021	Defer to 2021			525,000	
Public Works	Cold Patch Box for 1 Ton Truck	8,000	No- defer to 2021	Defer to 2021	8,000			
Public Works	Sidewalk: Archie	30,000	No- defer to 2021	Defer to 2021			30,000	
Public Works	Concession 10 Brant/Queen St	1,700,000	No- defer to 2021	Defer to 2021		1,700,000		
Material Management - Brant/Green	New Sign	10,000	No- defer to 2021	Defer to 2021	10,000			
Recreation - Community Center	Electrical inspection and repair (as per BCA)	12,000	No - defer to 2021	Jan 2021				12,000
Recreation - Community Center	Office Renovations	10,000	No - defer to 2021	March 2021				10,000
Recreation - Lobies	Electrical Upgrades	36,000	No - defer to 2021	May 2021	36,000			
Recreation - Daycamp	Pavilion	10,000	No - defer to 2021	May 2021	10,000			
<b>Total</b>		<b>4,211,000</b>			<b>519,000</b>	<b>3,060,000</b>	<b>585,000</b>	<b>47,000</b>