



REPORT

REPORT TO: Mayor Bonnette and Members of Council

REPORT FROM: Moya Leighton CPA, CGA, MBA Town Treasurer & Director of Accounting

DATE: June 19, 2020

REPORT NO.: CORPSERV-2020-0024

RE: Operating Budget Status as at May 31, 2020, and Financial Projections to December 31

RECOMMENDATION:

THAT Report No. CORPSERV-2020-0024, dated June 19, 2020, regarding the Operating Budget Status as at May 31, 2020 and Financial Projections to December 31, 2020 be received as information.

BACKGROUND:

The COVID-19 pandemic continues to have a significant impact across the Town of Halton Hills. The situation is constantly evolving and the need to respond to changes quickly and efficiently is a priority for the Town.

The purpose of this report is to provide Council with an update on the actual 2020 operating results as at May 31, to provide a projection of results to year end and to identify financial implications of COVID-19 with a strategy to mitigate these implications and manage cash flows.

At the start of the pandemic the Province made a Declaration of Emergency under the Emergency Management and Civil Protection Act and declared the closure of public places and establishments on March 17. Staff reported to Council on May 14, 2020 with a COVID-19 scenario that extended this lockdown to December 31.

The situation continued to evolve as the Province eased some restrictions and allowed the Region of Halton to move into stage 1 of phase 2 on May 19, 2020. Stage 1 allowed industry specific workplaces to reopen that were able to implement workplace safety guidelines, maintain physical distancing, and limit gatherings. Stage 1 also facilitated

the gradual restart of outdoor and recreational activities that allowed physical distancing to be maintained. Further modeling was completed and shared in-camera with Council on June 15, 2020. At that time staff modeled a three-stage recovery that assumed a gradual reintroduction of services that aligned with the spring, summer and fall programs.

Following this update to Council staff have reviewed the impacts and have been in consultation with the senior management team to develop end of year financial projection due to the impacts of COVID-19. Furthermore, the Region of Halton was allowed to move into stage 2 of recovery on June 19, 2020. This stage entails the reopening of more businesses, public spaces and services, enabling more people to return to work and allowing some larger public gatherings under public health and safety requirements. As such, the financial modeling has been amended again to accommodate these changes the details of which are outlined in this report.

COMMENTS:

Operating Status as at May 31, 2020

The following table is a snapshot of the Town's operating results as at May 31, 2020:

2020 Financial Report				
For the period ending May 31, 2020				
	2020 YTD Actuals 31-May	2020 Final Budget Total	Remaining \$	Remaining %
Council	\$302,632	\$957,600	\$654,968	68.4%
Office of the CAO	\$1,664,050	\$4,386,400	\$2,722,350	62.1%
Corporate Services	\$2,058,733	\$5,492,000	\$3,433,267	62.5%
Library Services	\$1,268,562	\$3,651,100	\$2,382,538	65.3%
Fire Services	\$1,390,622	\$7,307,000	\$5,916,378	81.0%
Transportation & Public Works	\$518,504	\$1,438,100	\$919,596	63.9%
Planning & Sustainability	\$4,467,164	\$13,423,900	\$8,956,736	66.7%
Recreation & Parks	\$3,033,734	\$7,442,300	\$4,408,566	59.2%
Corporate Expenses	\$1,624,455	\$1,177,600	(\$446,855)	(37.9%)
Capital Financing & Other	\$8,322,151	\$14,007,200	\$5,685,049	40.6%
Total Net Expenditures	\$24,650,607	\$59,283,200	\$34,632,593	58.4%
Corporate Revenue				
PROV OFFENCES	(\$74,337)	(\$208,000)	(\$133,663)	(64.3%)
INVESTMENT INC	(\$844,066)	(\$1,155,000)	(\$310,934)	(26.9%)
CORP TAXATION	(\$2,395,554)	(\$2,591,300)	(\$195,746)	(7.6%)
HH COMM ENERGY	(\$389,084)	(\$1,313,100)	(\$924,016)	(70.4%)
CAP CHGEBACK	\$0	(\$458,500)	(\$458,500)	(100.0%)
Total Corporate Revenue	(\$3,703,041)	(\$5,725,900)	(\$2,022,859)	35.3%
Spend Rate	\$20,947,566	\$53,557,300		39.1%
Budgeted Levies & Special Levies	\$53,557,300			
Net Budget Remaining	\$32,609,734	\$0		60.9%

The following table shows the typical spend rate to budget at this time last year:

Year	YTD Actuals May 31	Net Budget Remaining	Budgeted Levy	% of Budget Remaining
2019	\$18,099,786	\$30,332,150	\$50,689,500	59.8%
2020	\$20,947,566	\$32,609,734	\$53,557,300	60.9%

The May 31st results coincide with the timing of stage 1 and capture the initial lock down period of almost 3 months and associated reduction in services. The remaining services that have continued to operate in some format have resulted in slightly lower spending levels than those of 2019, with close to 61% of the annual 2020 budget remaining. This position indicates the Town is situated well at May 31st with positive operating results to date, as it moves into stage 2 of the COVID-19 recovery. Analysis of the positive variances determine that the lost revenues from changes in operations have been offset effectively by the correlated savings in labour and materials. Other savings have also been achieved driven in the main by salary gapping.

COVID specific savings

- Some staffing vacancies will remain vacant for 2020
- Part time wage reductions as some services suspend operations
- Reduced travel and discretionary expenses
- Cancellation of non-essential staff training
- Reduced facility costs in closed facilities
- Reduced office supplies consumption
- Cancellation of community events
- Reduced contracted service costs
- Fuel and equipment cost savings related to ActiVan and Fire Services fleet

COVID specific cost increases

- Information technology costs to allow Council and staff to work remotely
- Increased cleaning and sanitization requiring additional cleaning supplies
- Increased PPE costs for staff
- Staff overtime as staff respond to evolving COVID-19 requirements
- Increased costs to refurbish service delivery spaces to ensure safety (i.e. barriers and fare boxes for Activan vehicles)

COVID specific lost revenues

- Lower revenues from development applications, development agreements, and building permits
- Lost revenue due to the cancellation of spring and summer programming
- Facility and park closures in place since mid-March
- Lost user fees
- Fee waiver for Activan usage
- Decrease in Library fine revenues as the current Fines Free policy is extended to all library cardholders for remainder of 2020
- Some of the community's existing small businesses have temporarily or permanently closed and new ones have delayed their opening impacting business licenses
- Parking control operations
- Provincial Offences Court closure had reduced bylaw fines revenue

COVID-19 Staged Recovery Plan

Staff have developed a staged recovery plan to gradually reintroduce service levels and ensure compliance with local public health requirements as per the Provincial guidance outlined in *A Framework for Reopening our Province*. Certain assumptions have been made beyond the phase 2 recovery and these include gradually reopening access to Town facilities and services with measures in place to ensure physical distancing, following expanded health and safety requirements and making adjustments in response to new information that will keep staff and the public safe.

Stage 2 Recovery

Halton Region entered Stage 2 of reopening on June 19. The duration of the Stage 2 recovery is not known but will include monitoring of key public health indicators and will include the following for the Town (as of report preparation):

- ActiVan drivers are rehired as necessary as trip volumes increase
- ActiVan Fares return to being collected effective July 6th
- A portion of the regular summer student staff for parks maintenance activities will be hired
- Skate parks re-opened to public on May 29th
- Splash pads re-opened to the public on June 20th
- Cooling Centre's re-opened on June 19th, on an as needed basis
- Facility hall & meeting rooms re-opened with limited access for internal meetings on June 22nd

- Gallery is opening for pre-booked access, starting July 13th with programming & services being offered by Cultural Services
- Reopening Hillsview Active Living Centres - Georgetown & Acton with modified programs and services, starting the week of July 13th
- Reopening Youth Centres with modified programs and services, starting the week of July 13th
- Gellert Community Centre (aquatics facility only) will open with limited access starting in early August with modified aquatics programming (lane swim, aquafit and small group swim)
- Continued virtual outreach by Active Living Action Team, Youth Action Team & Hillsview Action Team
- Library Facilities re-opened on June 23rd for residents to enter the branch for pick-up holds only

Stage 3 Recovery

It is expected that Stage 3 will further relax restrictions on community spaces and public gatherings. It will allow workplaces to open under health and safety guidelines, and restrictions and guidelines will continue to evolve based on the lessons learned from prior stages. The recovery plan identified below is based on best information available at the time and is subject to Provincial direction. It should be viewed as background information related to developing financial projections. The Town's assumptions for Stage 3 of recovery are:

- Town Hall may open to the public by appointment using online appointment booking and COVID-19 screening tools
- Continue to bring back ActiVan drivers as trip volumes recover
- Open parks for programming/rentals
- Arena's will be re-opening for limited programming in September; based on Hockey Canada guidelines
- Facility service counter access will open, by appointment
- Re-introduction of group fitness classes with reduced capacity
- Expansion of hours in the operation and program offerings, that align with stage 3 Provincial guidelines for Youth Centres, Hillsview Active Living Centres and the Indoor Pools
- Re-introduction of Walkfit Pass
- Launch of children's programs; including dance, volleyball and basketball with reduced capacity
- Community use of indoor school spaces & tracks are unknown at this time. Any permitted use is expected to be significantly less than a typical fall season

It should be noted that these plans were tentative at the time of this report and continue to evolve as new information becomes available. They should be viewed as assumptions at this time.

A forecast of the remaining expenditures for the 2020 budget period (June 1 to December 31) including the financial implications of the Town's recovery plan are as follows:

Department	Forecast Jun 1 to Dec 31
Council	497,026
Office of the CAO	2,590,392
Corporate Services	3,265,646
Library Services	2,175,918
Fire Services	5,645,565
Planning & Sustainability	886,233
Transportation and Public Works	8,405,363
Recreation & Parks	5,675,591
Corporate	1,022,872
Capital Financing & Other	5,685,049
Corporate Revenues	<u>(\$2,047,298)</u>
Total net expenditures for the period	<u>\$33,802,357</u>

With a net budget remaining of \$32,609,734 as at the end of May 2020, there is a projected net 2020 shortfall of \$1,192,623:

	\$
Net Budget Remaining May 31, 2020	32,609,734
Financial projections June 1 - Dec 31	<u>33,802,357</u>
Budget Shortfall	<u>(1,192,623)</u>

The shortfall is comprised of the following 2 main components:

	\$
COVID-19 Deficit	(3,154,218)
Non COVID-19 Savings	1,961,595
Net 2020 Projected Budget Shortfall	(1,192,623)

COVID-19 Related Budget shortfall

The total projected COVID-19 related budget shortfall for the 2020 budget year is as follows:

COVID-19 Related Net Costs - 2020	Amount
R&P Facilities	\$1,686,530
Permits & applications	\$1,359,600
Penalty & interest on outstanding taxes	\$376,785
COVID costs	\$193,683
Programs	\$148,104
Enforcement	\$102,900
Parks Operations	\$63,745
Supplementary taxes	\$50,000
Miscellaneous	(\$50,731)
Crossing guards	(\$101,941)
Library	(\$105,218)
ActiVan	(\$187,302)
Office closure	(\$381,937)
Total COVID-19 related deficit	\$3,154,218

Non COVID-19 Related Savings

The following non COVID-19 related savings have been forecast for 2020:

Non COVID-19 Related Savings - 2020	Amount
Council	(\$82,703)
Office of the CAO	(\$174,081)
Corporate Services	(\$235,124)
Library Services	(\$39,200)
Fire Services	(\$270,813)
Planning & Sustainability	(\$124,413)
Recreation & Parks	(\$473,353)
Transportation & Public Works	(\$1,521,045)
Corporate	\$1,307,386
Corporate Revenues	(\$348,249)
Total Non COVID-19 related savings	(\$1,961,595)

Mitigation Plan Summary

Finance staff have worked closely with the CAO, Department Heads and operations managers to create a plan to mitigate the COVID-19 related deficit through operational changes. This plan will be closely monitored during the remainder of 2020 and is subject to change.

The following table outlines the service level and planned operating spending changes by department:

Council
<ul style="list-style-type: none">• Committees of Council suspended until further notice• Discretionary expense savings
Office of the CAO
<ul style="list-style-type: none">• Discretionary expense savings• Part time position to remain vacant for 2020
Corporate Services
<ul style="list-style-type: none">• Reduced non-essential training• Reduced contracted services as a result of office closure

Library Services
<ul style="list-style-type: none"> • Discretionary expense savings • Savings in part time wages • Temporary full time vacancy will not be filled
Fire Services
<ul style="list-style-type: none"> • A minimum of 1 full time staffing vacancy will remain vacant for 2020 • Savings in fuel and equipment supplies as fire vehicles are responding to fire calls only • Non-essential repairs and maintenance to be postponed
Planning & Development
<ul style="list-style-type: none"> • 1 full time position to remain vacant for 2020 • Only professionally required training to be completed • Mileage reduced as Regional meetings held over Zoom
Transportation & Public Works
<ul style="list-style-type: none"> • Speed & delay studies cancelled for this year • Part time and student positions for Engineering & Transportation will remain vacant • 3 full time positions to remain vacant for 2020
Recreation & Parks
<ul style="list-style-type: none"> • Discretionary expense savings • Savings in PT wages • Fall & Winter 2020-21 Community Services & Activity Guide will not be printed; savings in external reproduction costs & contracted services • Virtual & modified programming will result in savings in program expenses

The \$3.1M deficit related to the current COVID-19 response has been partially offset by projecting the implementation of these operational changes. Estimated savings will reduce the projected deficit to \$1,192,623.

Financial Position (Cash, Reserves, and Development Charges) Update

Cash and Working Capital

In recognition of the disruption caused by the COVID-19 pandemic, including potential financial impacts, Town Council approved tax relief measures on March 24, 2020. The temporary relief was put in place to give taxpayers additional time to pay and remove penalties and fees for those who needed to defer payments. These measures included:

- The Town waiving the late payment penalties from April 1 to June 30
- The Town waiving non-sufficient funds (NSF) and arrear fees between April and June
- Property owners on the pre-authorized payment plan or paying through post-dated cheques may cancel their payments between April and June without penalty, provided that tax staff was advised prior to April 23
- Property owners can also opt to make partial payments without incurring a late penalty until June 30th

Staff have noticed a slight slow-down in the rate of tax collections. A review of tax collection rates as at May 31 shows that collections are about 3.5% (\$2M) lower than the previous 3 year rolling average:

	2020	2019	2018	2017
Current Years Collections	43.73%	47.41%	46.89%	47.28%
Current Years Outstanding*	56.27%	52.59%	53.11%	52.72%

**includes Final Tax installment not yet due*

As of June 1, taxes in arrears (prior year taxes and 2020 interim tax bill) was approximately \$9.7M:

	2019 and Prior	2020	Total
Taxes in Arrears as of June 1, 2020	3,532,836.13	6,181,566.51	9,714,402.64

A Projection to December 31, anticipates that there will be a \$2.8M increase in outstanding taxes over the 2019 balance as follows:

	\$'000s
Taxes Receivable Jan 1, 2020	4,811
Total 2020 Levy (Town, Region, School Boards)	130,737
Current collections	<u>(59,094)</u>
	76,454
Estimated collections Jun to December	<u>(68,842)</u>
Projected Taxes Receivable Dec 31, 2020	7,612
 \$ Increase over 2019	 2,801
% Increase over 2019	58%

(Note: This projection does not include supplementary billing for 2020 or potential penalties added to accounts)

The Town receives monthly supplementary tax files from May to October. To date it is anticipated that \$170,000 in supplemental revenue will be received in 2020. However, MPAC's ability to inspect new non-residential properties has been impacted by COVID-19 which staff are projecting will impact growth over the spring and summer months. Staff will continue to work with MPAC by providing building information that will assist them in adding additional growth to the roll. Staff are hopeful that MPAC will resume near normal operations by the fall and be able to add growth prior to the end of October.

In addition, the property tax installments to the Region and the Province of Ontario for the School Boards have also been deferred in order to assist municipalities with their cash flows as they manage the expected delays in receipts of tax payments.

Status of Reserves

An estimate of the Town's reserves (net of inter-fund loan commitments) as at May 31, 2020 project a balance of \$5.2M in the tax rate stabilization reserve. This includes the distribution of the 2019 surplus. Overall reserves have decreased since 2019 however, this was anticipated as part of the Town's Long-Range Financial Plan.

	Jan 1, 2020	Additions	Reductions	Interest	Interfund Loans	May 31 2020
Stabilization Reserves						
Contingency	\$3,102,769	-	-	-	-	\$3,102,769
Severe Weather	\$750,000	-	-	-	-	\$750,000
Tax Rate Stabilization	\$6,221,327	\$544,083	(\$1,532,556)	-	-	\$5,232,854
Operating Reserves	\$7,558,288	\$237,271	(\$1,578,961)	-	(\$969,159)	\$5,247,439
Capital Reserves	\$37,841,381	\$6,558,495	(\$8,313,632)	\$449,843	(\$18,712,895)	\$17,823,192
Discretionary Reserves	\$10,336	-	-	\$163	-	\$10,499
	<u>\$55,484,101</u>	<u>\$7,339,849</u>	<u>(\$11,425,149)</u>	<u>\$450,006</u>	<u>(\$19,682,054)</u>	<u>\$32,166,753</u>

** includes 2020 budgeted commitments and receipt of the Hydro Promissory Note repayment*

Of particular note, the Bank of Canada reduced the target interest rate from 1.75% to 0.25% in March of 2020, which significantly reduces potential earnings on new investments and interest earned on cash. The Town continues to pool all of its investments with the Region of Halton in an effort to obtain a better rate of return. The Town has held a favourable cash position for the first part of 2020 and has accumulated favourable earnings to date on the funds invested with the Region of Halton. The Region maintains securities in various maturity terms in order to manage interest rate risk and enhance the realized rate of return. Although recent interest rates have been reduced considerably, investments made pre-COVID were able to provide a higher rate of return which resulted in higher interest earned, and a benefit to the Town.

Development charge collections are a significant source of revenue for the Town and collections are anticipated to be at lower levels for 2020 than previously forecasted as part of the 2019 Long Range Financial Plan update. This forecasted shortfall is primarily related to COVID-19 which added a degree of uncertainty for new commercial and industrial developers, resulting in a significant reduction in the volume of building permits being issued for these classes of development. The following table shows the anticipated 2020 Development Charge shortfall:

(Forecast as per 2019 LRFP)	Collections to date (Jan to May 2020)	Forecast collections June-Dec 2020	Shortfall
\$3,719,092	\$1,231,829	\$2,087,960	\$399,303

Building Permit Reserve Fund

A significant portion of the COVID-19 related deficit is related to a slow-down in construction during the initial period of lockdown. The Town has a building permit stabilization fund to address year to year volatility of service volumes for building permit activities in accordance with the Building Code Act. An estimate of the reserve fund balance at May 31 is \$4.8M.

	Jan 1, 2020	Additions	Reductions	Interest	May 31 2020
Building Permit Reserve Fund	\$4,903,657	-	(\$166,702)	\$75,741	\$4,812,696

Cash Flow Challenges

Any net operating budget deficit in 2020 will be a permanent reduction in “cash” from the Town’s reserves (\$1.1M current projection) as funding will be required in order to maintain a balanced budget. In addition to this deficit there is the projected additional tax collection shortfall of \$2.8M and \$399K from lower than planned development charges collections, which will be delayed until such time as it is collected. Staff will have to manage a combined cash shortfall of \$4.3M in order to maintain liquidity and adequate cash balances.

Next Steps

The full 2020 impact of COVID-19 is still uncertain, and will likely be unknown for some time. However, at the present the net 2020 operating deficit of \$1.1M can be covered from the Town's stabilization reserves.

There is also a requirement to take some interim, short term measures, so that the Town's strong fiscal position is maintained. Staff have had many discussions at the senior management level and are managing the reduced cash flow through multiple methodologies. These include the deferral of capital projects and careful working capital planning.

Future financial updates will be provided to Council as the fluid situation develops and operations are adjusted to the evolving directions from the Province. Staff continue to track COVID-19 related costs and will pursue all available options from upper levels of government as and when they become available.

The Long-Range Financial Plan is currently being reviewed and updated in order to take into consideration the impact of Covid-19. Staff will report back to Council with an updated plan once the full impacts of COVID-19 are known.

RELATIONSHIP TO STRATEGIC PLAN:

This report supports the following strategic objectives:

- Establish sustainable financing, asset management and master plans to acquire, operate, maintain, renew and replace infrastructure.
- Continue to provide timely and transparent communications with the Town's residents and business owners.

FINANCIAL IMPACT:

Currently there is a net forecast deficit of \$1.1M for 2020. As the COVID-19 situation is very fluid, this forecast is likely to change before the end of the year. Once the final number is determined, staff will provide the appropriate funding plan to Council for approval.

CONSULTATION:

Accounting staff consulted with the CAO, Senior Management Team, Town operating departments, Finance staff, Halton Region Investment Team, and Halton Area Treasurers for information included in this report.

PUBLIC ENGAGEMENT:

No public engagement required in reference to this report.

SUSTAINABILITY IMPLICATIONS:

The Town is committed to implementing our Community Sustainability Strategy, Imagine Halton Hills. Doing so will lead to a higher quality of life.

The recommendation outlined in this report is not applicable to the Strategy's implementation.

COMMUNICATIONS:

There is no communications impact.

CONCLUSION:

The Town of Halton Hills is in a strong financial position from a planned approach to reserve balances and a clearly defined Long Range Financial Plan. This allows the Town to be able to manage the fiscal impacts of this unforeseen/unplanned pandemic through a mixture of deferrals, reserves and operating surplus. Forecasts will be updated as assumptions continue to change and staff will report to Council periodically during the year. Final results will not be known until the year-end audit is completed in mid-2021.

Reviewed and Approved by,

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Chris Mills, Commissioner of Corporate Services

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Chris Mills, Acting Chief Administrative Officer