



REPORT

REPORT TO: Mayor Bonnette and Members of Council

REPORT FROM: Jinsun Kim, Manager of Finance

DATE: November 9, 2020

REPORT NO.: CORPSERV-2020-0036

RE: Operating Budget Status as at September 30, 2020, COVID-19 Update and Financial Projections to December 31, 2020

RECOMMENDATION:

THAT Report No. CORPSERV-2020-0036, dated November 9, 2020, regarding the Operating Budget Status as at September 30, 2020, COVID-19 Update and Financial Projections to December 31, 2020 be received as information;

AND FURTHER THAT staff be directed to request from both the Ministry of Transportation and Ministry of Municipal Affairs and Housing that any unused COVID-19 Safe Restart funds pertaining to the 2020 distribution be applied against 2021 COVID-19 related impacts;

AND FURTHER THAT staff be directed to request further funding from upper levels of government for anticipated 2021 COVID-19 related impacts.

BACKGROUND:

The COVID-19 pandemic has had a significant impact across the Town of Halton Hills and will continue to do so for the remainder of 2020. With the recent resurgence of the cases, the situation is constantly evolving and responding to changes quickly and efficiently continues to be 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 September 30 and projected results to year end, including financial implications of COVID-19. Additionally, this report will also provide an overview of the Safe Restart Agreement (SRA) Funding received by the Town to help offset COVID-19 related shortfalls.

Since 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, the Province has eased restrictions and allowed the Region of Halton (Halton Region) to gradually move to the final stage (phase 3) of 'A Framework for Reopening our Province' on July 24, 2020. As a result, nearly all businesses and public spaces have reopened provided they followed the public health advice and workplace safety guidance necessary to keep everyone safe.

The Province however has seen a resurgence of COVID-19 cases since August, including in Halton Region. In response to rising case numbers in Halton Region, the Region's Chief Medical Officer of Health released the following guidance and recommendations on October 19, 2020:

- Limit all team sports to training only, with proper physical distancing between players and no scrimmages or games.
- Suspend all indoor fitness classes.

Accordingly, Town staff put these guidelines into effect as of October 20, 2020 at the time of writing this report. As such, although these changes will further impact the Town's programs and services, the resulting projected financial impacts have not been reflected within this report. Staff will continue to monitor the situation and report back to Council at year end.

COMMENTS:

Operating Status as at September 30, 2020

The following table is a snapshot of the Town's operating results as at September 30, 2020:

2020 Financial Report					
For the period ending September 30, 2020					
	2020	2020	Remaining	Remaining	
	YTD Actuals	Final Budget	\$	%	
	30-Sep	Total			
Council	\$ 534,537	\$ 957,600	\$ 423,063	44.2%	
Office of the CAO	3,218,202	4,386,400	1,168,198	26.6%	
Corporate Services	3,841,979	5,492,000	1,650,021	30.0%	
Library Services	2,261,647	3,651,100	1,389,453	38.1%	
Fire Services	4,023,112	7,307,000	3,283,888	44.9%	
Transportation & Public Works	842,407	1,438,100	595,693	41.4%	
Planning & Sustainability	8,582,307	13,423,900	4,841,593	36.1%	
Recreation & Parks	5,783,896	7,442,300	1,658,404	22.3%	
Corporate Expenses	2,628,807	1,177,600	(1,451,207)	(123.2%)	
Capital Financing & Other	11,228,735	14,007,200	2,778,465	19.8%	
Total Net Expenditures	\$ 42,945,629	\$59,283,200	\$16,337,571	27.6%	
Corporate Revenue					
Provincial Offences	\$ (75,087)	\$ (208,000)	\$ (132,913)	(63.9%)	
Investment Income	(1,017,557)	(1,155,000)	(137,443)	(11.9%)	
Corporate Taxation (PIL, Supp Tx, Penalty etc.)	(2,135,078)	(2,591,300)	(456,222)	(17.6%)	
HH Community Energy	(1,218,662)	(1,313,100)	(94,438)	(7.2%)	
Capital Chargeback & Other	(429,533)	(458,500)	(28,967)	(6.3%)	
Total Corporate Revenue	\$ (4,875,917)	\$ (5,725,900)	\$ (849,983)	14.8%	
YTD Net Expenditures (Spend Rate)	\$ 38,069,712	\$53,557,300	\$15,487,588	(28.9%)	
Levies & Special Levies	(53,557,300)	(53,557,300)	-	0.0%	
Net Budget Remaining	\$ (15,487,588)	\$ -	\$15,487,588	28.9%	

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

Year	YTD Net Expenditures Sept 30	Net Budget Remaining	Budgeted Levy	% of Budget Remaining
2019	\$ 32,197,541	\$ 18,491,957	\$ 50,689,500	36.5%
2020	\$ 38,069,712	\$ 15,487,588	\$ 53,557,300	28.9%

In the almost 7 months of COVID restrictions, many Town facilities were closed, and programs and services were either cancelled or offered at lower service levels. These measures combined with extensive cost cutting initiatives allowed reductions in operating expenses. However, these also resulted in lower levels of off-setting revenues that increased the current spend rate compared to 2019.

Below is a summary of cost savings/increases and lost revenues that the Town continues to incur as part of the COVID-19 response:

COVID specific savings

- Some staffing vacancies will remain vacant for 2020
- Part time wage reductions as some services suspend operations
- Reduced contracted service costs
- 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
- Fuel and equipment cost savings related to the ActiVan 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

COVID specific lost revenues/deferrals

- Lower revenues from development applications, development agreements, and building permits due to a slowdown in building construction
- Lost revenue due to canceled and modified programming
- Facility and park closures and reduced service levels
- Lost user fees relating to cancelled spring/summer programs including in-person summer camp, ice rentals and aquatics as well as modified fall programs for ice and aquatics as per provincial guidelines
- Fee waiver for Activan usage from March 30 to July 6, 2020
- Decrease in Library fine revenues as the current Fines Free policy is extended to all library cardholders for the remainder of 2020
- Reduced business license fee revenues as some of the community's existing small businesses have temporarily or permanently closed and new ones have delayed opening
- Provincial Offences Court closure had reduced bylaw fines revenue

- Interest waived on loan re-payments & waiver of rental and lease payments (Confidential Attachment #1)

COVID-19 Staged Recovery Plan

Advancing from stage 1 to stage 3 of the Provincial '*A Framework for Reopening our Province*', staff have implemented a staged recovery plan and gradually reintroduced service levels while complying with local public health requirements. This allowed the gradual reopening of Town facilities and services with measures in place to ensure physical distancing while following expanded health and safety requirements. Staff will continue to adhere to the advice of public health officials and will make adjustments to services in response to any new information that will keep the public and staff safe.

As part of the stage 3 re-opening the following services were reintroduced:

- Opening of Town Hall to the public by appointment only using online booking and COVID-19 screening tools
- ActiVan drivers returned to work as trip volumes recover
- Opening of parks for services/programs/rentals
- Opening the facility service counter by appointment
- Opening of community centres and arenas with modified programming and hours of operation
- Reintroduction of group fitness classes with reduced capacity
- Expansion of programming and hours of operation in Youth Centres and Hillsview Active Living Centres
- Continuation of Recreation & Parks virtual active and social programming
- Introduction of new "pop-up" activities in neighbourhood parks

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

Department	2020 Budget	2020 Actual & Forecast			Variance to Budget
		Actual	Forecast	Total	
		YTD Sept 30	Oct 1 - Dec 31		
Council	\$ 957,600	\$ 534,537	\$ 198,295	\$ 732,832	\$ 224,768
Office of the CAO	4,386,400	3,218,202	1,114,922	4,333,124	53,276
Corporate Services	5,492,000	3,841,979	1,503,762	5,345,741	146,259
Library Services	3,651,100	2,261,647	982,289	3,243,936	407,164
Fire Services	7,307,000	4,023,112	2,977,075	7,000,187	306,813
Planning & Sustainability	1,438,100	842,407	622,902	1,465,309	(27,209)
Transportation & Public Works	13,423,900	8,582,307	4,004,620	12,586,927	836,973
Recreation & Parks	7,442,300	5,783,896	2,127,356	7,911,252	(468,952)
Corporate	1,177,600	2,628,807	596,178	3,224,985	(2,047,385)
Capital Financing & Other	14,007,200	11,228,735	2,778,465	14,007,200	-
Total Net Expenditures	\$ 59,283,200	\$ 42,945,629	\$ 16,905,862	\$ 59,851,491	\$ (568,291)
Corporate Revenues	(5,725,900)	(4,875,917)	(615,370)	(5,491,287)	(234,613)
Levies & Special Levies	(53,557,300)	(53,557,300)	-	(53,557,300)	-
Net Total	\$ -	\$ (15,487,588)	\$ 16,290,492	\$ 802,904	\$ (802,904)

It is projected that the 2020 operations will result in a net shortfall of \$802,904. The net shortfall is primarily attributed to a \$2.2 million deficit directly resulting from the COVID-19 impact, offset by \$1.4 million Non-COVID related operational savings as shown below.

COVID-19 Deficit	\$ (2,214,862)
Non COVID-19 Savings	1,411,959
Net 2020 Projected Budget Shortfall	\$ (802,904)

COVID-19 Related Budget shortfall

The projected \$2.2 million COVID-19 related budget shortfall for 2020 is driven by the following:

COVID-19 Drivers	Amount	Total
R&P Facilities	\$ (1,203,562)	
Permits & applications	(1,359,600)	
Penalty & interest on outstanding tax	(375,330)	
COVID costs	(310,829)	
Programs	(20,151)	
Enforcement	(85,400)	
Parks Operations	(97,428)	
Office closure	368,126	
ActiVan	304,987	
Library	253,451	
Crossing guards	176,223	
Miscellaneous	134,651	
Total COVID-19 related surplus/(deficit)		\$ (2,214,862)

Non COVID-19 Related Savings

The projected \$1.4 million Non-COVID related operational savings includes the following:

Normal Operations Drivers	Amount	Total
Council	\$ 92,351	
Office of the CAO	64,492	
Corporate Services	279,713	
Library Services	93,804	
Fire Services	306,813	
Planning & Sustainability	59,191	
Recreation & Parks	620,430	
Transportation & Public Works*	1,646,052	
Corporate Expenses	(1,790,084)	
Corporate Revenues	39,197	
Total normal operations surplus/(deficit)		\$ 1,411,959
* includes projected \$804K of Building Permit reserve transfers to mitigate development application/building permit revenue shortfalls		

These savings are driven in part by the mitigation measures continually taken by departments as noted below, as well as various operational savings.

Implementation of Mitigation Plan

The following table outlines the service level and operating spending changes that have been implemented by department. These measures will be closely monitored during the remainder of 2020 and will be adjusted as appropriate.

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 respond to fire calls only • Non-essential repairs and maintenance to be postponed
Planning & Development
<ul style="list-style-type: none"> • 1 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

<ul style="list-style-type: none"> • 3 full time positions to remain vacant for 2020
Recreation & Parks
<ul style="list-style-type: none"> • Discretionary expense savings • Savings in part time 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

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 waiver of late payment penalties and interest from April 1 to June 30
- The waiver of 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 could cancel their payments between April and June without penalty, provided that tax staff was advised prior to April 23
- Property owners could also opt to make partial payments without incurring a late penalty until June 30th

Additionally, the final tax bill mailed in early June had due dates of August 27 and October 28, 2020, instead of June 26 and September 28 respectively. Ratepayers on a Town pre-authorized monthly payment plan were given the option of extending their payments to December of this year.

In prior years, current year collections after the final due date have been approximately 91%. Currently, the Town has collected just over 78% of total taxes billed with the October due date still outstanding.

	2020	2019	2018
Current Years Collections	78.39%	91.22%	91.29%
Current Years Outstanding*	21.61%	8.78%	8.71%

**includes Final Tax installment not yet due*

With respect to Taxes in arrears, the estimated balance at December 31, 2020 is approximately \$6.0 million, a \$1.2 million increase over the 2019 balance, due to COVID-19. It should be noted that this is an estimate based on information at the time of this report and a final number will not be known until the final tax installment due date has passed.

The Town receives monthly supplementary tax files from May to October. To date the Town has processed \$309,381 in supplemental billing for 2020. Staff is working closely with MPAC to ensure MPAC has the proper information in their review. MPAC will be providing the Town with the last supplemental file at the end of October for the 2020 year.

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

The Town's reserves (net of inter-fund loan commitments) as at September 30, 2020 is expected to total \$35.6 million, including \$5.4 million in the tax rate stabilization reserve. Overall, reserves have decreased since 2019 as anticipated as part of the Town's Long-Range Financial Plan (LRFP). More detailed information will be reported to Council before the end of the year through the quarterly Reserve and Reserve Fund report.

	Jan. 1, 2020	Additions	Reductions	Interest	Interfund Loans	Sep. 31, 2020*
Stabilization Reserves						
Contingency	\$ 3,102,769	\$ -	\$ (74,638)	\$ -		\$ 3,028,131
Severe Weather Event	750,000	-	-	-		750,000
Tax Rate Stabilization	6,221,327	979,350	(1,790,048)	-		5,410,629
Operating Reserves	7,558,288	423,819	(1,690,311)	-	(969,159)	5,322,636
Capital Reserves	37,841,381	9,614,809	(8,379,399)	675,539	(18,712,895)	21,039,435
Discretionary Reserve	10,336	-	-	234		10,571
	<u>\$ 55,484,101</u>	<u>\$ 11,017,978</u>	<u>\$ (11,934,396)</u>	<u>\$ 675,773</u>	<u>\$ (19,682,054)</u>	<u>\$ 35,561,402</u>

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

The Bank of Canada reduced the target interest rate from 1.75% to 0.25% through three 50 basis point reductions during the month of March 2020. This significantly reduced potential earnings on new investments and interest earned on cash. The Town continues to pool its investments with Halton Region in an effort to obtain a better rate of return. The Town has accumulated favourable earnings to date on the funds invested with the Region. The Region maintains securities in various maturity terms in order to manage interest rate risk and enhance the realized rate of return. Although interest rates have been reduced considerably, investments made pre-COVID were able to yield a higher rate of return which resulted in higher interest earned, and a benefit to the Town.

Development charge (DC) collections are a significant source of revenue for the Town. The 2020 collections are anticipated to be \$1.1 million lower than previously projected in the 2019 LRFP. 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	2020 Actual & Forecast			Estimated Shortfall
	Jan - Sept	Oct - Dec	Total	
\$ 3,719,092	\$ 2,378,750	\$ 283,090	\$ 2,661,840	\$ (1,057,252)

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 over year volatility of service volumes for building permit activities in accordance with the Building Code Act. An estimated reserve fund balance at September 30 is \$4.9 million.

Building Permit Reserve Fund				
Jan 1, 2020	Additions	Reductions	Interest	Sept 30, 2020
\$ 4,903,657	\$ 175,130	\$ (266,723)	\$ 108,326	\$ 4,920,390

Cash Flow Challenges

As discussed above, staff are currently estimating cash flow challenges resulting from the operating deficit (\$802,904) and delayed collections in tax revenue (a \$1.2M increase in tax arrears) and in DC revenue (\$1.1M). Of these shortfalls, the operating deficit (\$802,904) is expected to be financed by the funding received under the Federal-Provincial 'Safe Restart Agreement' as discussed below. Staff will continue to closely monitor and manage these cash shortfalls in order to maintain liquidity and adequate cash balances.

Safe Restart Agreement (SRA) Funding

As part of the Federal-Provincial 'Safe Restart Agreement', the Province announced on July 27, 2020 that \$4 billion is being allocated to municipalities across the province for the support of their COVID-19 responses. The funding is allocated into two streams: A) up to \$2 billion to support municipal operating pressures; and B) up to \$2 billion to support municipal transit systems. The funding will provide support to municipalities and public transit operators to help address financial pressures related to COVID-19 and maintain critical services.

A) Municipal Operating Stream

Under the municipal operating stream, \$1.39 billion will be made available to municipalities to address operating pressures and local needs. This funding will be allocated in two phases: 50% allocated in Phase 1 for all municipalities, and 50% allocated in Phase 2 for municipalities that require additional funding. This funding will be distributed amongst municipalities on a per household basis.

The Town received an allocation amount of \$1,334,000 for Phase 1 to support the Town's COVID-19 operating costs and pressures.

At this time, staff are waiting to receive further details from the Province outlining the eligible costs for Phase 1 of this funding. Staff are expected to report back to the Ministry of Municipal Affairs and Housing in March of 2021 with details on 2020 COVID-19 operating costs and pressures, the Town's overall 2020 financial position, and the use of provincial funds.

Further, Phase 2 funding is being made available to municipalities with significant financial challenges. To qualify for this additional funding, municipalities must be able to demonstrate that their 2020 COVID-19 operating costs and pressures exceed their Phase 1 per household allocation (i.e. \$1.3M in the case for the Town) and that further cost savings to mitigate these challenges cannot be achieved. Based on the projections included in this report, staff have determined that the \$1.3 million Phase 1 allocation received by the Town combined with significant cost saving measures, will be sufficient to cover the current expected year end deficit (i.e. \$802,904) and it will not be necessary to apply for a Phase 2 funding allocation.

It is province's expectation that any unspent funding from the Phase 1 allocation will be placed into the Town's reserves and will continue to be used to support COVID-19 operating costs and pressures.

B) Municipal Transit Stream

Under the municipal transit stream, up to \$2 billion will be made available to municipalities to address transit pressures through two phases. In Phase 1, \$666 million will be allocated to municipalities with transit systems to help provide immediate relief from the financial pressures of COVID-19. In Phase 2, the balance will be available to address the ongoing financial pressures of COVID-19 until the end of the provincial fiscal year, or March 31, 2021. Phase 1 allocation will include a base amount of \$40,000 per recipient plus an amount based on 2018 ridership.

The Town received a Phase 1 allocation of \$71,987 to support COVID-19 transit pressures incurred between April 1 and September 30, 2020. Staff are required to report back to the Ministry of Transportation by October 31, 2020 with details on the use of the Phase 1 funds and a forecast of eligible expenditures to March 31, 2021.

Allocations for Phase 2 funding will be determined at a later date and will be distributed to municipalities who have demonstrated that their 2020 COVID-19 transit expenses and pressures exceed their Phase 1 allocation amount. Based on the projections included in this report, staff have determined that the Phase 1 allocation received will be sufficient to cover the Town's COVID related transit expenditures and that Phase 2 allocation will not be required.

Any unspent funds from the Phase 1 allocation will be placed in the Town's reserves to support potential COVID-19 transit pressures incurred up to March 31, 2021. Potential usage or return of any remaining funds after March 31, 2021 is yet to be determined by the province.

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 \$802,904 for 2020, which will be covered by the funding received under the Federal-Provincial 'Safe Restart Agreement' as noted above. The COVID-19 situation is still very fluid and this forecast is anticipated to change before the end of the year. Staff will report back to Council with final results as part of the 2020 year-end process in early 2021.

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 (advances, does not advance, 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 as a result of implementing a comprehensive COVID-19 cost reduction mitigation plan at the start of the pandemic. In addition, the Town has a clearly defined Long Range Financial Plan, with a structured approach to ensuring reserve balances are maintained. This allows the Town to continue to manage the fiscal impacts of this unforeseen/unplanned pandemic through a mixture of deferrals, reserves and operating surplus. Staff will report to Council with final results as part of the 2020 year-end process.

Reviewed and Approved by,

A handwritten signature in black ink, appearing to read "M. J. Leighton".

Moya Jane Leighton, Town Treasurer and Director of Accounting

A handwritten signature in black ink, appearing to read "C. Mills".

Chris Mills, Acting Chief Administrative Officer