



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: June 23, 2020

Report Number: SRCFS.20.021

Department: Corporate and Financial Services

Division: Financial Services

Subject: SRCFS.20.021 – 2020 Operating Forecast /
COVID-19 Pressures and Updated Cash Flow

Purpose:

To present the City's 2020 year-end operating forecast and updated cash flow.

Recommendation(s):

- a) That the interim forecast 2020 Operating Forecast / COVID-19 Pressures and Updated Cash Flow outlined in report SRCFS.20.21, be received for information purposes;
- b) That staff provide a subsequent update in the Fall 2020;
- c) That with Council direction, staff proceed with "Other Mitigating Measures" to mitigate the COVID-19 impact;

Contact Person:

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Report Approval:

Submitted by: Sherry Adams, Interim Commissioner of Corporate and Financial Services

Approved by: Mary-Anne Dempster, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner and City Manager. Details of the reports approval are attached.

Page 2

Background:

The purpose of the report is to provide Council with an interim 2020 operating forecast and an update of the City's financial impacts due to Covid-19. During this unprecedented pandemic, the City has responded quickly and diligently with the focus of keeping residents and staff safe. On March 13, 2020, Richmond Hill took emergency measures including the closing of facilities, canceling programs, canceling events and closing park amenities.

The closures and uncertainty led Council to respond by passing various emergency motions, including:

- Deferral of Property tax installment from May 1st to June 1st.
- Waiving Penalties and Interest Charges on tax payments to January 1, 2021.
- Deferring the approved 7.5% Water/Wastewater retail rate increase.
- Deferring the approved 7.5% Stormwater Management Fee increase.

In conjunction with the City's relief efforts, the Province and Region has also responded accordingly by relieving the City's financial pressures through:

- The Province - Deferring the City's June and September quarterly education remittance by 90 days.
- The Region of York - Waiving interest and penalties to local municipality property tax installments for uncollected amounts, and deferring the approved 9.0% wholesale Water/Wastewater rate increase.

The coordinated efforts have assisted the financial situation, however the City is operating in a quickly changing economic environment, with consecutive Bank of Canada interest rate cuts, negatively affected the City's investment income. Meanwhile, trending unemployment in Ontario at 13.7% for May (compared to 7.3% in March)¹, may have adverse effect to future water & wastewater and property tax collections. Slowing development revenues to the City have also been observed over the last few quarters and could be compounded by a slow recovery while restrictions are gradually lifted.

An interim operating forecast provides management a process to monitor and obtain feedback on budget to actual results, and if necessary, amend operating decisions. The Financial Control By-law allows management flexibility to reallocate personnel and non-personnel resources to meet corporate priorities as they arise.

¹ Statistics Canada. Table 14-10-0287-01 Labour force characteristics, monthly, seasonally adjusted and trend-cycle, last 5 months.

(<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410028701&pickMembers%5B0%5D=1.7&pickMembers%5B1%5D=3.1&pickMembers%5B2%5D=4.1&pickMembers%5B3%5D=5.1>)

Page 3

Financial/Staffing/Other Implications:

Financial impacts to the City can be divided between Cash Flow and Financial Outlook. Cash flow describes the City's ability to pay its monthly expenditures (cash outflow) given the lowered revenue environment (cash inflow). Financial Outlook refers to the forecasted financial result of operations when compared to budget and the resulting surplus / deficit position at year-end.

Cash Flow Update

Cash Flow Projections

Forecasts on the City's cash flow outlook are consistently monitored, in order to prioritize liquidity and cash requirements to meet ongoing financial obligations. In addition to the tax relief measures highlighted previously, the following are assumptions incorporated into the projections.

Cash Inflows Assumptions:

- + Any outstanding interim and final tax instalments to be recovered in December.
- + Gradual Recreation Revenue recovery in 2020 are 0%, 25%, 40% and 50% in Q2, Q3, Q4 and Q1 2021, respectively.

Cash Outflow Assumptions:

- Q2 tax payment to Region due in June prorated at 90% or \$46.9 million as collections of the first interim billing (i.e. March 1st and June 1st due dates) has been 89.4% to date.
- Q3 and Q4 tax payments to Region (based on August 4th and October 1st tax due dates) due in September 30th and December 15th, respectively, are conservatively forecasted at 75% or an estimated \$43.6 million per payment.
- Q3 and Q4 outstanding/late tax amounts owed to Region to be remitted in December 2020 and March 2021, respectively.
- Double remittance of education property tax payment in December 2020, as a result of September's 90-day deferral.

Table 1 below provides a high-level quarterly projection of the City's cash balances with a conservative 75% collection rate. The projection demonstrates the City is able to fulfill all of the City's major obligations. The City's investment portfolio excluding cash balances is valued at approximately \$435 million. Staff are closely monitoring economic and market conditions and is prepared to divest securities for additional cash flow requirements if necessary.

Page 4**Table 1 – Quarterly Annual Cumulative Cash Flow Projections in \$ millions based on 75% Collections**

| | | Jun-20 | Sep-20 | Dec-20 | Mar-21 |
|-------------|-------------------------|---------------|---------------|---------------|---------------|
| | Beginning Balance | 122.0 | 122.0 | 122.0 | 52.4 |
| Plus | Tax Revenue | | | | |
| | PAP | - | 18.1 | 56.9 | 23.9 |
| | 75% Instalment in 2020 | - | 88.6 | 152.4 | 126.1 |
| | 25% Instalment Recovery | - | - | 50.8 | - |
| | WWW Revenue | 2.4 | 23.3 | 42.1 | 16.3 |
| | Other Revenue | 6.8 | 13.8 | 32.0 | 9.7 |
| | Investment Maturities | - | 23.5 | 32.3 | 32.0 |
| Less | Tax Payment | | | | |
| | Region | (46.9) | (90.5) | (134.2) | - |
| | Region Outstanding | - | - | (19.8) | (14.5) |
| | SCB | - | (34.9) | (106.3) | (36.6) |
| | WWW Payment | - | (21.4) | (31.2) | (19.1) |
| | Other Expenses | (12.9) | (74.8) | (144.6) | (65.9) |
| | Ending Balance | 1.5 | 67.8 | 52.4 | 124.2 |

Property Tax Payment Status

As of June 5th, based on the deferred instalment date from May 1st to June 1st and the total 2020 Interim amount billed of \$236.2 million, 89.4% or approximately \$211.2 million has been collected. This equates to 10.6% or \$25.0 million outstanding that has yet to be received. For comparative purposes, the 2019 Interim levy outstanding after May 1st instalment due date was 7.2%. Overall, this is reflected as very positive, given the year over year change only represents only a 3.4% increase in the amount outstanding even amid ongoing uncertainty due to COVID-19.

Financial Outlook - Operating Fund

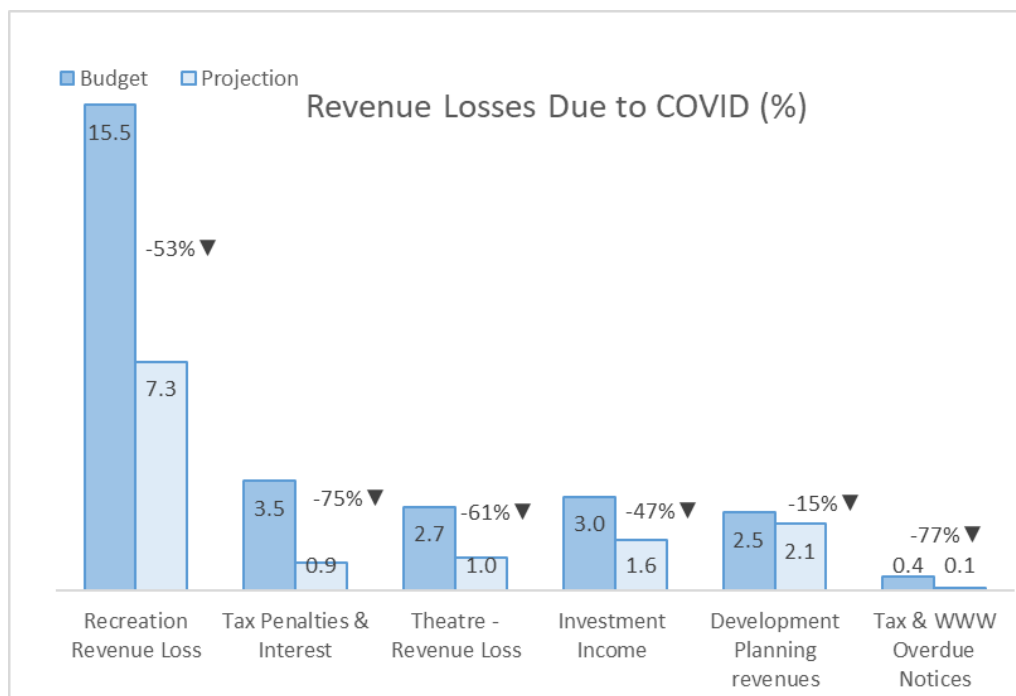
A complete detailed projection is included in Appendix A, outlining the COVID-19 financial impacts and the resulting Year End projection. Staff are estimating year-end deficit of \$1.85 million on a \$184 million expenditure budget. The projection to year-end factors the various closures and cancellations to City programs and services known as of May 30, 2020.

Page 5

The magnitude of the deficit is partially offset by taking various “mitigating measures” to manage and contain operating costs. The remaining deficit will require further direction from Council that may include service level considerations.

| COVID-19 Financial Impacts | Forecast to Dec 31 (UN) / Fav |
|--|--|
| Gross Revenue Impact Due to COVID-19 | \$(15.28) |
| Gross Expense Impact Due to COVID-19 | <u>8.87</u> |
| Total Net Deficit Due to COVID | (6.41) |
| Total Actioned Mitigating Measures | <u>3.76</u> |
| Net Surplus / (Deficit) Projected to Year End | (2.65) |
| Business as Usual Items Surplus / (Deficit) | <u>0.80</u> |
| Total Surplus / (Deficit) Projected to Year End | <u>\$ (1.85)</u> |

The forecasted deficit is driven by the significant loss of non-tax revenues. \$44.2 million of City's \$184 million revenue budget is funded from User Fees and Investment Income. The Gross Revenue Impact of \$15.28 million represents a 35% non-tax revenue loss. The chart below indicates revenue declines by some of the major area:



Page 6**Service Area Impact:**

Service areas that have a relatively high reliance on user fees are greatly affected by emergency closures. Below is a brief discussion of the major areas affected, either through significant revenue loss or expenditure savings due to COVID-19. A projected Net Deficit of \$6.41 million is attributable to COVID-19.

| Service Areas Impact: | | (UN) / FAV (millions) |
|---|--|----------------------------------|
| Recreation and Culture (including Theatre) | <ul style="list-style-type: none"> • Cancellation of programs and closing facilities eliminated all revenues from March to June. Revenue outlook continues to be uncertain due to physical distancing. It is expected revenues to take longer to normalize to pre-COVID revenue levels and there will be impacts in 2021. • Staff are projecting July to September revenues to be at 25% of 2019 and October to December at 40% of 2019. • Casual Staff lay-offs and material cost savings from not running programs and events, partially offset revenue losses. | \$(2.37) |
| Parks Permits Cancelled | <ul style="list-style-type: none"> • Parks permits for events and sports fields were cancelled to Mid-June. Permits typically start in mid-May, as a result staff are projecting a deficit to Mid-June. | \$(0.19) |
| Parking Fines/Permits/AMPS | <ul style="list-style-type: none"> • Revenue losses in this area are due to relaxed parking enforcement during the COVID-19 period. It is expected that revenues will return to normal once enforcement is reinstated, however the loss incurred to the end of June is being reported. | \$(0.27) |
| Investment Income | <ul style="list-style-type: none"> • Consecutive Bank of Canada rate cuts from 1.75% to 0.25% in March coupled with lower cash reserves due to property tax deferrals have affected the overall investment return. | \$(1.40) |

Page 7

| Service Areas Impact: | | (UN) / FAV (millions): |
|---|--|-----------------------------------|
| Tax Penalties & Interest | <ul style="list-style-type: none"> As per Special Council motion on April 1st, 2020 to defer interest and penalties on late payments to Jan 1, 2021. These fees are no longer collectable and is a realized loss. | \$(2.62) |
| Tax & WWW Overdue Notices | | \$(0.34) |
| Development Planning Revenues | <ul style="list-style-type: none"> As a result of the COVID-19 Emergency, there has been a corresponding reduction in the receipt of new Site Plan applications and the processing of draft Plan of Subdivision applications. | \$(0.37) |
| Materials and Supplies (including Utilities) | <ul style="list-style-type: none"> Utility savings from hydro, gas and water due to facility closures. | \$0.57 |
| | <ul style="list-style-type: none"> Various office expenses such as postage, photocopying and other IT related savings. | \$0.27 |
| Other Casual Wages | <ul style="list-style-type: none"> Seasonal / Casual positions deferred / cancelled in PWO to mitigate financial pressures. Some tasks have been partially filled by redeployed staff | \$1.22 |
| | Other Items | <u>\$(0.26)</u> |
| Direct COVID-19 Cost | <ul style="list-style-type: none"> Additional expenses related to signage and securing sites, as well as various IT equipment to accommodate staff to work from home. | \$(0.19) |
| | <ul style="list-style-type: none"> Direct COVID overtime costs | <u>\$(0.45)</u> |
| | Total | \$(6.41) |

Page 8**Actioned Mitigating Measures of \$3.76 million:**

The City has implemented a number of mitigating measures in order to alleviate the pressures to the deficit position.

| Actioned Mitigating Measure | | (UN) / FAV (millions) |
|---|---|----------------------------------|
| Freeze all staffing recruitments | <ul style="list-style-type: none"> Recruitment of 35 Full-Time vacancies are on hold in order to realize gapping savings. Compliance factor of 80% has been applied as it is expected that some critical positions will need to be recruited and cannot be deferred. | \$2.70 |
| Training and conferences | <ul style="list-style-type: none"> Non-legislated training and conferences for staff are cancelled, due to social and physical distancing and safety. | \$0.48 |
| Defer / Cancel non-urgent operating programs/costs | <ul style="list-style-type: none"> Budgeted operating programs / events have been deferred or canceled including: <ul style="list-style-type: none"> Internal audit Various City run Conference/events Employee Service awards General Consulting | \$0.39 |
| Staff on temporary layoffs and declare emergency leave | <ul style="list-style-type: none"> Due to closure or cancelled event, various idle administration staff have been placed on emergency leave. | \$0.19 |
| | Total | \$3.76 |

Page 9**Business as usual (BAU) items of \$0.80 million:**

A few non-COVID related variances have been identified below. The net surplus of these items also help relieve the overall deficit position.

| Business as usual Items | | (UN) / FAV (millions) |
|--|--|----------------------------------|
| PIL of Taxes - YRT (55 Orlando Drive) | <ul style="list-style-type: none"> A surplus of \$600k due to the transit facility at 55 Orlando Drive remaining eligible for payment in lieu of taxation. The Region is in discussions with the Province to make regulatory changes to exempt the municipal transit facilities from property taxation. | \$0.60 |
| Misc. Revenue | <ul style="list-style-type: none"> The City historically receive a number of unclassified revenues. These revenues will look to be phased out as an unsustainable budget line item. | \$(0.54) |
| Waste Management | <ul style="list-style-type: none"> Better reporting and alignment of City's costs with running the Blue Box program has resulted in increased funding share from waste producers. | \$0.20 |
| | <ul style="list-style-type: none"> Expected to operate at a surplus given favorable contract pricing with our contractor. | \$0.40 |
| | Other Items | <u>\$0.14</u> |
| | Total | \$0.80 |

Other Mitigating Measures:

The City continues to project a net deficit position for the tax supported operating fund at \$1.85 million at year-end. It is not ideal to end the year with a deficit and place that burden on the 2021 Budget and tax base. Also with non-legislative power to deficit budget, the City must determine ways to eliminate &/or fund the forecasted deficit for 2020. Staff have identified a number of items that can help provide further savings to mitigate this deficit. However, these items have temporary impacts to service levels and therefore staff are seeking feedback from Council before pursuing these measures.

| Other Mitigating Measures to be considered | | Estimate Value |
|---|---|-----------------------|
| | Corporate | |
| | a) Allocate higher share of the total Investment Portfolio Income to the Operating Fund | 820,000 |
| | Library | |
| | b) Use all or a portion of forecasted surplus (incl. \$450,000 from 2019 Carryover) | 784,000 |
| | PWO | |
| | c) Leave Richmond Green Sports Dome up | 190,000 |
| | d) Implement a Blue & Green Bin Replacement charge | 50,000 |
| | e) Further casual staff layoffs (Admin, Parks Admin, Environment Services to the end of the year) | 277,000 |
| | f) Waste By-law Enforcement (ticketing for infractions) | 10,000 |
| | HR | |
| | g) Cancel Service Awards/ Retirement Gifts / Lunch | 23,000 |
| | h) Cancel On-site fitness programs | 12,000 |
| | i) Cancel Flu Shots/Cardio Clinic | 9,600 |
| | j) Cancel new part-time staff Orientation | 1,500 |
| | Fire | |
| | k) Cancel Fire Prevention Week Event | 5,000 |
| | l) Training Tower Expenditures Savings | 15,000 |
| | Recreation | |
| | m) Continue layoff Part-time Recreation Assistants | |
| | 1. Sports Hall of Fame | 24,400 |
| | 2. Preschool program | 14,600 |
| | 3. Older Adult program | 29,300 |
| | 4. Admin | 14,300 |
| | 5. Skating Assistant | 20,300 |
| | 6. Graphic Artist / Marketing Associates | 53,600 |
| | n) Cancel Artists in Residence program | 7,000 |
| | o) Cancel Youth Action Committee (FT staff do virtually) | 3,500 |
| | p) Reduce Recreation Grants for families in need | 10,000 |
| | q) Reduce Community Development/Volunteer Dev. Program | 39,700 |
| | r) Continue Closure of Heritage Centre Museum to end of year | 6,800 |

| Other Mitigating Measures to be considered | | Estimate Value |
|--|---|------------------|
| | Theatre s) RHCPA - cancel printing of 2020/2021 Seasonal Brochure (do a digital mini program Jan/21) | 37,500 |
| | PRS t) Reduce Consulting & Related budgets by 50% | <u>65,000</u> |
| | Total | 2,523,100 |

Financial Position – Water/Wastewater Fund & Stormwater Fund

The Council motion to defer retail Water/Wastewater and Stormwater rate increases of 7.5%, combined with the corresponding deferral from the Region's wholesale rate of 9.0% has led to a projected negative impact of \$920,000. The COVID-19 impact is partially mitigated by cancelling the hiring of seasonal staff and cancelling non-essential training and conferences, the net impact is \$769,000. Current WWW volumes of consumption appear to be reasonable and in line with projections to date, however staff will continue to monitor through the heavier summer usage period. Typically, deficits at year-end related to Water & Wastewater are mitigated by funding out of the Water & Sewer Rate Stabilization Reserve. Appendix "B" – provides three scenarios based on changes to volumes.

Relationship to the Strategic Plan:

Presentation of the 2020 Year End Operating Outlook and determination of measure to eliminate of deficit, reflects the overall use and wise management of resources but also touches on the other goals in the Strategic Plan.

- a) Stronger connections in Richmond Hill to improve access to local information and services; and
- b) Wise management of resources in Richmond Hill to serve as a role model for municipal management, in that, based on forecasting process leading to the year-end reporting, staff have been able to analyze municipal operations, adjust resourcing levels, and position surpluses for use in future year(s).

Page 12

Conclusion:

Based on the almost 90% collection rate for the first interim tax billing, the City's cash flow situation is sufficient to meet the City's major financial obligations. However, the Operating Fund will have to absorb a net deficit of \$6.4 million as a result of COVID-19 which is directly related to a 35% decline in non-tax revenues. This impact has been mitigated through measures implemented by management, however there still remains a projected \$1.87 million deficit, which needs to be addressed through pursuing further mitigating measures or utilization of the City's reserves. The Water & Wastewater Fund is currently projecting towards a negative variance of \$769,400 based on budgeted water consumption volumes and will be monitored for changes to volumes throughout the summer months. Staff will report back to Council in early fall with updated 2020 COVID-19 impacts and outlook for the year.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format, please call the contact person listed in this document.

- Appendix A: COVID-19 Financial Impact - Operating
- Appendix B: Water and Wastewater, Stormwater Financial Impact

Report Approval Details

| | |
|----------------------|--|
| Document Title: | SRCFS 20 021-2020 Operating Forecast COVID-19 Pressures and Updated Cash Flow.docx |
| Attachments: | - SRCFS 20 021-Appendix A-COVID-19 Financial Impact - Operating.pdf - SRCFS 20 021-Appendix B-Water and Wastewater, Stormwater Financial Impact.pdf |
| Final Approval Date: | Jun 16, 2020 |

This report and all of its attachments were approved and signed as outlined below:

David Dexter - Jun 16, 2020 - 7:37 AM

Sherry Adams - Jun 16, 2020 - 8:31 AM

MaryAnne Dempster - Jun 16, 2020 - 10:41 AM