

# **The Corporation of the Town of Lakeshore**

## **Report to Council**

### **Finance Services**



**To:** Mayor & Members of Council

**From:** Rosanna Pellerito, Director of Finance

**Date:** May 27, 2020

**Subject:** Financial Impacts of COVID 19 - Cost Containment Strategies

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### **Recommendation**

Direct Administration to proceed with the recommended deferrals for 2020; and;

Approve the deferred projects as a first charge to the 2021 budget.

### **Background**

On May 26, 2020, Council was presented with a summary of the current and projected financial impacts as a result of the COVID-19 pandemic. Further to that report, an analysis of the impact of the pandemic on cash flows was prepared to assess the financial capacity of the Town in carrying out the 2020 Operating and Capital budgets.

### **Comments**

Prior to the pandemic, Windsor-Essex had the highest unemployment rate (8.9%) in the Country. With the onset of the pandemic, that rate has increased to 12.9%, which is in line with Canada's overall unemployment rate of 13.0%. With the closure of various commercial and industrial businesses, either by mandate or by choice, job losses and/or lay-offs were inevitable.

The Town of Lakeshore in conjunction with the County of Essex and the other local municipalities recognized the financial uncertainty that would face our residents due to COVID-19 and implemented a financial relief program to waive penalties and interest on property tax installments and water billings from to June 30, 2020. At a meeting held on May 28, 2020, the regional Treasurers group discussed extending the waiver of interest and penalties to July 31, 2020. On May 29, 2020 the Emergency Control Group endorsed this recommendation and agreed to further extend the waiver to July 31, 2020. The Regional Treasurers are particularly mindful of the financial impact this may have on municipalities as the need to continue to provide essential services to maintain the health and safety of residents is paramount.

Following the last installment of property taxes in April, Finance undertook an extensive review of the Town's cash flow projection and what could be anticipated for the remainder of the year. It was determined that proceeding with the planned works as set out in both the operating and capital budgets for 2020 is not advisable. Property tax arrears balances in April represented approximately 55% (or \$5M) of the interim tax bill for 2020. There is also an additional \$2.4M in arrears carried over from prior years. It is anticipated this receivable balance will increase as time passes, thereby putting further strain on the available cash resources to fund expenditures.

Of the utmost importance is ensuring there is sufficient cash flow to fund the daily operating costs to provide the essential services to the residents of Lakeshore. From the review it was determined the Town needs to preserve between \$9M and \$11M of expenditures for 2020 to ensure adequate cash flow for the remainder of the year and into 2021.

To mitigate the financial burden to the municipality for 2020, and perhaps beyond, several cost containment strategies have been implemented. These include:

- Reduction in staffing in the Recreation and Public Works departments;
- Restricting overtime where possible;
- Reduction of discretionary spending such as staff training and travel, office supplies etc.; and
- Reduced levels of service in general maintenance and minor capital repairs of parks and facilities.

To further assist with the financial uncertainties for the remainder of 2020, Administration prepared a list of recommended capital projects that can be deferred to further mitigate the financial constraints on the Town. Deferring capital expenditures is a common mitigating measure that other municipalities have also undertaken. This list also contains projects that may begin in late 2020 but may not require payment until 2021.

In preparing this list several factors were considered by Administration, such as contract commitments, grant implications, risk to the municipality and any other potential impacts of deferral. Based on the criteria noted, Administration has provided Council with a list of recommended deferrals, representing a prudent and appropriate financial course of action to respond to the uncertainty surrounding the pandemic.

Administration has prepared a list of recommended project deferrals (Appendix A: Recommended Deferrals for 2020) based on the guiding principles noted above for Council's consideration. Should Council wish to make changes to this list, additional options have been provided for Council's consideration.

## **Others Consulted**

KPMG

## **Financial Impacts**

The analysis of current cash flows and a projection of future cash flows, indicate the Municipality could have upwards of \$16M of uncollected revenue at the end of 2020. This is based on an average uncollectable rate of 25% of total taxes billed. This is significantly higher than the 2019 year end receivable of \$1.75M.

For most municipalities, property taxes account for approximately 40% of all revenue. For Lakeshore, property taxes comprise 53% of all revenue. The collection of taxes is vital for a Municipality to carry out annual budgets set by Council and to ensure those essential services are maintained. Although the federal and provincial governments have provided support to individuals and business during these unprecedented times, the collection of property taxes has declined. With the extended deferral of penalty and interest to July 31, 2020, the likelihood of less payments being received for property taxes is high.

As mentioned earlier in the report, Finance is recommending a deferral of approximately \$9.6M in capital works to preserve cash flows. These projects will be brought forward to Council as a first charge to the 2021 capital budget. At that time, it is anticipated that Administration will have a clearer indication of the financial position of the Town allowing for a 'go forward' financial plan with a higher degree of certainty that the present situation allows.

The Town does have access to an operating line of credit should the need arise. However, Administration does not, at this point, recommend using debt to support operations as this option needs to be preserved and relied upon as a last resort if cash flow projections worsen.

As noted, there is a high degree of uncertainty as to the impact that COVID-19 will have, in both magnitude and duration on the larger economy and in particular on our Municipality. Allowing for increased cash flow flexibility in uncertain times is a prudent financial best practice in terms of fiscal sustainability, and is recommend by Administration.

Finance will continue to monitor cash flows and financial capacity throughout the remainder of the year. Should there be increased capacity to take on additional work, a report will be brought back to Council for direction.

**Attachments:** Appendix A: Recommended Deferrals for 2020

## Report Approval Details

Document Title:	Financial Impacts of COVID-19- Cost Containment Strategies.docx
Attachments:	- Recommended Project Deferrals 2020.pdf
Final Approval Date:	Jun 4, 2020

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

Kristen Newman

Truper McBride