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Date: July 20, 2020
To: Mayor and Council
Author: Tiffany Hong, Manager of Financial Services
RE: Financial Impact due to COVID-19
Report No.: FS-2020-15

AIM

To provide Council with projections of the financial impact of COVID-19 on the Municipality.

BACKGROUND

On June 8, 2020, motion #366-2020 was made by Council to prepare a “worst-case scenario” report outlining the impact reduced revenues due to COVID-19 will have on the 2021 budget.

On March 11, 2020, the World Health Organization declared COVID-19 as a pandemic. Between Mar 13 and 15, recommendations regarding public events, social distancing and self-isolation for residents and citizens returning from non-essential international travel were made by the Windsor-Essex County Health Unit (“Health Unit”). During this time, Kingsville and surrounding municipalities announced cancellations and closures of recreational programs and facilities.

On March 17th Premier Ford declared an emergency under the Emergency Management and Civil Protection Act. Orders issued in response to the declared state of emergency mandated the closure of certain businesses and facilities and prohibited all organization public events of over 50 people. Municipalities across Windsor-Essex County have locked their doors to public access. As of March 19, a number of municipalities have taken steps to reduce operations and temporarily suspending all services they deem to be non-essential.

On March 23, 2020, Council approved the waiving of all penalties and interest on Tax and Water accounts in order to provide financial relief to residents and businesses enduring

financial hardship during this pandemic. Financial relief will continue until September 30, 2020.

On April 27, 2020, a 'Framework for Reopening our Province' was established by the Province.¹ It laid out the government's approach and safety regulations required for the reopening of businesses, services and public spaces in gradual stages.

On May 14, 2020, Stage 1 of the framework provided businesses owners, workers and families with the information they need to reopen safely in this new environment in order to successfully kick start Ontario's economy.² In this stage, municipalities were allowed to provide recreational services at marinas. The Town of Kingsville announced reopening of the boat ramp on May 15, 2020 and refueling services on May 29, 2020.

On July 7, 2020, the Town of Kingsville moved to Stage 2. More businesses and services were permitted to re-open. This includes shopping malls, barbershops, salons and pool facilities. The opening of restaurants, bars and other food and drink establishments were required to be in outdoor areas only, such as patios, curbsides, parking lots and adjacent premises. The businesses in Kingsville were elated to welcome back customers. In support, Council on June 22, 2020 approved 'Open Streets in Downtown Kingsville', which began on July 10, 2020.

DISCUSSION

The aforementioned timeline has a financial impact to the Municipality due to the closure of programs, facilities and services. Administration is committed to following the guidelines set out by the Health Unit and the provincial framework in order to protect the health and safety of both the community and employees. Administration initiated the tracking of the incremental costs due to the pandemic immediately. These expenses included essential personal protection equipment, enhanced cleaning and sanitization supplies as well as costs associated with the practice of physical distancing (signage).

In response to the motion made by Council, the following is an analysis and summary of the pandemic's impact for the Town of Kingsville. Appendix A illustrates the financials as of June year-to-date ("YTD"). As well, the annual forecasted impact is illustrated in two separate scenarios, Stage 2 and Stage 3 for the remainder of the year. COVID-19 is unpredictable and can influence numerous assumptions, which makes forecasting difficult. The updated forecast is based on the information we have obtained with the reopening of facilities, services and the prerequisite guidelines set out within each framework.

Stage 2 with its limitation of group size to 10 has a profound influence on restricting recreational revenue. However, in Stage 3, the framework allows for the opening of indoor sports and recreational facilities and potential for the recommencement of earnings.

Losses and surpluses have been grouped into three categories: incremental costs; unrealized revenue and cost avoidance. Incremental costs are non-budgeted expenditures. Unrealized revenue are proceeds that are budgeted for but have been

¹ <https://files.ontario.ca/mof-framework-for-reopening-our-province-en-2020-04-27.pdf>

² <https://files.ontario.ca/mof-framework-reopening-province-stage-1-en-2020-05-14.pdf>

negatively affected by the pandemic. Cost avoidance savings are expenditures that have been delayed or avoided due to cancellation of programs and closure of facilities.

Incremental Costs

COVID-19 expenditures are purely incremental costs incurred due to the pandemic. As mentioned earlier, expenses related to the pandemic are isolated from other operational and capital expenditures. These expenditures include PPE, signage, cleaning supplies/equipment, IT expenses and additional cleaning services. The 2020-forecast cost assumes the same rate of spending incurred as of June YTD for the remainder of the year.

Unrealized Revenue

Financial relief provided thru the waiving of tax related interest and penalty amounts to approximately \$61,000 in revenue loss as of June 30th. Under Stage 2, the forecast includes relief for the remainder of the year. However, under Stage 3 interest and penalty charges are forecasted to reconvene in October with the reopening of more businesses and residents returning to work.

In response to the economic crisis resulting from COVID-19, the Bank of Canada reduced interest rates. With the decline of interest returns taking effect in April/May, Administration is forecasting a potential loss in interest revenue of \$32,000 by the end of the year. The forecast is based on prorating the last month's return for the remainder of the year.

There will be a significant decline in provincial offences revenue due to COVID-19. As provided from the Provincial Offences department by the City of Windsor ("CoW"), this can be attributed to the suspension of Provincial Offences Act timelines and trial deferrals. As of May 4, 2020, the forecast provided by CoW is projecting a \$60,000 loss in revenue for the Town of Kingsville.

Recreation and facility revenue losses are significant. The majority of the losses are due to the closure of rental facilities for Grovedale, Lakeside Pavilion, ice rinks and green fees. As of June 30th, the Town has incurred \$101,000 in revenue losses. If the Town remains in Stage 2, the forecasted loss will be \$299,000 for the year.

Cost Avoidance

Recreation and facility expenses have realized some savings due to the closure of facilities, services and cancellation of community events. The cancellation of the Folk Fest has resulted in cost avoidance of approximately \$10,000. Savings will continue to be favourable for the annual forecast under Stage 2, however under Stage 3 where restrictions will be further relaxed, costs will reconvene at some of the facilities.

At the onset of the pandemic, labor and benefits savings were realized. Seasonal, part-time and contract employee layoffs contributed to approximately 60% of the savings. Hiring delays and cancellation of some student positions contributed to 25% of the savings. Cancellation of schools resulted in crossing guard savings of 15%. Under Stage 2, the 2020 forecast consists of additional savings due to three employees on short-term leave, continued savings from the cancelled summer students and crossing guard cost avoidance assuming schools will remain closed in the fall. Under Stage 3, the annual

forecasted savings assumes school will resume in the fall and crossing guard expenses will be incurred. It is difficult at this point to sufficiently correlate the reopening of schools based on the Stage.

Administration successfully secured \$27,000 in student funding through the Canada Summer Jobs program from the federal government. This grant was not anticipated in the 2020 budget.

COVID-19 has resulted in the widespread cancellation of conferences and off site training. Technology has conveniently supported working remotely and aided physical distancing. Time will tell if this trend will continue and influence future conference savings.

Summary

As outlined in Appendix A, the Town has been able to sufficiently offset the financial losses to date. However, mitigation efforts will be insufficient to offset the incremental costs and revenue losses for the balance of the year. The Town is projected to incur an annual loss of approximately \$216,000 if it remains under Stage 2, and a \$149,000 loss if it proceeds to Stage 3.

Currently the Town remains in a strong cash flow position. Tax and water receivables are being closely monitored for potential negative collection trends. Due to the unprecedented nature of this event, consideration to recognize all possible savings is highly influenced by COVID-19. Delays and the possible deferral of some capital projects to 2021 have been considered. However, the majority of capital and maintenance projects will proceed as budgeted to the best of Administration's ability. Administration is committed to providing the highest level of service possible under this environment.

LINK TO STRATEGIC PLAN

To promote a safe community.

Effectively manage corporate resources and maximize performance in day-to-day operations.

FINANCIAL CONSIDERATIONS

The latter half of 2020 and its circumstances will dictate the true fiscal position of the Municipality. Administration will continue to monitor its effects. If a deficit is realized, Administration will recommend the use of the budget stabilization reserve to offset the losses.

In 2019, an unallocated surplus of \$827,770 was realized and applied to the Budget Stabilization Reserve. At this point in time, this surplus is more than sufficient to offset the anticipated losses from COVID-19.

Overall, the financial impact for the Town of Kingsville is not as severe in comparison to the City of Windsor and as reported by other local municipalities. The Town has relatively

modest recreational facilities that are not burdened with high overhead costs or dependent on a high level of user fees for funding. With 83% of the Town's operating revenues derived from property taxation, the majority of revenue sources are stable and predictable.

Administration recognizes that Council is receiving requests from residents and businesses for additional funding supported. As noted in the Appendix, financial aid for residents and businesses in the form of waiving interest and penalties for Tax and Water accounts will amount to \$194,000 in unrealized revenue if continued for the balance of the year. Further, to support downtown businesses through the 'Open Streets' initiative, the Town is estimated to incur approximately \$30,000 in labour and signage expenditures.

It should be noted that the Town of Essex has set aside \$100,000 for an economic development program to support their local businesses. This program provides business owners with up to \$500 to help offset the cost of re-opening under COVID-19 regulations and guidelines. This level of funding is unlikely to be the difference between the survival or failure of a business, but the concept is worthy of consideration.

Council's decisions pertaining to the usage of the surplus should also factor in the potential impact of COVID-19 on the 2021 budget, which has yet to be determined. With MPAC deferring the implementation of new assessment cycle until 2022, assessment values will be frozen for 2021. This will undoubtedly create additional budget challenges for 2021.

CONSULTATIONS

Senior Management Team

RECOMMENDATION

That Council receive the Financial Impact due to Covid-19 report dated July 20, 2020 for information.

Tiffany Hong

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