



Town of Newmarket
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Financial Update regarding COVID-19 Staff Report to Council

Report Number: 2020-70

Department(s): Financial Services/Innovations & Strategic Initiatives

Author(s): Mike Mayes, Director of Financial Services/Treasurer

Meeting Date: October 5, 2020

Recommendations

1. That the report entitled Financial Update Staff Report to Council be received; and,
2. That staff continue to implement the mitigating measures listed in this report to lessen the financial impact of the pandemic to the Town; and,
3. That staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

It had been previously reported that the COVID-19 pandemic could result in a tax-supported loss of up to \$8.5 million, which could be cut in half by mitigating measures.

A combination of the following factors allow us to manage the budget:

1. Mitigating measures, expense reductions and new revenues of \$5.3 million which is about \$1 million or 24% more than estimated.
2. The \$1.8 million Safe Restart grant from the provincial and federal governments.
3. Newmarket Hydro Holdings Inc. is now expected to be able to pay a \$1.3 million dividend later this year.
4. The cost of the pandemic is forecast to be \$100,000 less than originally expected.
5. Drawing on reserve funds.

However, we must continue to exercise caution as there are still unknowns such as: the timing and impact of a second wave, and what the “new normal” will look like and cost.

Purpose

The purpose of this report is to provide Council with information to decide whether or not to proceed with an application for Phase 2 funding of the Safe Restart Agreement.

Background

SAFE RESTART AGREEMENT

On July 27, the Provincial and Federal governments announced the \$4 billion Safe Restart Agreement to provide emergency assistance to Ontario's 444 municipalities.

The first phase allocated \$700 million proportional to the number of households in a municipality and resulted in a payment of \$1,819,600 to the Town to support our COVID-19 operating costs and pressures. These funds are expected to be received before the end of September. There is no application or requirements for eligibility.

There will be a second phase of funding, with an additional \$700 million available for municipalities able to demonstrate a need in excess of the Phase 1 funding provided. Applications must be submitted by October 30, and must include:

1. Measures undertaken to reduce financial pressures (e.g. use of reserves, cost saving measures);
2. Explanation of how the municipality applied the Phase 1 funding;
3. Forecast of 2020 COVID-19 operating costs and pressures;
4. Actual COVID-related impacts as of September 30, 2020;
5. Treasurer's statement as to accuracy of reporting;
6. A resolution of Council seeking additional funding.

Payments would be made in early 2021.

PREVIOUS PROJECTIONS

[Financial Services Report 2020-34](#) provided a first quarter financial update to Committee of the Whole on May 19, 2020 which forecast that the impact of the pandemic could result in a loss of \$8.5 million and that 50% of this could be offset by mitigating measures. Consequently, the deficit was projected to be \$4.3 million.

This was followed by a second quarter financial update on August 24, [Financial Services Report 2020-62](#). This report noted that the delayed re-opening of municipal facilities, anticipated second wave of the pandemic, and uncertain economic impact prevented making a reasonable projection of the financial impact to the Town. An updated projection was not provided.

Discussion

Although there are still many unknowns, it is important to provide Council with the necessary information to determine next steps, both from an operational and a grant perspective.

The following table provides the necessary information **based on what we currently know**, to apply for Phase 2 Safe Restart funding.

COVID-19 costs to August 31, 2020 is our estimate of the financial impact as of our latest month-end. For some expenses, such as the Emergency Response, the amounts have been segregated and were easily identified. For some impacts, such as revenue, it is not always possible to distinguish between reductions caused by the pandemic and those caused by other operational issues; as such, estimates had to be made.

The May 19 projection includes the estimated potential deficit reduction to provide a proper comparison of results.

	COVID-19 Costs to August 31	May 19 projection	Current projection
Financial Relief Program	\$ 670,000	\$ 930,000	\$ 865,000
Emergency Response	820,000	990,000	1,350,000
Lost user fee revenues	1,090,000	2,300,000	2,180,000
Other revenue losses	570,000	1,800,000	950,000
Recovery		500,000	500,000
Additional expenses	870,000	2,000,000	1,275,000
	\$ 4,025,000	\$ 8,520,000	\$ 7,120,000
Mitigating measures	3,395,000	4,260,000	5,300,000
Safe Restart Agreement			1,820,000
Deficit	\$ 630,000	\$ 4,260,000	\$ 0

Financial Relief Program

The cost of the mitigating measures was outlined in [Report 2020-28, Financial Relief Program](#). Payment deferrals are not as extensive as originally expected – 13% vs. 27%. As a result the cost is slightly lower.

Emergency Response

The Town is tracking incremental expenses related to the COVID-19 pandemic. This is being done for accountability and potential reimbursement if emergency grants become available. The revised estimate includes the extension of the emergency to the end of the year.

Lost user fee revenues

Closing facilities and the deferral of construction activity during the lockdown has had a major impact on our user fee revenue – mostly in the area of Recreation & Culture. Projected revenue losses have grown from \$5.1 million to \$6 million. However, there are off-setting cost savings – costs directly attributable to service delivery such as casual and seasonal wages and utilities. By deploying full-time staff instead of using part-time staff and other strategies, these savings have increased even more. This has resulted in a net decrease in the projected loss of \$120,000.

Other revenue losses

At the Annual General Meeting on June 8, Newmarket Hydro Holdings Inc. stated that the pandemic may impact their ability to pay a dividend (usually about \$1.3 million). The issue has been revisited and it now appears that payment will be made.

The slower economy could result in some businesses not paying their property taxes. Payment of these taxes are guaranteed by our right to enforce our liens with tax sales, but we are still vulnerable to tax assessment adjustments that might occur. \$250,000 was originally provided for this, but the allowance is being increased to \$500,000 due to the increased length of the lockdown.

The hit on our cash flow will reduce our ability to invest excess funds. Funds that can be invested will be done at a much lower rate, due to the significant drop in the prime rate from 3.95% to 2.45%. The loss of investment income has been increased by \$250,000.

The result is a net decrease in the projected loss of \$850,000.

Recovery

Operations are expected to take at least 3 months to return to pre-pandemic levels. This allowance is to cover the return to previous activity levels and additional expenses – cleaning, protective equipment, education, enforcement, etc.

We do not currently have sufficient information to revise this estimate. It is possible that some of the recovery costs will extend into 2021.

Additional expenses

The pandemic is disrupting delivery of Town services and adding additional costs as a result. This is in addition to the costs for direct emergency response. It includes additional staff-related costs and remote working expenses which are necessary to maintain essential services.

This category was originally estimated to amount to be \$2 million, but has been reduced by \$725,000.

Mitigating measures

The Town has been very successful in finding ways to eliminate the deficit.

The following measures have been implemented:

- Management of staff vacation time
- Staff redeployment to critical and essential service areas
- Restricted hiring to only essential and critical staff (hiring freeze for new and vacant positions)
- Freeze on discretionary expenses
- Limiting out of province travel
- Cancelling all training not required to maintain professional accreditation
- Restricting conferences to board members
- Service levels reductions, in areas such as:
 - Parks maintenance, such as grass cutting (reduced frequency)
 - Playground surface repairs and maintenance and playground equipment replacement
 - Tennis court and trail rehabilitation and repair
 - Tree planting including EAB related tree removals and planting
 - Spot improvement in parks, facilities, and sidewalks
 - Crack sealing on roads
 - Road spot improvements
 - Street sweeping
- Additional revenue
 - New licensing revenues

Conclusion

Staff will proceed with a Phase 2 Safe Restart application if directed by Council.

A third quarter financial update will be provided to Council in November, 2020 and a preliminary fourth quarter report is scheduled for March, 2021.

Business Plan and Strategic Plan Linkages

This report supports the Council strategic priority of Long-Term Financial Sustainability.

Consultation

This report has been prepared from information provided by the Operational Leadership Team (OLT) and has been reviewed by the Strategic Leadership Team (SLT).

Human Resource Considerations

Not applicable to this report.

Budget Impact

At this time and based on what we currently know, the 2020 tax-supported budget appears to be manageable.

If the unknown factors create a deficit, there are reserves, including \$1.5 million in rate stabilization that could be used to offset it.

Unless there is a significant change in circumstances, no direct budget impact on the 2021 operating budget is anticipated.

Attachments

N/A

Approval

Mike Mayes, Director of Financial Services/Treasurer
CPA, CGA, DPA

Jag Sharma
Chief Administrative Officer

Contact

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