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Town of Aurora
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May 1, 2020

Delivered by email

Suzanne Haines, Aurora Cultural Centre
Patricia Wallace & Geoffrey Dawe, Aurora Historical Society
Bruce Gorman, Aurora Public Library
Javed Khan & Don Ball, Aurora Sports Hall of Fame
Kiran Saini, Deputy Town Clerk, Newmarket – Joint Council Committee

Re: Town of Aurora Council Resolution of April 28, 2020

Re: Council Report No. FIN20-011 – COVID-19 Financial Impact Forecast

Please be advised that this matter was heard by Council at its meeting held on April 28, 2020, and in this regard Council adopted the following resolution:

- 1. That Report No. FIN20-011 be received; and**
- 2. That a copy of this report be sent to the Aurora Public Library, Aurora Historical Society, Aurora Cultural Centre, Aurora Sports Hall of Fame and the Joint Council Committee for Central York Fire Services; and**
- 3. That a request be made to these organizations to do what they can to reduce expenditures and engage in discussions with the Town on how they may be able to assist in balancing the Town's potential operating budget deficit; and**
- 4. That the retail water rate, retail wastewater rate, storm flat rate – residential, and storm flat rate – non-residential, be reverted back to the revised break-even rate until the end of June 2020.**

The above and the attached report is for your information and any action deemed necessary.

Yours sincerely,

Michael de Rond
Town Clerk
The Corporation of the Town of Aurora

Re: Town of Aurora Council Resolution of April 28, 2020

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Attachment 1: Report No. FIN20-011 – COVID-19 Financial Impact Forecast

MdR/is



**Town of Aurora
Council Report**

No. FIN20-011

Subject: COVID-19 financial impact forecast
Prepared by: Jason Gaertner, Manager Financial Management
Department: Finance
Date: April 28, 2020

Recommendation

1. That Report No. FIN20-011 be received.

Executive Summary

The COVID-19 pandemic has and is expected to continue to have a significant impact on the Town's residents and businesses. Existing provincial and municipal pandemic measures also continue to have a major impact on the Town of Aurora's operations. This report explores the impact COVID-19 will have on the Town's finances in 2020.

- A tax levy operating deficit of \$329,100 is forecasted to the end of April as a result of COVID-19 which could increase to \$2,127,300 by December 31st should the present situation remain unchanged until year end.
- A rate-funded operating deficit of \$914,600 is forecasted for 2020 if water, wastewater and stormwater rates are not increased and water penalties waived for the duration of 2020.
- Any deficits experienced will result in less funds being available for capital asset management.
- The deferral of tax and water payments and waiving of interest on past due payments will negatively impact the Town's cash flows.
- 2020 budgeted assessment growth is at risk as a result of COVID-19.

Background

The magnitude of the impact of COVID-19 on the Town of Aurora is not yet known, but the existing social distancing measures and economic shut-down impacts have already been significant.

Since March 18th the federal government has announced a series of relief programs that are targeted at the most vulnerable residents and businesses including:

- \$52.4 billion in direct assistance for eligible small and medium businesses
- \$55 billion to help meet liquidity needs and stabilize the economy, which includes deferral of income tax payments and the waiving of interest
- \$30 billion in cash flow and liquidity assistance for businesses, which includes deferral in Goods and Services Tax (GST) remittances and customs duty payments

Many of Ontario's municipalities have explored further financial relief measures to those already announced by the federal and provincial governments. The most common measures being explored by municipalities include the extension of payment deadlines and the waiving of late payment penalties for tax and water balances owing.

On March 20th the Town of Aurora announced its own financial relief measures being the deferral of its second tax levy installment payment due date by approximately two months for residential tax payers. A similar offer was made available to commercial tax payers on an application basis. It also announced the waiving of all late payment penalties on any unpaid water bill amounts owing until June 30, 2020.

On March 25th the provincial government announced the Ontario Action Plan for fighting COVID-19 which included \$17 billion offering various supports to healthcare, people and jobs, as well as cash flow support for businesses. The province also announced a 90-day deferral of the June 30 and September 30 quarterly municipal remittances of education property tax receipts.

On April 2nd York Region Council approved the deferral of its originally planned 2020 water and wastewater rate increases, maintaining their rates at 2019 levels.

On April 16th York Region's Committee of the Whole considered the waiving of interest charges on any portion of a lower municipality's 2020 tax levy installment payment owed to the Region that has been delayed as a result of its COVID-19 tax relief program for a period of not more than 90 days. Council requested further information from staff and deferred its decision to April 30th.

Analysis

A tax levy operating deficit of \$329,100 is forecasted to the end of April as a result of COVID-19 which could increase to \$2,127,300 by December 31st should the present situation remain unchanged until year end.

A total tax levy operating deficit of \$329,100 is projected by the end of April stemming from COVID-19 based upon the Town's present status quo and the continuance of existing provincial emergency policies such as its social distancing measures and economic shut-down. The most significant drivers of this deficit include:

- Lost recreation, sponsorship and other community program revenues, partially offset by program/service delivery cost savings which included the temporary release of in excess of 280 part time Town employees.
- Lost development revenues.
- Lost tax and water penalty and administrative revenues.
- Lost park operation revenues.

Should the Town's present situation remain unchanged for the remainder of the year, the total deficit related to COVID-19 is projected to become \$2,127,300 as summarized in Table 1. This deficit is specific to the impact of COVID-19 and does not reflect other operational variances.

Table 1
Estimated COVID-19 tax levy operating deficit

\$000s	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Town Facility net Operation Savings	52.2	157.4	140.6	144.6	154.3	106.9	151.8	192.8	152.0	154.5	1,407.1
Other Salaries & Benefits Savings	14.4	97.5	86.6	86.6	86.6	86.6	84.1	87.7	16.7	16.7	663.5
Special Event net Savings	(6.1)	8.7	21.3	53.8	22.9	96.2	45.0	(12.1)	34.1	64.3	328.1
Other Savings	1.7	34.7	43.0	24.6	30.4	18.3	(114.7)	19.2	29.0	96.1	182.2
Lost Development Revenue	-	(22.4)	(71.5)	(80.7)	(560.2)	(48.3)	(84.0)	(85.3)	(149.4)	(77.9)	(1,179.7)
Lost Tax Penalties	-	(100.0)	(132.6)	(205.8)	(102.6)	(102.6)	(102.6)	(102.6)	(102.6)	(102.6)	(1,054.0)
Lost Ice rental revenues	(52.8)	(82.0)	(55.7)	(46.3)	(75.5)	(97.7)	(149.2)	(172.0)	(187.7)	(45.4)	(964.4)
Lost Community Program Revenues	(258.2)	(79.3)	99.3	80.0	(341.6)	65.1	140.4	(205.1)	29.1	105.1	(365.3)
Lost Supplementary Tax Revenues	-	-	-	-	-	-	(137.5)	-	-	(137.5)	(275.0)
Lost Park Operation revenues	-	(25.4)	(25.4)	(25.4)	(25.4)	(25.4)	(25.4)	(25.3)	(20.6)	-	(197.9)
Water & Tax Administration Fee Loss	-	(33.6)	(23.4)	(10.9)	(13.2)	(27.8)	(15.5)	(29.5)	(25.9)	(9.6)	(189.4)
Lost Investment Income	-	-	-	(20.0)	(20.0)	(20.0)	(20.0)	(30.0)	(30.0)	(30.0)	(170.0)
Lost Parking & Court Fines	(3.0)	(15.0)	(9.5)	(8.0)	(6.0)	(25.5)	(7.0)	(40.5)	(21.0)	(22.0)	(157.5)
Lost Sponsorship/Advertising revenue:	(6.7)	(11.3)	(38.8)	(10.6)	(14.8)	(20.4)	(20.8)	(15.2)	(16.3)	-	(154.9)
Monthly Total	(258.4)	(70.7)	33.9	(17.9)	(865.2)	5.4	(255.4)	(417.9)	(292.6)	11.6	(2,127.3)
Cummulative Total	(258.4)	(329.1)	(295.3)	(313.1)	(1,178.3)	(1,173.0)	(1,428.4)	(1,846.3)	(2,138.9)	(2,127.3)	(2,127.3)

A rate-funded operating deficit of \$914,600 is forecasted for 2020 if water, wastewater and stormwater rates are not increased and water penalties waived for the duration of 2020

The Town estimates a deficit of \$914,600 if the planned 2020 water, wastewater and storm water rate increases are deferred and water penalties continue to be waived for the remainder of the year. This deficit reflects lost revenues of \$2,327,300 from the rate increase, \$153,500 from water penalties, as well as investment income, offset by operating savings of \$1,571,300 resulting from York Region deferring their water and wastewater rates charged to the Town.

The Town is forecasting a deficit despite the operational savings because of the lost water penalties as well as, the wastewater and storm water budget included increasing contributions to asset replacement reserves in 2020. These contributions reflect the Town's strategy to increase the rates over the next few years to ensure that reserves are sufficiently funded to enable the Town to maintain its underground infrastructure to existing service standards in the long term. The forecasted deficit would be offset by reduced contributions to these reserves. These reserves are needed to achieve sustainability of underground infrastructure assets whose service levels are under an upward pressure as a result of climate change.

Should the Town choose to adjust its planned 2020 rate increases to reflect the recently announced Regional water and wastewater rate cost savings while still recovering for all other costs, the planned 2020 required rate increases would change as shown in Table 2.

Table 2
Summary of rates

	2019 Rate	2020 Budget Rate	Change %	Revised Break-Even Rate	Change %
Retail Water (per cu.m)	\$ 2.18	\$ 2.41	10.6%	\$ 2.18	0.0%
Retail Wastewater (per cu.m)	2.65	3.11	17.4%	2.77	4.5%
Combined Water & Wastewater (per cu.m)	\$ 4.83	\$ 5.52	14.3%	\$ 4.95	2.5%
Storm Flat Rate - Residential (per month)	\$ 5.44	\$ 7.09	30.3%	\$ 7.09	30.3%
Storm Flat Rate - Non-Residential (per month)	\$ 69.08	\$ 90.07	30.4%	\$ 90.07	30.4%

These estimated rate impacts on the utilities budget only consider a change to the rate being charged. They do not factor in the impact that COVID-19 may have on the volume of water consumption in the Town. While we expect businesses to use less water and

residences to use more, it is still too early to estimate the impact that water consumption changes may have on the budget.

Should the Town decide to adjust its 2020 rates to the revised break-even rates, a new rate bylaw would be required. However, if the Town decides to maintain its 2020 rates at 2019 levels no new bylaw needs to be approved as these rates are currently set in bylaw 6171-19 which was enacted on April 9, 2019.

Any deficits experienced will result in less funds being available for capital asset management.

The only way that the Town can balance an operating budget deficit is through the reduction of costs, lower contributions to reserves and draws from stabilization reserves. The most significant component of the Town's reserves relate to capital asset management. Asset management reserves are built up over time as repair and replacement capital projects are quite costly. This eases the burden of paying for capital, through taxes and rates, over time. A single capital asset management project can cost an equivalent to a 2 or 3 percent tax rate increase.

Municipalities strive to adopt funding strategies that ensure these capital management reserves maintain sufficient balances that allow for the sustainment of the capital asset service levels that its citizens require or demand. A requirement to draw upon these reserves either directly or through a reduced contribution delays the Town's strategy of achieving a state where its capital assets become self-sustaining. This means future tax and rate increases will need to be greater in order to catch-up. In an effort to minimize the impact to the Town's planned contributions to its asset management reserves, the Town will firstly maximize the draw of funds from its tax rate stabilization reserve to the point that it is financially feasible in an effort to balance its tax levy funded operation deficit. The tax rate stabilization reserve currently has a balance of \$7.1 million. While this is enough to fund the tax levy deficit it does mean that future surpluses will first go to replenishing this reserve before being contributed to asset management reserves.

Unfortunately, a separate rate stabilization reserve does not exist for the rate funded operating budget. For the rate funded services, a single reserve is used both for stabilization and asset management, therefore an impact on these capital asset's sustainability is unavoidable should a deficit arise. Table 3 presents the anticipated impacts that COVID-19 will have on the Town's rate funded reserves.

Table 3
Estimated Impact on Rate Funded Reserves December 31, 2020 Closing Balance

\$000s	Budget	Forecast	Change
Water	6,521.7	6,617.9	96.2
Wastewater	729.3	210.5	(518.8)
Stormwater	1,050.1	558.1	(492.0)
Total	8,301.1	7,386.5	(914.6)

These impacts assume that all Aurora Council approved COVID-19 financial relief measures to date continue until year end. They also assume that 2020 water rates will remain at 2019 levels. While this report has thus far shown the impact on the Town's forecasted variance to budget it does not address the impacts on cash flow.

The deferral of tax and water payments and waiving of interest on past due payments will negatively impact the Town's cash flows.

On March 20th the Town of Aurora announced the waiving of interest on its tax and water payments owing until the end of June. The general rationale for these measures was to provide bridge funding until such time the federal and provincial financial support measures can be accessed by residents and businesses.

The deferral in planned revenues will have an impact on the Town's cash flows upon which it relies to fund its on-going operating costs. The longer a planned cash receipt is deferred, the greater the impact will be on the organization's cash flows. These measures should only be continued if the organization's overall cash flows are able to sustain the measure.

The waiving of interest on past due water and tax payments represents an elimination of a planned cash flow for the Town. For example, the Town will forego a total of \$475,800 in planned revenues as a result of its current announcement. Should this measure be extended for the remainder of the fiscal year, the Town will forego a total of \$1,207,000 in lost cash flows that it will not recover in the future.

The waiving of tax and water payment interest discourages those who can pay from paying. It also impacts the Town's available cash flows through both lost interest revenues and the further deferral of its planned cash inflows upon which it relies. Therefore if there is a desire to provide further financial relief that a reduced interest rate could be considered as an alternative. A report will be brought forward to Council in May

for its consideration of how to manage interest and penalties on taxes going forward for the remainder of 2020.

York Region's Council has approved the deferral of its originally planned 2020 water and wastewater rate increases, maintaining their rates at 2019 levels. York Region's Council will be considering options for waiving of interest charges for 2020 tax levy installments collected by the Town on their behalf at their April 30th Council meeting. These options include the waiving of interest for 90 days. The result of their decision will be explored further in the May report.

The largest risk to the Town's cash flow is its responsibility to collect taxes on behalf of the school boards and the York Region. The first 63 percent of all taxes collected are remitted to these two groups. Despite the deferrals of the next two payments to the school boards and the possible waiving of interest for 90 days by the Region, should the Town not have collected the funds to pay these taxes it would need to consider drawing the funds from reserves held in long-term investments otherwise the Town will incur penalties on these balances at a rate of 1.25% per month or 15% per year from the school boards and the Region.

2020 budgeted assessment growth is at risk as a result of COVID-19.

The existing social distancing measures and economic shut-down will effectively result in the deferral of most planned new development into the future. The duration of this deferral will be dependent upon the speed at which the economy recovers once the COVID-19 pandemic passes and all emergency measures are lifted.

As per recent provincial direction, all existing development that has already commenced will be allowed to continue for the time being. If this development is allowed to continue until year end, it is possible that the degree of decline in the Town's planned assessment growth may not be as great in 2020. However, the lagging effects of this impact will be more significant in future fiscal years. This means that the Town's planned assessment growth assumptions in the 2021 and 2022 budgets will likely see a downward adjustment.

These reduced tax levy revenues from growth will place more upward pressure on the Town's required tax rate increase for these years. The Town will need to mitigate these pressures through the multi-year budget process.

Advisory Committee Review

Nil

Legal Considerations

As per the *Municipal Act* the Town must conclude its fiscal year with a balanced budget. Any deficits incurred as a result of COVID-19 by the Town will need to be offset as much as possible through operating cost savings. Any remaining funding short-fall will need to be funded by the Town's reserves. Longer term, the Town may be able to partially recover some of its COVID-19 operating losses through federal or provincial financial relief programs.

Financial Implications

The Town is projecting that both its tax levy and rate funded operating budgets will be negatively impacted by COVID-19 regardless of how long the situation lasts throughout the year. As per provincial legislation, the Town must balance these operating deficits through reduced costs and/or reserves. It is anticipated that the Town will be in a financial position to balance its budgets in a worst case scenario as it is presently estimated. However, this will be at the expense of the Town's overall reserve and cash flow health; in particular at the expense of its asset management reserve health. The Town will continue to explore all other avenues such as provincial or federal funding relief in an effort to minimize the impacts of this event on the Town's financial health.

It is anticipated that once the COVID-19 pandemic passes and all measures are relaxed or lifted, the Town's revenues and resultant cash flows will be slow to recover. It is likely that tax and water balance collectability will remain weaker than pre-COVID-19 levels, placing further pressure on the Town's cash flows that it will need to continue to manage over the short-term.

As the COVID-19 pandemic impacts are quite fluid, staff will continue to monitor its financial impacts and report back to Council on a regular basis. The Town's regularly scheduled Interim Operating Budget Forecast Update – As of April 30, 2020 will be delayed by one month which will allow the Town to obtain a better grasp on its operating financial reality under a continuing COVID-19 environment.

Communications Considerations

The Town of Aurora will use 'Inform' as the level of engagement for this report. There are five different levels of community engagement to consider, with each level providing the community more involvement in the decision making process. These levels are: Inform, Consult, Involve, Collaborate and Empower. Examples of each can be found in the Community Engagement Policy. These options are based on the International Association of Public Participation (IAP2) Spectrum and assist in establishing guidelines for clearly communicating with our public and managing community engagement. In order to inform, the report will be made available on the Town's website in the Budget and Financial Information pages.

Link to Strategic Plan

Outlining and understanding the Town's present financial status as a result of COVID-19 contributes to achieving the Strategic Plan guiding principle of "Leadership in Corporate Management" and improves transparency and accountability to the community.

Alternative(s) to the Recommendation

1. None.

Conclusions

The Town is projecting that the forecasted variances for both its tax levy and rate funded operating budgets will be adversely impacted as a result of COVID-19. The extent of these deficits will be determined by the duration of the present COVID-19 impacts that the Town is presently experiencing as well as from its selected COVID-19 financial relief measures. Assuming that the Town's present financial relief measures remain unchanged, it is estimated that it may experience operational deficits ranging from \$329,100 to \$2,127,300 from tax levy and \$914,600 from rate funded operations, as a result of COVID-19. Staff will continue to monitor the financial impacts on the Town arising as a result of COVID-19 and provide regular updates back to Council through its quarterly Interim Operating Budget Forecast Update report which will include a COVID-19 financial impact update and consider both COVID-19 and other unrelated budget variances.

Attachments

None

Previous Reports

Nil

Pre-submission Review

Agenda Management Team review via email on April 16, 2020

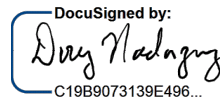
Departmental Approval



Digitally signed by Rachel
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Rachel Wainwright-van Kessel, CPA, CMA
Director of Finance/Treasurer

Approved for Agenda

DocuSigned by:

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Doug Nadorozny
Chief Administrative Officer