



## **The Corporation of the Town of LaSalle**

**To:** Mayor and Members of Council

**Prepared by:** Dale Langlois, Director of Finance / Treasurer

**Department:** Finance

**Date of Report:** May 3, 2020

**Report Number:** FIN-09-2020

**Subject:** COVID-19 Financial Impact Update

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### **Recommendation**

That the report of the Director of Finance dated May 3, 2020 (FIN-09-202) regarding COVID-19 Financial Impact Update BE RECEIVED.

### **Report**

Due to the extraordinary nature of the COVID-19 pandemic, remedial measures implemented and considered, and continually changing landscape, administration will provide Council with monthly financial updates related to the COVID-19 crisis through council reports commencing with FIN-09-2020.

There are many different factors that have affected the Town of LaSalle's 2020 finances as a result of the COVID-19 pandemic. There are also many risks that may come into effect at a future date. These factors and risks can be categorized into 3 categories which include lost revenue, non-budgeted expenditures and expenditure reductions / containment. Depending on the length of the Provincial emergency measures that are currently in place and the impact that this pandemic will have on the local economy, the future financial impact could vary drastically. All current factors and future risks are explained in detail below. As at April 30<sup>th</sup>, 2020, the total estimated financial impact of the COVID-19 crisis to the Town of LaSalle is \$260,500. A breakdown of this figure can be found in Appendix A – COVID-19 Financial Impact Analysis.

#### **Lost Revenue:**

The majority of the Town's revenue comes from property taxes, followed by water / wastewater bills, Federal gas tax funding and Provincial OCIF funding. All of these sources of revenue make up 85% of the Town's revenue and are not currently a risk

due to the COVID-19 crisis as they will ultimately be collected at some point. The higher risk relates to various sources of revenue that are not guaranteed. Below is a detail of lost revenue incurred thus far and future risks.

Loss of Penalty and interest on property tax and water bills: Effective March 25 through to the period ending June 30, 2020, there will be no penalty or interest charges on property tax and water / wastewater accounts. This decision was made to allow residents and businesses experiencing cash flow challenges to pay their bills at a later date with no short-term financial impact to them. This decision will be revisited in June to determine whether a further extension is needed.

Reduced prime interest rate: On March 16, 2020, in order to reduce the COVID-19 impact on the economy, the bank of Canada reduced the prime rate from 1.25% to 0.75%. On March 27<sup>th</sup>, the bank of Canada reduced the prime rate further to 0.25%. This drastic prime rate reduction has had and will continue to have a significant impact on the interest earned from cash held in the Town's bank accounts.

Reduction of building permit revenue: As current Provincial emergency measures do not allow new constructions projects to commence, this has had an impact on the number of building permits issued since the Province declared a state of emergency. This will continue to have an impact into the future as long as new residential and commercial construction projects are not allowed to commence. This reduction will not have an impact on the operating budget as any loss within the building division must be funded from the building activity reserve fund per bill 124.

Reduction in supplemental levy revenue: Consistent with the comments above regarding reduced residential and commercial construction activity, this will have an impact on the amount of supplemental levy revenue that the Town receives in 2020 and potentially beyond. This will also reduce the growth related assessment increase in the 2021 budget, which will shift the burden of any levy increase onto existing taxpayers through tax rate increases. MPAC is currently still assessing completed projects.

Vollmer Centre Operations: Although no programs or rentals are currently occurring at the Vollmer Centre, there are still significant expenditures that cannot be eliminated or reduced. The largest expenses are related to the pool and arena operations.

The pool cannot simply be drained and refilled once Provincial emergency measures are lifted, as seals in the pipes and the pool liner would dry out and crack, which would result in significant costs to repair / replace. These repair / replacement costs far outweigh the utility and labour costs that would be saved if the pool was completely shut down and drained.

If the Town wishes to have ice in time for the next hockey and figure skating seasons which begin in September, the Town will not be able to take the ice out of both pads during summer months. In order to have ice ready for September, ice needs to be put into the rinks in early August. Given the high seasonal temperatures in August it will be nearly impossible to build the ice pads for both rinks in August and could potentially damage or destroy the compressors. The cost to repair / replace the compressors would be significantly more expensive than the staff and utility costs saved if both pads were taken out during the summer months. Consistent with past practice, one ice pad has been taken out and will be built back up in August.

In addition to maintaining the Vollmer complex and performing mandatory daily checks of the pool and arena systems, the facility operators have been redeployed to perform various other duties around Town.

Given the information above, the current financial factors and future risks at the Vollmer Centre relate to lost revenue net of part-time staff wages and supplies. These include the following:

- Community Programming – consists of day camps and other classes – Minor financial risk as the majority of revenue is offset by wages for part-time staff and supplies
- Hospitality – consists of indoor / outdoor concession operations and facility rentals – Minor financial risk as the concession does not earn significant income and there is not a significant amount of income earned from facility rentals
- Arenas – consists of ice rental and public skates – Significant financial risk as there is significant revenue earned from ice rentals and there are few associated cost reductions. The financial impact is much more significant if ice is not rented during the winter months (September through March)
- Aquatics – consists of programming, aquafit and public swimming – Minor financial risk as nearly all revenue earned is offset by wages for part-time staff and supplies.
- Fitness – consists of gym memberships and various classes – Medium financial risk as the supplies, wages of staff and instructors account for approximately 65% of the revenue earned.

Reduced Revenue from other external organizations: These sources of revenue include Provincial Offences Act Revenue and Dividends from Essex Power Corporation. At this point it cannot be determined how much or whether there will be a reduction in revenue at all, but it is considered a future risk if emergency measures last for a significant period of time and these organizations begin to experience cash flow challenges.

Reduction in other minor sources of revenue: There are various other minor sources of revenue that will have less of a financial impact and at this point are difficult to estimate and project. These sources of revenue include but are not limited to revenue from tax certificate issuance, business licences, lottery licences, marriage licences / ceremonies, boat ramp revenue (net of operating expenses), memorial revenue (net of purchase price), water and wastewater service installation revenue, transit fare and ticket revenue (net of variable expenses such as fuel), advertising revenue, committee of adjustment and zoning revenue.

### **Non-budgeted Expenditures**

Soon after the declaration of the state of emergency, administration implemented a tracking system to monitor non-budgeted direct costs incurred due to COVID-19. The tracking system consists of coding all COVID-19 related invoices to the emergency management account and indicating that the expense pertains to COVID-19. In addition, a drop down menu was added to the kronos time and attendance system to indicate if overtime worked pertains to COVID-19. A weekly report is generated which outlines all overtime hours related to COVID-19. Below is a detail of un-budgeted expenses incurred thus far and future expected expenses.

Overtime related to COVID-19: Additional after hour time directly related to COVID-19 such as time required to close all Town parks (install signs and fencing) and IT staff time to setup video conference meetings, rearrange office spaces, etc.

Additional Janitor Expenses: Unbudgeted costs for Krautner to apply Aegis Microshield at the Fire Hall, Town Hall, Public Works, and Vollmer Recreation Centre. This product kills any virus on surfaces and lasts for many weeks.

Additional Costs of Protective Supplies: Costs to purchase masks, disinfective wipes and temporary service counter shields.

Increase in other minor expenses: There are various other minor expenses that will have less of a financial impact and at this point are difficult to estimate. These expenses include but are not limited to additional training for staff to be redeployed, potential kilometer reimbursement or vehicle rental to implement social distancing measures, etc.

### **Expenditure Reductions / Containment:**

Some expenditure reductions and containments directly relate to various services that are no longer provided due to the state of emergency measures that have been implemented, such as the closure of the Vollmer Recreation Centre and corresponding reduction of part-time wages and supplies. Whereas, a conscious decision is made in other instances, such as hiring freezes for certain positions and capital project deferrals.

Below is a detail of expenditure reductions / containments incurred thus far and future expectations. It is important to note that administration is continuously monitoring and evaluating various different expenditure containment measures on a continued basis.

Reduction of Part-time wages and supplies at the Vollmer Centre: As mentioned above under reduced revenue, the corresponding part-time wages and supplies directly related to cancelled programs and activities at the Vollmer Centre have been eliminated until emergency measures have been lifted. Part-time janitorial assistant wages have also been eliminated until the Vollmer Centre reopens to the public.

Utilities: There may be a slight reduction in utilities at the Vollmer Centre such as gas to heat the pool and water to refill the pool as it is not currently open to the public. Hydro costs are not expected to be affected as the pool and arena systems will still be running. Utilities at the outdoor pool and splash pad could potentially be eliminated / reduced if they are not opened to the public this summer.

Seasonal parks staff and parks summer students: Through an effort to encourage social distancing and due to the unknown projection of when sporting activities will be allowed, a decision was made to delay the start date of existing seasonal staff by 2 weeks, and defer filling 3 seasonal staff vacancies to a later date (currently unknown). The hiring of parks summer students has also been postponed this year.

Deferral of filling vacant customer service representative position: A conscious decision has been made to defer filling the vacant customer service representative position as there are various staff in the finance department that are trained to back up the position should it be required.

Reduced costs related to cancelled events: Currently, all events up to the end of June have been cancelled (Strawberry Festival, June night market, etc.). Depending on when restrictions are lifted, future events may be cancelled such as movie nights, night markets, last call before fall, etc.

Outdoor Pool / Splash pad: If the outdoor pool and splash pad opening is delayed, there could be future net savings related to the elimination of wages, supplies, utilities and maintenance costs.

Reduction in other minor expenses: There are various other minor expenses that may be reduced and at this point are difficult to estimate. These expenses include but are not limited to a reduction in costs related to fewer committee meetings, and reduced costs related to less training, conference costs and related travel and accommodation costs.

### **Other Long-term Risks / Factors**

**Length of the Pandemic and Provincial Emergency Declaration:** The overall financial impact of the COVID-19 crisis cannot be accurately projected because at this point it is unknown how long it will last and when/if a successful vaccine will be created. The longer that the Provincial emergency measures that are in place, the larger the financial impact will be on the Country, Province, Town, and world for that matter. For each additional week that this pandemic lasts, the more difficult it will be for economies around the world to recover. From past experiences during the 2008/2009 recession, if we continue to head into a deeper recession, less building will occur around Town, which results in a lower increase in assessment and higher pressure on tax rates. This could ultimately result in less new services and/or a reduction of existing service levels in future years.

**Future Cash Flow:** Currently, there are sufficient cash balances held by the Town to cover the current operating budgets and additional costs related to the COVID-19 crisis well into the future. The risk lies with the future ability to collect taxes and utility charges if this crisis lasts far into the future. At the end of April, property tax arrears have increased 31% as compared to the arrears at April 30, 2019 and utility bill areas have increased 19% as compared to the arrears at April 30, 2019. This increase is partially due to the waiver of penalty and interest up to and including June 30, 2020. It is expected that the amount of arrears will increase each month until the emergency measures are lifted by the Province and all residents are back to work. Tax and utility arrears will be monitored closely as we move forward.

Over the past number of years, the Town has successfully built up the balance of the tax stabilization reserve to a point at which it has a current balance of \$4.2 million. The purpose of the tax stabilization reserve is to fund unexpected and unbudgeted extraordinary expenditures. The current balance will be more than sufficient to cover the expected financial impact of the COVID-19 crisis in 2020. We must keep in mind that this fund may also be required if significant flood events start occurring around Town due to the record high water levels.

### **Financial Relief Measures**

#### **Waiving of Penalty and Interest on property tax and water accounts**

As was mentioned above, effective March 25 through to the period ending June 30, 2020, there will be no penalty or interest charges on property tax and water / wastewater accounts. This decision was made to allow residents and business experiencing cash flow challenges to pay their bills at a later date with no short-term financial impact to them. This decision will be revisited in June to determine whether a further extension is needed.

Deferral of Education tax levy payment due dates

The Province has introduced financial relief measures that will help to mitigate some of the cash flow pressures felt by Municipalities, which includes deferring the June education tax due date by one quarter and effectively doubling the amount due in December of 2020.

Deferral of County tax levy payments

The County has implemented a plan that allows municipalities to remit County levies in the same proportion taxes are received by the Town.

Deferral of MPAC Reassessments:

In March 2020, it was announced that MPAC property tax reassessments that were scheduled to be mailed out to residents in mid-2020 have been deferred by one year. For the 2021 operating budget, property values will remain unchanged from 2020 values. This will eliminate the risk of extreme property value shifts for taxpayers.

Other Federal and Provincial Emergency Funding

At this point, it is unknown whether there will be any future emergency related funding for Municipalities by the Federal and/or Provincial governments. The Town will continue to keep track of all emergency related expenses to support any potential future funding calculation requirements.

**Consultations**

All Town Departments

**Financial Implications**

Refer to Appendix A

**Prepared By:**



Director of Finance/Treasurer

Dale Langlois, CPA, CA

### Link to Strategic Goals

Yes	Enhancing organizational excellence
Yes	Sustain strong public services and infrastructure
Yes	Strengthen the community's engagement with the Town
	Grow and diversify the local economy
	Build on our high-quality of life

### Communications

Yes	Not applicable
	Website
	Social Media
	News Release
	Local Newspaper
	Bids & Tenders
	Notification pursuant to the Planning Act

### Notifications

Name	Address	Email

**Report Approval Details**

Document Title:	FIN-09-2020 COVID-19 Financial Impact Update.docx
Attachments:	- FIN-09-2020 COVID-19 Financial Impact Update.pdf
Final Approval Date:	May 5, 2020

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



Chief Administrative Officer

Joe Milicia