
Subject: 2020 COVID-19 Cash Flow Update Report - July

Report to: Council

Report date: Thursday, July 23, 2020

Recommendations

That this report **BE RECEIVED** for information.

Key Facts

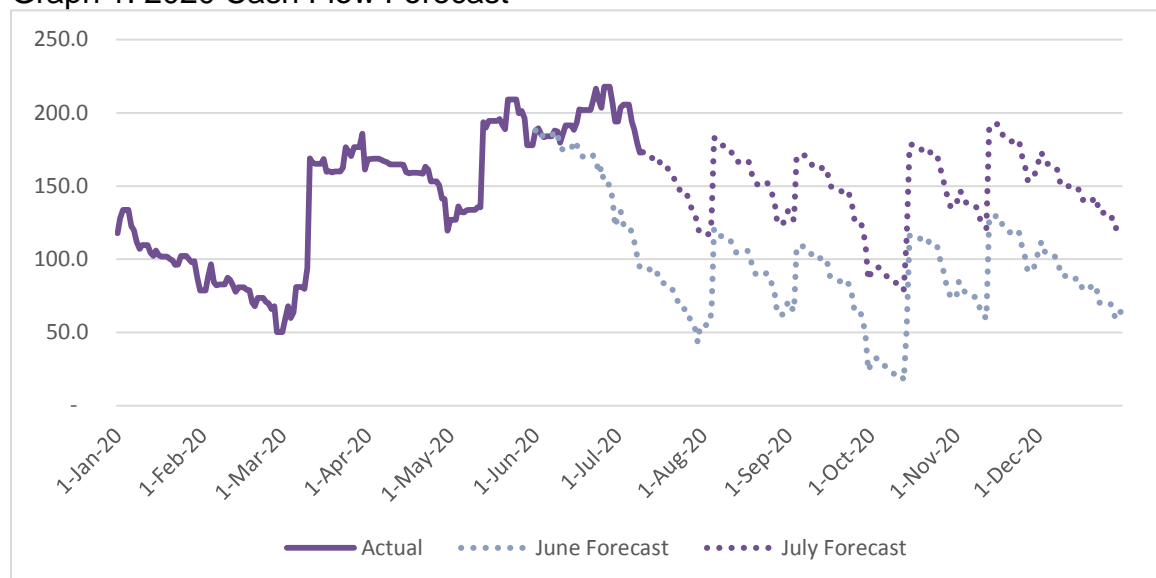
- The purpose of this report is to provide Council with an update on Niagara Region's cash flow position and forecast for July with specific reference to the impacts of concessions made to Local Area Municipalities (LAMs) to align with their concessions to the taxpayers in Niagara.
- Monthly cash flow updates will be provided to Council in response to report CSD 31-2020, which generally approved deferrals of LAM tax and water and wastewater remittances to the Region, as well as waiving interest charges on late payments.
- Overall the amount due from the LAMs for general and special purposes tax levies and water and wastewater payments in Q2 is approximately \$130 million, of this only \$1.6 million is in arrears; the amount due for the third and fourth quarters are approximately \$148 million and \$146 million, respectively.
- Cash flow results for July have improved over the June forecast primarily from all tax remittances from the LAMs being paid in full.
- Cash flow forecasting is an important tool to ensure that sufficient funds are available to meet the Region's operating and capital payment obligations.

Financial Considerations

The COVID-19 pandemic continues to cause a strain on a number of financial resources. Niagara Region cash balances are impacted by increased spending for pandemic relief services, as well as by deferred and/or reduced revenue collections.

The Region's cash flows are monitored to ensure sufficient liquidity to provide for ongoing operations. Balances as at the middle of July have increased compared to forecast; this is the result primarily of improved collection experienced by the LAMs. Graph 1 provides an illustration of the updated cash flow forecast for the Niagara Region for the remainder of the year.

Graph 1: 2020 Cash Flow Forecast



The following are updates since the June cash flow report CSD 39-2020 – 2020 COVID-19 Cash Flow Update Report – June:

- Tax levy remittances have been paid in full resulting in 0% arrears.
- Water and Wastewater remittances of \$9.4 million, versus the total billed \$10.0 million (for May flows, due June 30), represent 6% arrears (\$0.6 million)
- Water and Wastewater February through April flows have remittances outstanding of \$1.0 million, which is an improvement from the last report of \$0.4 million.
- CSD 39-2020 reported a year-to-date water flow decline of 7% over the three-year average. This has reduced to a decline of 5.6%, improving cash flow.
- Responsibility for managing the construction of the Canada Summer Games Park is being transitioned to the Niagara Region. Once all information is available updates to the cash flow forecast will be made.

Analysis

The Region conducts cash flow forecasts to ensure sufficient operating liquidity by estimating the available cash deposits, expected inflows, and required disbursements. Common inflows include tax and rate remittances from the LAMs, grant revenue from other levels of government, debenture proceeds, interest revenue from investments and other revenue from fees and services. Outflows typically represent employee payroll and benefits, anticipated payments such as debt service and payments to vendors for goods and services for both operating and capital costs.

COVID-19 implications have had an adverse impact on the Region's cash flow forecast. Some measures taken by the Region include foregoing planned investments that would have enhanced investment income and delaying spending on previously approved capital projects. These are discussed in the cash flow impact section below.

Impacts on Niagara Region Cash Flows:

LAM remittances:

The largest impact to the Region's cash flow forecast is the implementation of the concessions approved through report CSD 31-2020, including partial payments for the general tax and special purpose levy amounts as well as amendments to the water and wastewater collections.

The second interim tax bill of \$100.3 million has now been remitted in full, with no interest charges applied to the LAMs. The third levy instalment has an initial due date of August 5th, with concessions allowing the waiving of interest charges to the LAMs until September 4th for partial or late payments. Some municipalities have extended the due date for their third and fourth levy instalments. Potentially impacting their ability to remit to the Region on a timely basis however their changes are still within the interest and penalty waiver period approved by the Region.

Water and Wastewater billings are completed on the 15th of the following month and due by the end of that month; January through May have been billed and due dates passed. Nine municipalities have paid May billings in full, two municipalities have made partial payments with \$0.6 million outstanding or 6% in arrears of the total \$10.0 million. Amounts outstanding for February through April billings from CSD 39-2020 of \$1.4 million were reduced by \$0.4 million, resulting in the number of LAMs in arrears down from four to two; the total unpaid balance is \$1.6 million. Billings for the June water and wastewater charges occurs on July 15th and is due at the end of July.

Conclusion: Cash flows from the remittances of LAM payments are providing support to the Region's cash flow position and are trending positively relative to our initial forecasts. With the levy collection experienced to date, there are no recommendations to change the treatment for the third or fourth levy instalments at this time.

Capital Project activity:

Subsequent to the capital project review done as a part of CSD 34-2020, the province has lifted restrictions on capital project works. As a result, capital projects continue to progress to the extent possible acknowledging any staff and industry constraints.

Capital project spending has an impact on cash flows, it does not impact the operating

budget, as the cost of capital has been previously approved in prior year budgets, either through contributions to capital reserves, debt issuances, or from external contributions. There are currently 583 approved capital projects with budget remaining as at the end of June of \$851 million.

Conclusion: Capital spending continues to be less than forecasted resulting in a positive impact on the cash flow to date; this has not impacted strategy, however staff will continue to monitor cash flows and update the strategy if required. The capital projects that were deemed non-urgent previously continue to be delayed. Spending on these projects will extend into next year and possibly beyond based on the scope of the project.

Incremental COVID – 19 costs:

Incremental costs associated with COVID-19 are affecting the Region's cash flows. Staff have used cost analysis information from report CSD 47-2020 – 2020 COVID-19 Financial Impacts Report for July that captures and models financial impacts to the end of the year on the cost of COVID-19. Incremental payroll costs and the additional cost of the pandemic pay increase will affect the Region's cash flow until funding is received from the Province. There are also incremental costs associated with the procurement of supplies and services that would not have occurred outside of the pandemic that are being modeled in the cash flow forecast.

Conclusion: Incremental COVID-19 costs are negatively affecting the Region's cash flow. However, savings and mitigation efforts have been identified in CSD 47-2020 that will provide some relief to cash flows.

Treasury activities:

Since the pandemic started, the Niagara Region has seen no increase to the investment portfolio, to address uncertainty surrounding projected and outstanding collections, at the risk of reduced investment income. This strategy will be reviewed in August based on the collection experience of the Levy, Water and Wastewater remittances.

The Region plans to issue a total of \$77 million in debentures during 2020 to finance capital projects, of which \$15.5 million has been successfully priced through capital markets with settlement on July 31st. The remaining debentures will be issued through Infrastructure Ontario during Q4.

Conclusion: The delay on planned investments has provided cash flow relief in the short term, however it has negatively impacted investment income. An increase to the

investment portfolio may be considered if timing of LAM remittances is earlier than forecasted in the second half of 2020 . The Region will settle the \$15.5 million debenture issuance on July 31st which will provide additional cash flow.

Summary:

Staff will continue to monitor the Region's cash flow position and will take action to ensure there is sufficient liquidity to fund operating and capital payment obligations. Based on the updated information, it is projected that the Region's cash flow will remain positive to the end of the year, however any changes in projected timing and collection could alter the forecast.

Alternatives Reviewed

No alternatives are offered for this report.

Relationship to Council Strategic Priorities

This report highlights how the Niagara Region is supporting the Council Priority of Sustainable and Engaging Government

Other Pertinent Reports

CSD 31-2020	Concessions to Local Area Municipalities regarding Taxes and Wastewater Billings
CSD 39-2020	2020 COVID-19 Cash Flow Update Report - June
CSD 40-2020	2020 COVID-19 Financial Impacts Report
CSD 37-2020	Debt Information Report – 2020 Debenture Issuance

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