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**Subject:** COVID-19 Cash Flow Update Report - August

**Report to:** Regional Council

**Report date:** Thursday, August 13, 2020

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## **Recommendations**

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

## **Key Facts**

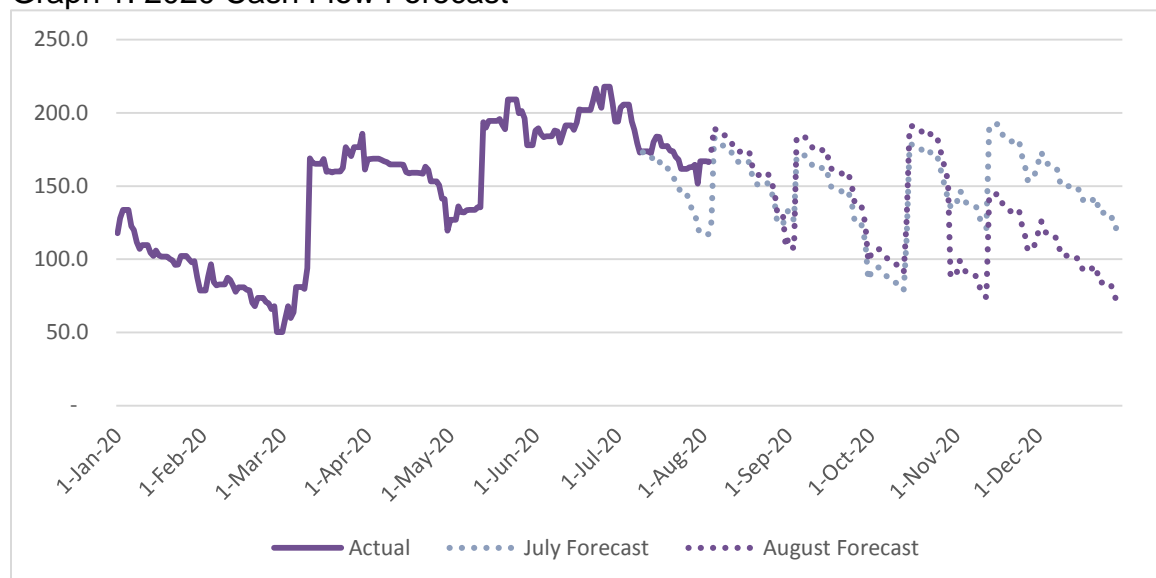
- The purpose of this report is to provide Council with an update on Niagara Region's cash flow position and forecast for August with specific reference to the impacts of concessions made to Local Area Municipalities (LAMs) to align with their concessions to the taxpayers in Niagara.
- Monthly cash flow 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 Q3 and Q4 are approximately \$148 million and \$146 million, respectively.
- There has been an improvement in water and wastewater arrears of \$0.2 million from the prior month.
- 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 have increased compared to forecast; this is the result primarily of improved collection experienced by the LAMs and reduced outflows compared to forecast. 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 July cash flow report CSD 46-2020 – 2020 COVID-19 Cash Flow Update Report – July:

- Water and Wastewater remittances of \$8.1 million, versus the total billed \$10.6 million (for June flows, due July 31), represent 24% arrears (\$2.5 million)
  - This is impacted primarily by an outstanding payment of \$2.2 million
- Water and Wastewater February through May flows have remittances outstanding of \$1.4 million, which is an improvement from the last report of \$1.6 million.
- The forecast cashflow reflects a potential investment purchase in October if liquid cash available continues as per current collection trends. This represents the largest change in year-end forecast when compared to the July report.
- CSD 46-2020 reported a year-to-date water flow decline of 5.6% over the three-year average. At the time of finalizing this report, updated flow information was not available.
- 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 third levy instalment has an initial due date of August 5<sup>th</sup>, with concessions allowing the waiving of interest charges to the LAMs until September 4<sup>th</sup> for partial or late payments. At the time of finalizing this report, August 5<sup>th</sup>, the initial due date has passed, remittances and notices of \$77.3 million have been received, \$38.2 million of the \$115.4 million billed was not collected which represents 33.1% of the amount billed.. Full or partial payments and notices have been received from ten municipalities, Some municipalities have extended the due date for their third and fourth levy instalments 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 15<sup>th</sup> of the following month and due by the end of that month; January through June have been billed and due dates passed. Nine municipalities have paid June billings in full, one municipality made a partial payment, and one payment is outstanding; this represents \$2.5 million outstanding or 24% in arrears of the total \$10.6 million. The total unpaid balance has increased to \$3.9 million from \$1.6 million, which includes the payment of \$0.2 million in prior arrears by one municipality. Billings for the July water and wastewater charges occurs mid August and is due at the end of August.

Conclusion: Cash flows from the remittances of LAM payments are providing support to the Region's cash flow position. With the levy collection experienced to date, there are no recommendations to change the treatment for the fourth levy instalment 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 affect 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 572 approved capital projects with budget remaining as at the end of July of \$822 million.

Conclusion: Capital spending continues to be less than forecasted resulting in a positive impact on the cash flow to date; this has not affected 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 51-2020 – 2020 COVID-19 Financial Impacts Report for August 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 51-2020 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 has been reviewed against current cash flow forecasts as of August and consideration is being given to the further investments later this year if cash flows continue to be better than forecast.

The Region has issued \$15.5 million in debentures during July through the Capital markets for an all-in rate of 1.43% and plans to issue an additional \$61.7 million in debentures through Infrastructure Ontario this fall to finance capital projects.

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 will be considered, dependent on market conditions and available options.

### **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 46-2020	COVID-19 Cash Flow Update Report - July
CSD 51-2020	COVID-19 Financial Impacts Report

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