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

Report to: Council

Report date: Thursday, May 21, 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 May with specific reference to the impacts of concessions made to local area municipalities 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 local area municipality tax and water and wastewater remittances to the Region, as well as waiving interest charges on late payments.
- Overall the amount due from the local area municipalities for general and special purposes tax levies and water and wastewater payments in Q2 is approximately $130 million; the amount due for the third and fourth quarters are approximately $148 million and $146 million, respectively.
- 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 is causing strain on a number of financial resources. Niagara Region cash balances are being impacted by increased spending for pandemic relief services, as well as by deferred and/or reduced revenue collections from the local area municipalities.

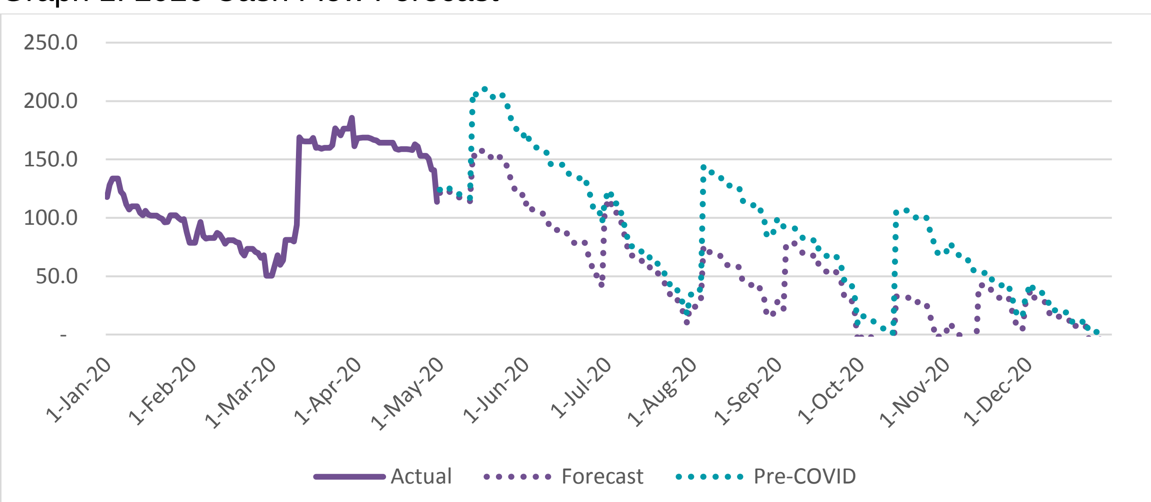
The Region's cash flows are monitored to ensure sufficient liquidity to provide for ongoing operations. Graph 1 provides an illustration of the expected impacts on the Region's cash balance position in light of the concessions offered to support Niagara's taxpayers.

The following are the assumptions that were built into the cash flow forecast based on CSD 31-2020 and included in the cash flow graph:

- Second interim General and Special Purposes Tax Levy payments, modelled a minimum of 50% remitted by LAMs to Niagara Region May 13; remaining 50% remitted June 30
- Final General and Special Purposes Tax Levy payments, modelled a minimum of 50% remitted by LAMs to Niagara Region in alignment with schedule of tax payments; remaining 50% of each payment remitted 30 days later
- Water and Wastewater payments, modelled a minimum of 75% remitted by LAMs to Niagara Region; remaining portion paid over final quarter of the year 2020
- Operating costs for essential services, including Water, Wastewater, Seniors Services, etc. continue to be incorporated
- Incremental costs related to COVID-19 are being tracked and these have been offset by non-essential services and savings that have been identified in report CSD 30-2019
- Capital projects have been evaluated to assess if they are essential and if staff and/or industry capacity exists, and cash flow projections for the balance of the year have been updated accordingly.

The operating budget impact of reduced interest income earned by the Region on its available cash was estimated at a loss of $1.3 million and that estimate remains unchanged at this time.

Graph 1: 2020 Cash Flow Forecast



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 local area municipalities, 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.

Recent 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.

As of May 14, the May 13th scheduled tax levy payment date, remittance experienced to date has been 75% of the total $100.3 million. Five municipalities have remitted in full with the remaining seven municipalities making partial payments, leaving an outstanding accounts receivable balance of $25.1 million, representing 25% arrears. Of those municipalities in arrears, they range from 7% to 72% as of May 13th. To note is that the 72% arrears relates to a municipality that had their due date for this instalment on May 21st which is after the Region's due date.

Water and Wastewater billings are completed on the 15th of the following month and due by the end of that month; January through March have been billed and due dates passed. Nine municipalities have paid in full, two municipalities have made partial payments for February and March with $0.6 million outstanding or 3% in arrears of the monthly total $9.8 million. Billings for the April water and wastewater charges occurs on May 15th and is due at the end of May.

Conclusion: Cash flows from the remittances of local area municipality payments are providing support to the Region's cash flow position and are trending positively relative to our initial forecasts. However it is too early to conclude if the due date for the remaining levy amounts outstanding at June 30th is sufficient at this time. Therefore, no changes to the concessions approved are being recommended.

Capital Project review:
As a proactive measure to address a reduction in cash flows, as well as the initial decision of the Province regarding what capital construction was permitted to proceed the Region undertook a detailed review of capital projects approved to date. It is important to note that the delay/deferral in 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 throught contributions to capital reserves, debt issuances or from external contributions.

There are currently 634 approved capital projects with budget remaining as at the end of April of $900 million. These projects have been reviewed to assess their urgency and if staff and/or industry capacity exists and cash flow projections for the balance of the year have been updated accordingly. The following factors were considered in the review of capital projects:

- proposed project/work/service is necessary to obtain/ensure regulatory compliance
- proposed project/work/service is necessary to address health and safety
- proposed project/work/service is the repair/maintenance/replacement of a critical building or equipment that is necessary for continued operations
- the project/service is critical to ensure business continuity for essential services.
- proposed project/service/work is otherwise necessary to address legal risk or potential liability
- are there contractual obligations of the Region based on the agreements that have been entered into

Conclusion: A number of capital projects that were deemed non-urgent have been delayed. Spending on these projects will extend into next year and possibly beyond based on the scope of the project. Notable projects that have been delayed include the following:

- $23.0 million – Environment Center Expansion
- $3.9 million – EMS Central Hub
- $2.5 million – New Escarpment Crossing
- $2.5 million – Watermain replacement – Vineland
- $2.4 million – Welland Wastewater Treatment Upgrade Phase 2
- $2.0 million – Decew Water Treatment Plant 2 Upgrade
- $1.8 million – Social Housing – Alternative Service Delivery

- $1.1 million – Bridge Street Public Drop Off
- $1.0 million – Watermain replacement – Lundys Lane

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 35-2020 – 2020 COVID-19 Financial Impacts Report, that captures and models financial impacts to the end of June 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 35-2020 that will provide some relief to cash flows.

Treasury activities:
At the time of the April cash flow report, staff had projected to invest $15 million in May which would have provided investment income earnings in 2020. Given the uncertainty surrounding projected and outstanding collections, staff have proposed to hold funds in cash balances to mitigate any potential cash receipt shortfall and allow for payments to suppliers.

The Region's process for funding capital projects approved with debenture is to self finance during construction and then debenture upon project completion in the summer. This inflow of debenture is an important element of the cash flow analysis as it replenishes some of the Region's required cash flow for the new construction season. The estimated Regional debenture requirement for 2020 is $ 77 million. The Region typically enters the capital markets for debenture financing in the summer months. The Region's fiscal advisors have identified challenges in marketing debenture issues at this time. As a result, the scheduling of the summer debenture issue is not finalized, however staff are progressing with the debenture process to be ready once market conditions improve.

Conclusion: The delay of planned investments until cash flow projections stabilize will provide cash flow relief in the short term, however it will negatively impact our budget to actual investment income variance. The postponement of the issuance of debentures until later in 2020 will negatively impact cash flows until settlement of the debenture issue however the delay of capital project spending should help mitigate this.

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 35-2020	2020 COVID Financial Impacts Report

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