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

Report to: Regional Council

Report date: Thursday, June 25, 2020

Recommendations

1. 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 June 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 which \$112 million has been received by June 17th with another \$13.2 million anticipated by June 30th; the amount due for the third and fourth quarters are approximately \$148 million and \$146 million, respectively.
- Cash flow results for June have improved over the May forecast primarily as the result of more remittances from the LAMs being paid on time relative to the forecast model.
- Cash flow forecasting is an important tool to ensure that sufficient funds are available to meet the Region's operating and capital payment obligations.

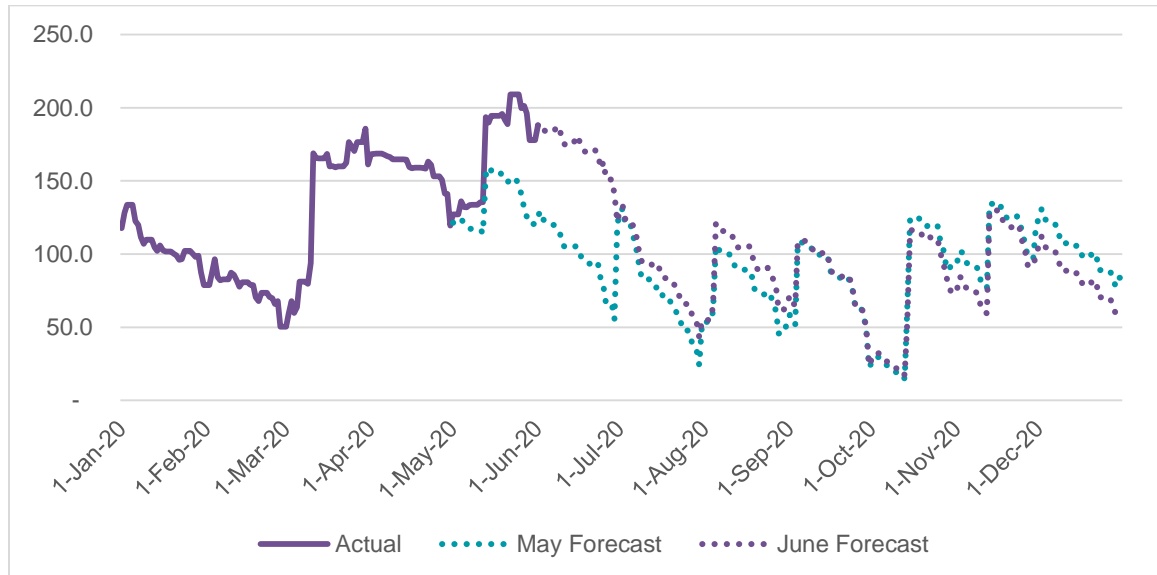
Financial Considerations

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 June have increased compared to forecast; this is the result of improved collection experience 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 May cash flow report: CSD 34-2020 – 2020 COVID-19 Cash Flow Update Report – May:

- Tax levy collections totalling \$9.1 million have reduced the amount owing for the second instalment to \$16.0 million, or 16% arrears at June 17th however based on consultation with Area Treasurers arrear at June 30th are forecasted to decline to 2.8%%
- Water and Wastewater collections of \$8.9 million, versus total billed of \$9.7 million (for April billing, due May 31), represent 9% arrears (\$0.8 million)
- Water and Wastewater February and March billings have amounts outstanding of \$0.6 million representing 3% arrears
- Regional water consumptions has declined by 7%, reducing the amount billed to the LAMs
- Federal Gas Tax is typically received in two equal installments each year in July and November. This year the full Federal Gas Tax (\$13.6 million) was received June 17th.
- Should responsibility for managing the construction of the Canada Summer Games Park be transitioned to the Niagara Region updates to the cash flow forecast would be required

The operating budget impact of reduced interest income earned by the Region due to reductions in cash flow and reduced market rates was estimated at a loss of \$1.3 million and that estimate remains unchanged at this time.

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 position. 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 June 17, the second interim tax bill has experienced 84% remittance of the total \$100.3 million. Of the seven municipalities with amounts outstanding at the end of the May reporting cycle, two have made additional remittances; one paid in full, resulting in six municipalities paid in full. Individual LAM arrears range from 5% to 36% as of June 17th. Of the six LAMs currently with amounts owing, five have indicated that they will pay in full by June 30th.

Water and Wastewater billings are completed on the 15th of the following month and due by the end of that month; January through April have been billed and due dates passed. Eight municipalities have paid April billings in full and three municipalities have made partial payments with \$0.8 million outstanding or 9% in arrears of the total \$9.7 million billed. Amounts outstanding for February and March billings from the May cash flow report of \$0.6 million remain unpaid; the total unpaid balance is \$1.4 million. Billings

for the May water and wastewater charges occurs on June 15th and is due at the end of June.

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 forecast when the impacts of providing the concessions was analyzed. The due date for the remaining levy amounts outstanding at June 30th will pass before the next cash flow update to Council; however due to the current collection experience and the fact that most LAMs will pay in full by June 30th, no changes to the concessions approved by Council are being recommended.

Capital Project activity:

Subsequent to the capital project review done as a part of the May cash flow report, 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 611 active capital projects with budget remaining as at the middle of June of \$867 million down from \$900 million quoted in the May report.

Conclusion: Capital spending for this period has been less than forecast resulting in a positive impact on the cash flow to date. Staff will continue to monitor cash flows and recommend updates to 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 the June COVID-19 Financial Impacts Update report (CSD 40-2020) 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 40-2020 that will provide some relief to cash flows.

Treasury activities:

At the time the May cash flow report was written, staff had proposed a strategy that no increase to the investment portfolio be made, at the risk of reduced investment income, to address uncertainty surrounding projected and outstanding collections. This strategy is continuing.

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 planned Regional debenture issuance for 2020 is \$77 million which has been incorporated into graph 1 above.

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 issuance of debentures in Q3 and Q4 will provide additional cash flows for the capital program.

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

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| CSD 31-2020 | Concessions to Local Area Municipalities regarding Taxes and Wastewater Billings |
| CSD 34-2020 | 2020 COVID-19 Cash Flow Update Report - May |
| CSD 40-2020 | 2020 COVID-19 Financial Impacts Report |
| CSD 37-2020 | Debt Information Report – 2020 Debenture Issuance |

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