



Report to Council

Department: Corporate Services

Division: Finance and Business Services

Date: November 2, 2020

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Report Number: Finance and Business Services-2020-04

Subject: COVID-19 Financial Impact as of September 30, 2020

Number of Pages: 15

Recommendation(s)

The following is provided for Council's consideration:

1. That Finance and Business Services Report 2020-04 entitled "COVID-19 Financial Impact as of September 30, 2020" be received.

Purpose

To provide Council with the estimated financial impact of the COVID-19 pandemic as of September 30, 2020.

Background and Discussion

The extraordinary nature of the COVID-19 pandemic has and will continue to impact the Town's financial position for the foreseeable future, the degree is uncertain.

Council and administration have monitored and continue to monitor the rapidly escalating situation. Measures were introduced throughout the onset of the pandemic to ensure the health and safety of staff and residents. Additional measures attempted to provide economic relief where possible.

Timeline of Events

On March 11th, 2020 COVID-19 was declared a pandemic by the World Health Organization.

Immediately following the emergency declaration, Administration put into place processes to track the financial impact that may be experienced due to the pandemic. This included the creation of an Emergency Event cost centre which would allow the Town to quantify additional and non-budgeted expenditures, and or costs associated with the COVID-19 pandemic.

On March 16th, at a special meeting of Council, Council approved the waiver of penalty and interest on property tax and interest on water and sanitary accounts, to provide financial relief to residents.

On March 17th, the Government of Ontario declared a state of emergency which included the closure of indoor recreational programs, indoor dining, public libraries, schools, and daycares. It also introduced a gathering limit to help reduce the transmission of the disease.

On March 18th, following the emergency order, all Town facilities were closed to the public. Staff at Town offices were redeployed to multiple facilities or used a temporary “work-from-home” model to ensure the proper social distancing guidelines were being followed. As a result of the closures, all Town recreational programming and rentals were cancelled until further notice.

On March 22nd, the County of Essex and all lower-tier municipalities, including the Town of Essex, declared a state of emergency. Administration worked with neighboring municipalities to ensure a consistent approach in the fight against COVID-19.

On March 25th, more orders were introduced including the closure of all “non-essential businesses” as well as outdoor recreational programs or facilities.

On April 27th, the Government of Ontario unveiled its “Framework for Reopening our Province”. The framework laid out three stages of reopening, which required assessments at the provincial level before a region was permitted to move into the next stage. Also on April 27th, the Town launched the Open for Business Map to assist residents in finding open local businesses with a summary of their operational and service changes.

On May 4th, Council approved the recommendation of the Essex Fun Fest Committee to cancel the 2020 Essex Funfest.

On May 19th the province, including the Town of Essex, entered Stage 1 of the framework.

Effective June 1st, the Town began reopening administrative buildings to the public with several new protocols, following the guidance of the local Health Unit. All non-sport field parks and beaches, as well as the Harbor, were reopened for passive use only.

On June 9th, the Government of Ontario introduced new measures to support businesses who have liquor sales licenses to temporarily extend their patios and safely reopen businesses. On June 19th, the Town began accepting applications from local businesses to expand or create outdoor patios to assist with reopening safely. These businesses were also encouraged to apply for reimbursement of patio or outdoor expansion through the Town’s “Community Improvement Plan”.

On June 15th, Council approved the creation of the “Digital Grant Program” to assist local business in digital marketing and online sale expansion.

On June 25th, the Town of Essex entered Stage 2, which permitted the reopening of certain businesses including hair and beauty, personal services, as well as restaurants and bars for outdoor dining.

On July 6th, the “Business Relaunch Fund” was approved by Council to assist eligible business owners in their safe reopening. This program was the first of its kind in Essex County and neighboring municipalities have since launched their own concept.

On July 16th, the Town launched the Newspaper Business Directory in partnership with our local newspapers to offer free listings to Town of Essex businesses.

On July 27th, the Government of Ontario announced funding of up to \$4 billion in emergency assistance for municipalities through the Safe Restart Agreement.

On August 12th, the Town of Essex was moved into Stage 3 by the Government of Ontario. This meant that non-essential businesses and other previously closed facilities, were able to re-open with increased social distancing measures and health and safety protocols, as recommended by the local Health Unit. Some “larger scale” or higher risk venues are still not permitted for reopening.

On August 12th, the Town received further details on the funding investment through the federal-provincial Safe Restart Agreement. For the municipal operating stream, \$1.39 billion will be available to address pressures and local needs arising from COVID-19. The funding will be allocated in two phases: 50% in Phase 1 for all municipalities based on household count, and 50% in Phase 2 for municipalities that require additional funding. Under Phase 1 the Town will receive \$543,800. It is expected that any excess funding will be placed into reserves for future costs or pressures as a result of the pandemic. Reporting will also be required with details on the 2020 COVID-19 operating costs and pressures as well as the overall 2020 financial position.

Under Phase 2, funding may be provided to those municipalities that can demonstrate that the 2020 COVID-19 impact exceeded the Phase 1 allocation. This will require additional reporting as well.

On September 28th, Doug Ford announces that Ontario was officially in the second wave of the coronavirus pandemic.

Although the reporting period for this report is for month ending September 30, 2020, it is important to note the following events since this date, which include:

On October 9th, new restrictions, including certain facility closures, were put into place for “hot spot” regions, which did not include to the Town of Essex.

Administration continues to monitor the consistently changing environment and situation and adapting as necessary.

COVID-19 Financial Impact Summary

For the Operating Summary of COVID-19 pandemic related groupings as outlined in this report please refer to Table A (attached). As identified in Table A, the total loss to date, for COVID-19 impacted revenue and expense groupings, is approximately **\$548,700**, when comparing period ending September 30, 2020 to 2019. This loss is predicted to increase on a continual basis due to the new environment that COVID-19 has created in the community. Administration will continue to report to Council with actual cost data, as forecasted data remains difficult and potentially unreliable, given the unprecedented nature of the pandemic.

COVID-19 Financial Impact Analysis

Administration identified revenue or expense groupings that were at higher risk of impact as a result of the COVID-19 pandemic. For relevancy, administration identified, analyzed and removed all groupings that were identified as having a low risk of being affected by COVID-19. Summarized below are the account groupings that have been and will likely continue to be affected during the COVID-19 pandemic. Due to the instability of the events and measures surrounding the pandemic, it is extremely difficult to forecast the pandemic’s annual impact. Therefore, it is important to note that this report is compiled at a point in time, utilizing the best available information at that point. What has been stated below is the total actual impact as of September 30th, not including user rate supported services such as water and sanitary

sewer. The estimated impact on these divisions has been identified as low risk and impacted minimally by the COVID-19 pandemic.

Revenue Impacts

The total impact to revenue for period ending September 30, 2020 versus period ending September 30, 2019 is a **decrease in revenue of \$1,475,684**. This decrease is further broken out by department and impacted revenue groupings as summarized below.

Revenue by Department	Year to date: September 30			
	2019	2020	Actual 2020 vs 2019	
Grouping	Actual	Actual	\$ Change	% Change
Community Services	1,795,509	1,024,081	(771,428)	(43%)
General Government	362,401	192,066	(170,335)	(47%)
Infrastructure Services	421,957	333,996	(87,961)	(21%)
Development Services	69,221	53,180	(16,041)	(23%)
Other (Animal Control, Conservation, Health Services)	48,068	49,214	1,146	2%
Reserve Revenue (not within divisions)	900,729	469,664	(431,065)	(48%)
Total	3,597,885	2,122,201	(1,475,684)	(41%)

Revenue by Grouping	Year to date: September 30			
	2019	2020	Actual 2020 vs 2019	
Grouping	Actual	Actual	\$ Change	% Change
User Fees and Service Charges	2,359,735	1,511,939	(847,796)	(36%)
Fines and Penalties	177,151	45,701	(131,450)	(74%)
Investment Income - operating	160,270	94,897	(65,373)	(41%)
Investment Income - reserves	900,729	469,664	(431,065)	(48%)
Total	3,597,885	2,122,201	(1,475,684)	(41%)

The most significant impact(s) to each revenue grouping are summarized below.

User Fees and Service Charges

As part of the government orders introduced, the Town saw the immediate closure of all recreational facilities including the Essex Recreation Complex, all four community centers, and both arenas. This meant that user fee revenue from programming and rentals during the closure period were significantly impacted.

The majority of the decline in user fees for period ending September 30, 2020 versus the same period for 2019 was experienced within the Community Services Department, and is from the cancellation of recreational programming, harbor rentals, ice rentals and other various facility rentals. It should be noted that these impacts will continue until operations return to where they were pre-COVID-19.

Listed below is a summary of the top 10 decreases found within the Community Services Department. These decreases amount to nearly 74% of the total decline in User Fees and Service Charges Revenue.

Revenue Account	Decrease from 2019 to 2020
Ice Rental	(158,364)
Youth Swim Lessons	(111,703)
Youth Recreation Programs	(106,161)
Entertainment Gate	(32,200)
Sign Advertising	(49,780)
Preschool Swim Lessons	(49,316)
Recreation Equipment Sales	(37,234)
Preschool Swim Programs	(34,047)
Building and Equipment Lease	(27,435)
Auditorium and Gym Rental	(24,646)
Total	(630,886)

Fines and Penalties

The main contributor to the decline in Fines and Penalties revenue grouping was a direct result of the waiver of penalties and interest on property tax accounts. In March, the Essex County Treasurer's group met and developed a recommendation for the waiver of penalties and

interest on property tax accounts as a way to provide flexibility to residents as they work through the financial hardships of the pandemic. Council approved this waiver to provide relief and align with neighboring lower-tier municipalities. Below is a summary of the monthly financial impact resulting from the waiver.

Penalty and Interest Waived on Property Tax	
Month	2020
April	16,363
May	33,828
June	29,192
July	23,893
August	36,699
September	28,938
Total	168,913

Investment Income

At September 30, the Town experienced a decline in investment revenue, compared to 2019 figures, of over \$470,000 as summarized in the table below. This decrease can be directly attributed to interest earned. Losses due to the March 4, 2020 decrease in the Bank of Canada's overnight rate will have one of the largest impacts on the municipality. Much of the impact to interest earned is not directly captured within the Town's Budget; with 91% falling within the Town's Reserve and Reserve Funds.

The interest rate earned on Town investments dropped from 2.42% to 0.92% during the pandemic. The Town was projected to earn an approximate \$1.5 million (balance of \$60 million) on Reserve and Reserve Funds and \$145,000 (balance of \$6 million) on the Town's general fund which is captured within the 2020 Budget.

	Operating Funds			Reserve Funds			Total Operating and Reserve Interest Loss
	2019	2020	Loss	2019	2020	Loss	
March	8,852	5,895	(2,957)	130,360	130,003	(357)	(3,314)
April	11,282	6,759	(4,523)	126,635	89,237	(37,398)	(41,921)
May	11,602	3,484	(8,118)	131,774	49,959	(81,815)	(89,933)
June	16,916	7,314	(9,602)	128,709	48,797	(79,912)	(89,514)
July	10,877	6,705	(4,172)	133,454	50,596	(82,858)	(87,031)
August	8,806	6,359	(2,447)	139,364	52,836	(86,528)	(88,975)
September	21,810	9,802	(12,008)	110,434	48,236	(62,198)	(74,206)
Total	90,146	46,318	(43,828)	900,730	469,664	(431,066)	(474,894)

Expense Impacts

The total impact to expenses for period ending September 30, 2020 versus period ending September 30, 2019 is a **decrease** in **expenses** of **\$1,179,122**. This decrease is further broken out by department and impacted expense groupings as summarized below.

Expense by Department	Year to date: September 30			
	2019	2020	Actual 2020 vs 2019	
	Actual	Actual	\$ Change	% Change
Community Services	4,631,735	3,566,456	(1,065,279)	(23%)
General Government	2,310,340	2,371,505	61,165	3%
Infrastructure Services	2,990,437	2,941,320	(49,118)	(2%)
Development Services	847,631	996,405	148,775	18%
Other (Animal Control, Conservation, Health Services)	452,227	429,727	(22,500)	(5%)
Total	11,232,370	10,305,413	(926,957)	(8%)

Expense by Grouping	Year to date: September 30			
	2019	2020	Actual 2020 vs 2019	
	Actual	Actual	\$ Change	% Change
Contracted Services	702,130	701,300	(830)	0%
Materials and Supplies	1,761,530	1,459,804	(301,726)	(17%)
Miscellaneous Services	327,488	240,414	(87,074)	(27%)
External Transfers	286,682	369,559	82,877	29%
Repairs and Maintenance	373,230	291,214	(82,016)	(22%)
Salaries, Wages, and Benefits	7,126,358	6,730,794	(395,564)	(6%)
Utilities, Insurance and Property Taxes	654,952	512,328	(142,624)	(22%)
Total	11,232,370	10,305,413	(926,957)	(8%)

Cost Mitigation

Due to the timing of the COVID-19 pandemic and the state of emergency, the Town, and in particular Community Services were able to act quickly to identify and implement cost containment measures. Due to this the Town has been able to reduce operational expenses related to facilities and programming. Summarized below are the most significant areas of cost savings.

Materials and Supplies/Utilities, Insurance and Property Taxes

The decline in the cost of Materials and Supplies includes the internal equipment charge and costs associate with programming and rentals.¹ As programs were no longer running and facilities were closed, the need for supplies for programs were eliminated. Additionally, the Town realized a slight decrease in the cost of utilities associated with facilities that offer programming and rentals.

Salaries and Wages

Administration immediately reduced the Town's workforce wherever possible and appropriate. Upon the provincial mandated closure of recreational facilities, contract and casual aquatic and programming staff were not offered hours as the programming was cancelled. Additionally, after the emergency orders came into effect the Town entered into an agreement with CUPE to allow employees to accept a voluntary layoff and/or leave of absence. This provided staff options as it related to their own person situation and organically reduced staff levels, providing cost savings to the Town, which contributed to the overall decrease in Salaries and Wages of \$395,564, noted above. The start of the Summer Student Program which normally begins the first week of May was postponed to July 4, 2020 for most positions. The number of

¹ The internal equipment charge is a charge to divisions for their use of Town Equipment.

summer students hired was significantly reduced. In 2019, the Town employed 29 summer students, and in 2020 the Town employed 15 summer students in total.

Included in Salaries and Wages is the cost of employee training. A significant reduction in the utilization of training expense was realized. As a result of the emergency orders, administration cancelled any out-of-town training and significantly reduced the amount of approved training throughout the course of the pandemic resulting in a cost savings of approximately \$65,000 or 75% over 2019. These cost savings are expected to continue into the future, until the health and safety of staff can be ensured when attending training or conferences.

COVID-19 Pandemic Related Expenses

Immediately following the emergency declaration, Administration put into place processes to track the financial impact that may be experienced due to the pandemic. This included the creation of an Emergency Event cost centre which would allow the Town to quantify additional and non-budgeted expenditures, and or costs associated with the COVID-19 pandemic.

Through the specialized cost center, the financial data on certain accounts was easily obtainable. Certain expense accounts had more substantial increases than others due to COVID-19. These individual accounts have been separated below, with a brief explanation on each.

Expense by Account(s)	Year to date: September 30 th			
	2019	2020	Actual 2020 vs 2019	
	Actual	Actual	\$ Change	% Change
Materials and Janitorial Supplies	230,064	278,292	48,228	21%
Donation and Grants	191,730	248,020	56,290	29%

Materials and Janitorial Supplies Account

At the onset of the pandemic and based on local Health unit guidelines, administration implemented health and safety controls which included the enhanced cleaning of Town facilities, as well as the requirement of increased signage. There were also increased expenditures in sanitizers, cleaning products and Personal Protective Equipment. These enhancements resulted in a significant increase to the Materials and Janitorial Supplies expense, of over \$200,000, as summarized above.

Donation and Grants Account

Council recognized the need to provide support to businesses in these unprecedented times and approved the creation of two unique grant programs.

- **Business Relaunch Grant:** During the duration of the Program between July 6th to October 2nd, eligible business owners were able to receive up to \$500 for their efforts in enhancing health and safety protocols within their place of business. Council approved up to \$100,000 to be allocated to eligible applicants. In total, 102 business received funding through the Business Relaunch Fund amounting to a total of \$49,827.15
- **Digital Growth Grant:** Council approved a \$15,000 contribution to this program, to assist local business in the expansion and improvement of their digital presence. During the duration of the Program between July 6th to August 31st, 20 businesses throughout the municipality received funding. All funds allocated to this initiative have been dispersed to the successful applicants.

Other Considerations

As demonstrated above, the events surrounding COVID-19 have had a significant financial impact on the organization.

Revenues such as property taxes, local improvements, and confirmed grant funding were identified as low risk and highly collectible. However, the waiver of penalties and interest may

impact the timing of collection. At September 30th, the collection rates compared with prior year remains relatively stable (2020 - 98% vs 2019 - 99%).

Expenses such as debt servicing and rents also remain a low risk as they would exist regardless of the pandemic.

Next Steps

Budget Concerns

The 2021 budgeting process was initiated in early August, and due to the uncertainty surrounding the COVID-19 pandemic administration will be faced with many factors to consider when creating the 2021 budget. Outlined below are some of the major expected impacts to the remaining operating year, into 2021 and potentially into the forecast years of 2022-2025.

- Continued revenue declines
 - Postponement of 2021 MPAC Assessment Adjustment:
As a cost relieving measure for residents, the Municipal Property Assessment Corporation (MPAC)², has deferred the introduction of new assessment values from 2021 to 2022.

Previous communication with MPAC had predicted a significant increase to the Town's assessment base for the next upcoming assessment cycle, which was scheduled to take effect at the beginning of 2021.
 - User Fees and Service Charges

² The Municipal Property Assessment Corporation provides the Town of Essex with property assessment values which are used to calculate annual property taxation.

While Phase 2 and 3 have allowed for the reopening of Town facilities, it comes with the requirement for continued social distancing and enhanced health and safety recommendations. This may mean the Town could see a reduction in rental revenues as events may be cancelled, or programming reduced, to ensure adherence to guidelines.

- Continued expense increases

- Materials and Janitorial Supplies and Salaries Expense

In order to protect the health and safety of the public, the local Health Unit has released some extensive guidelines. These guidelines mean that the Town will incur ongoing costs towards the acquisition of various items of Materials and Janitorial Supplies (hand sanitizer, facility modifications, cleaning supplies, etc.) as well as an anticipated increase in expenses for enhanced cleaning at all Town facilities. This ongoing cost as well as potential increases will need to be considered in the upcoming budget and forecast development.

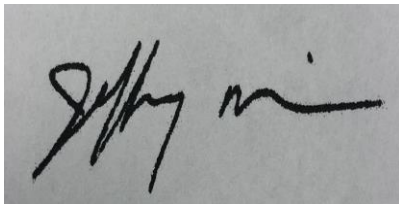
Link to Strategic Priorities

- ☒ Manage, invest and plan for sustainable municipal infrastructure which meets current and future needs of the municipality and its citizens.
- ☒ Create a safe, friendly and inclusive community which encourages healthy, active living for people of all ages and abilities.
- ☒ Provide a fiscal stewardship and value for tax dollars to ensure long-term financial health to the municipality.
- ☐ Manage responsible and viable growth while preserving and enhancing the unique rural and small town character of the community.
- ☒ Improve the experiences of individuals, as both citizens and customers, in their interactions with the Town of Essex.
- ☒ Improve the Town's capacity to meet the ongoing and future service needs of its citizens while ensuring the corporation is resilient in the face of unanticipated changes or disruptions.

Report Approval Details

Document Title:	COVID-19 Financial Impact- September 30, 2020 .docx
Attachments:	- Kates' COVID SEPT.pdf
Final Approval Date:	Oct 27, 2020

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

A handwritten signature in black ink, appearing to read "Jeffrey Morrison", on a light gray background.

Jeffrey Morrison, Director, Corporate Services/Treasurer - Oct 26, 2020 - 2:33 PM

A handwritten signature in black ink, appearing to read "Chris Nepszy", on a light gray background.

Chris Nepszy, Chief Administrative Officer - Oct 27, 2020 - 11:03 AM