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Town of Aurora

General Committee Report

No. FIN20-026

Subject: 2020 Interim Forecast Update Report – as of August 31, 2020

Prepared by: Tracy Evans, Financial Management Advisor

Department: Finance

Date: October 20, 2020

Recommendation

1. That Report No. FIN20-026 be received for information.

Executive Summary

This report presents to Council the information to effectively monitor the financial performance of the Town's tax levy and user rate funded operating budget as of August 31, 2020. COVID-19 continues to have a material financial impact on the Town's operations.

- An overall tax levy surplus of \$130,000 is anticipated by fiscal year end based upon the Town's present COVID-19 assumptions
- A deficit of \$254,800 is forecasted by fiscal year end for the Town's water, wastewater and stormwater operations
- COVID-19 continues to have a significant financial impact on the Town's operations
- The Town has and will continue to search for opportunities to mitigate its COVID-19 financial impacts
- The timing of the province's implementation of its framework for reopening our province will have a particular impact on the forecasted financial results for the Town's facilities and community programs

These forecasted variances will continue to be subject to material change as the COVID-19 pandemic progresses over the remainder of the fiscal year. Future Council decisions may also have an impact. Any operational budget short-falls or surpluses remaining at year end will require an offsetting adjustment from/to the rate stabilization reserve as defined in the Town's 2020 surplus control by-law.

Background

To assist Council in fulfilling its roles and responsibilities with respect to Town finances and accountability, Finance has worked with all departments to review the corporation's operations financial performance to date. Each Director has reviewed their department's operating budget versus its results to date and remaining outstanding plans in consideration of the Town's present COVID-19 assumptions, and forecasted an expected year end position. Finance staff have reviewed each submission and performed the necessary consolidation.

The magnitude of the impact of COVID-19 on the Town of Aurora remains unclear, but the existing physical distancing measures and economic shut-down impacts have already been significant. On March 20th the Town of Aurora announced financial relief measures which included the deferral of its second tax levy installment payment due date by approximately two months for residential tax payers. A similar offer was made available to commercial tax payers on an application basis.

On March 20th the Town of Aurora announced the waiving of all late payment penalties on any unpaid water bill amounts owing until June 30, 2020.

On April 28th, staff presented Council with its first projection of the possible financial impacts to the Town that were directly related to COVID-19. This forecast assumed the status quo at that time continued for the rest of 2020.

On May 26th Council extended the Town's waiving of all late payment penalties on any unpaid water bill amounts owing until the end of the calendar year. It also approved the commencement of the Town's normal monthly rate of 1.25% for penalties on taxes for the period of July 1 to December 31, 2020

On June 16th Council approved 'break-even' rates for the Town's water and wastewater services. It also approved the Town's new stormwater rates for the next 12 months. These 'break-even' rates adjusted the Town's originally approved 2020 rates to reflect its anticipated savings on wholesale water and wastewater treatment costs stemming from a York Region decision to maintain its 2019 rates.

On July 24th the Province announced that York Region could move to Stage 3 of its Framework for Re-opening which allowed the Town to consider the reopening of additional facilities, programs and amenities.

Analysis

The COVID-19 pandemic continues to significantly impact the Town's operations. Its impacts are volatile and difficult to predict. For this forecast, staff have made assumptions what the pandemic's impact would be until fiscal year end. The Town strives to align its assumptions as much as possible with what it feels its reality might be.

This report's forecast assumptions are based on the report to General Committee on September 8, 2020 (CMS20-020) which outlined the Town's steps to safely reopening services. These assumptions differ slightly from those used in the last Interim Forecast Update to Council as of the May 31, 2020, as this forecast assumes that the reopening of services will be at a more moderate pace. Staff will continue to adjust its assumptions in an effort to keep up with its changing pandemic reality.

An overall tax levy surplus of \$130,000 is anticipated by fiscal year end based upon the Town's present COVID-19 assumptions

The Town's tax levy funded operations are forecasted to finish the year with an anticipated surplus of \$130,000 based upon its present COVID-19 assumptions, representing a minor increase from what was forecasted at the end of May. This surplus continues to be much lower than what the Town would normally expect at this point in the year.

A detailed break-down of the Town's current forecasted variance by department can be found in Attachment #1. This report has been simplified to show only the net budget amount, the forecasted ending position for each item, and the variance to budget. Overall, the Town's approved budget for 2020 includes \$71,774,400 in approved expenditures, funded by \$21,669,900 in revenues consisting of user fees, charges, and investment income, and a total tax levy of \$50,104,500.

The Town has budgeted a "salary gapping savings" amount of \$150,000 as part of its total operating budget. This provision is to recognize that while salaries in all departments are based on 100% usage, with no staff departures, in reality there is some staff turnover and periodic vacancies that arise naturally during the year. A share of this amount has been formally allocated to each department Director's Office on a pro-rata basis.

The COVID-19 pandemic's specific impacts upon the Town's forecasted variances is presented in more detail later in this report.

A summary of the Town's key forecasted variances by department follows.

CAO and Council

Council and the Office of the CAO are forecasting to conclude the fiscal year with a surplus of \$140,100 on a net operating budget of \$1,950,700. This surplus relates to COVID-19 driven sponsorship grant, committee and conference savings, as well as favourable consulting and advertising variances.

Corporate Services

Corporate Services is forecasting a surplus of \$38,400 on a total net operating budget of \$8,726,800. This surplus is mostly attributable to COVID-19 driven salary savings arising from the delay of all new staffing actions partially offset by higher than anticipated outside legal and heritage consultant fees relating to the Yonge Street heritage appeals.

Finance

Finance is forecasting a deficit of \$53,500 on a net operating budget of \$2,061,600 driven by reduced water and tax administrative revenues as a result of COVID-19. This deficit has been partially offset by COVID-19 driven salary savings resulting from the delay of all new staffing.

Fire Services

As of June 30, 2020 CYFS is forecasting a year end operating surplus of \$1,281,400 on a total approved operating budget of \$28,393,700. This surplus is mostly attributable to salary & benefit and vehicle repairs & maintenance savings. Aurora's share of CYFS' total approved budget is \$11,749,300. As per normal practice, should a CYFS surplus or deficit arise by fiscal year end, it will be offset by an equal contribution to/from the shared CYFS Reserve, thus leaving the Town's forecasted Fire Services requirements as budgeted.

Operational Services

Operational Services, excluding water, wastewater & storm water services, is forecasting an overall surplus of \$211,900 on a net operating budget of \$10,479,700. Key contributors to this surplus are COVID-19 driven salary and contract savings relating to Park Operations and Crossing Guard services. In addition, savings are forecasted from fleet management repair and operating material as well as, from solid

waste collection contracts. These favourable variances are partially offset by an unfavourable variance in winter management resulting from larger than anticipated contract, operating material and salary costs arising from a larger number of snow events at the beginning of 2020 and reduced ball diamond/soccer field revenues as a result of COVID-19.

As per the Town's winter control reserve policy, if the overall Town operating budget is unable to accommodate the full reported winter management deficit, any required funding short-fall can be drawn from this reserve. As the Town's present overall forecasted position indicates that it will have sufficient funds available to offset this noted short-fall, a draw from the winter control reserve is not necessary at this time. However, should it become necessary the Town will access this reserve as required.

Operational Services' salaries and wages are split between tax levy and rate (water, wastewater & storm water services) funded programs. In any given year, the extent of operational service staff support of tax levy or rate funded programs is difficult to predict; consequently some variability is not unusual.

Community Services

Community Services is forecasting a \$160,500 deficit on a net operating budget of \$9,592,300. The key contributors to this deficit all relate to COVID-19 drivers including lost community program, sponsorship/advertising, ice rental and special event revenues partially offset by salary and contract savings. These unfavourable variances are partially offset by net facility operation utility/heating, contract and operating material savings.

Library Square unspent savings are anticipated relating to the implementation of the Town's financial strategy to phase in its projected incremental operating costs prior to it becoming fully operational in 2022. Any surplus funds relating to Library Square will be contributed to the Town's rate stabilization reserve as per the 2020 surplus control bylaw. These funds can then be drawn upon as required in future years in order to manage any one-time implementation/start-up operating costs that may exceed the on-going operational funding estimates.

Planning & Development Services

Planning & Development Services is forecasting a surplus of \$271,300. This surplus is attributable to higher than anticipated development driven engineering revenues and vacant position savings.

Not included in this variance is a projected Building Services' surplus of \$322,800 as it is a self-funded function as per provincial legislation. If it is unable to recognize sufficient revenues to offset its expenses in a given fiscal year, it will draw from its dedicated reserve in order to balance its operating budget. If it recognizes excess revenues, these revenues are used to replenish its reserve. This year's forecasted surplus results from vacant position salary savings, offset by a slight reduction in revenue.

Corporate Revenues & Expenses

Corporate Revenues and Expenses is forecasting a deficit of \$317,800 on a net operating budget of \$4,798,700. The primary drivers of this deficit are forecasted tax penalty and investment income revenue losses resulting from COVID-19. This unfavourable variance is partially offset by projected corporate salary and benefits savings.

The Town's recent of \$1,298,000 in Safe Restart grant funding in support of its COVID-19 pressures has been included as part of the Town's corporate revenues. At present, the Town is forecasting to contribute this full amount to its tax rate stabilization reserve for access in future fiscal years in the management of its COVID-19 pressures. If required, the Town will access these funds in 2020.

Aurora Public Library Contribution

The Aurora Public Library anticipates that it may conclude the 2020 fiscal year in a surplus position as a result of COVID-19.

Total Tax Levy

The Town is forecasting to collect a total of \$50,146,700 in tax levy revenue in 2020. This amount includes an anticipated BIA special tax levy of \$41,200 which has not yet been considered for approval by Council.

The Tax Levy Funded Net Operating Forecast Update can be found in Attachment 1.

A deficit of \$254,800 is forecasted by fiscal year end for the Town's water, wastewater and stormwater operations

The user rate funded operations service line budgets include primarily fixed operational costs, funded by the net proceeds from the sale of water, wastewater and storm water services. These fixed operational costs include staff and service maintenance costs related to maintaining the infrastructure systems, water quality testing, and the billing

and customer service functions. These costs are not directly impacted by the volume of water flowing through the system.

The fixed costs relating to water and wastewater are funded from the net revenues earned by these services which are variable in nature due to the fact that they are based upon metered water consumption volumes. Storm water revenues are not subject to the same volatility as the water and wastewater service lines as it is billed as a flat fee.

The Town's user rate funded operations is currently projected to close the year with a deficit of \$254,800. This variance is attributable to a deficit of \$414,200 arising in storm water services partially offset by a \$159,400 surplus from water / wastewater services. The primary driver of this overall deficit is a storm water revenue short-fall arising from the understatement of 2020 rates due to a calculation error.

Water and wastewater services experienced a significant revenue short-fall as a result of their originally budgeted 2020 rates being reduced to reflect York Region's offered wholesale water and wastewater savings. A revenue short-fall relating to the Town's freeze of all water penalties until the calendar year end is also forecasted. These revenue short-falls were more than offset through savings achieved from wholesale water and wastewater and other COVID-19 mitigation measures such as the reduction of non-essential administrative expenses and a refocusing of available resources on operations and maintenance. No negative impact is anticipated to the Town's delivery of these services as a result of these mitigation measures.

This forecasted variance will continue to be subject to change over the remainder of the fiscal year. The COVID-19 variances will be presented in more detail later in this report. Should any user rate funded service deficits remain at fiscal year-end, they will require an offsetting funding transfer from their respective reserve funds as set out in the town's 2020 surplus control bylaw.

The user rate funded operations summary can be found in Attachment 2.

COVID-19 continues to have a significant financial impact on the Town's operations

As one could expect, COVID-19 continues to have significant impact on the Town's forecasted financial results. Table 1 offers a summary of the Town's current forecasted COVID-19 financial impacts based upon present assumptions.

Table 1 Forecasted COVID-19 Revenue Losses

<u>\$000s</u>	
<u>Tax Levy Funded Operations:</u>	
Lost senior, aquatics, camp & fitness membership revenues	\$1,640.9
Lost ice and other rental revenues	1,037.0
Lost tax penalty revenues	371.6
Lost sponsorship & advertising revenues	164.3
Lost development revenues	118.7
Lost investment income	108.5
Lost water & tax administrative revenues	98.5
Lost bylaw enforcement revenues	72.5
Lost baseball diamond/soccer field rental revenues	64.4
Lost special event revenues	45.0
Other lost revenues	238.2
Total Tax Funded	3,959.6
<u>User Rate Funded Operations:</u>	
Lost water/wastewater revenues due to rate decrease	885.8
Lost water penalty revenues	165.8
Total User Rate Funded	1,051.6
Total	\$5,011.20

The Town has and will continue to search for opportunities to mitigate its COVID-19 financial impacts

To date the Town has already initiated several measures in an effort to mitigate its COVID-19 financial impacts such as the temporary release of over 280 part time and contract staff, the pulling of all ice pads and the draining of all recreation facility pools. Table 2 presents some of the key COVID-19 savings that the Town has already achieved, or is forecasting to achieve by fiscal year end based upon its present COVID-19 assumptions.

Table 2 Town Mitigation Measure Savings to Date

<u>\$000s</u>

<u>Tax Levy Funded Operations:</u>	
Community program part time and contract savings	\$1,596.8
Town facility closure net operating savings	616.8
Salary savings resulting from delayed recruitment of new staff	446.0
Business Support salary and other cost savings	330.5
Other salary savings	289.1
Park operations part time, maintenance & operating supply savings	213.1
Special event part time and contract savings	200.5
Crossing guard services salary & contract savings	78.8
Other savings	317.8
Total Tax Funded	4,089.4
 <u>User Rate Funded Operations:</u>	
Water & wastewater wholesale cost savings	526.9
Other mitigating administration and operational savings	524.7
Total User Rate Funded	1,051.6
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Total	\$5,141.0

The timing of the province's implementation of its framework for reopening our province will continue to have a significant impact on the forecasted financial results for the Town

COVID-19 has had the most profound impact on the Town's facility and community program functions. The financial performance of these functions will hinge on the timing of the province's relaxation of the present pandemic measures. To date, overall the Town has found sufficient mitigating savings to offset the significant COVID-19 driven deficits that it has been subject to.

There is little opportunity for the mitigation of COVID-19 financial impacts within the Town's user rate funded operations budget other than through direct wholesale cost savings as the majority of its costs are driven by clean drinking water legislation or a requirement to maintain the Town's underground infrastructure at the Town's desired levels of service. However, with this in mind, staff have examined its operations for possible financial mitigation opportunities. The following mitigation measures have been identified and are reflected in the above presented forecast: reduction of administrative expenses and a refocusing of available resources on operations and maintenance. There is the potential for further savings in contracts and supplies as a portion (30-35%) of the approved budget is earmarked for the response of emergency repairs required

due to breaks and leaks. However, it would not be prudent to re-direct these funds elsewhere as they would need to be available should emergency repairs be required.

Advisory Committee Review

Not applicable.

Legal Considerations

None.

Financial Implications

The actual resultant annual surplus or deficit in the general operating budget and water / wastewater budgets will be allocated by Council to / from various reserves at fiscal year-end as per the Town's surplus control bylaw.

In an effort to minimize the impact to the Town's reserves resulting from COVID-19, if required it may access its available Safe Restart funding in order to offset any net COVID short-falls experienced from either its tax rate or user rate funded operations.

There are no other immediate financial implications arising from this report. Council fulfills its role, in part, by receiving and reviewing this financial status report on the operations of the municipality relative to the approved budget.

Communications Considerations

The Town of Aurora will use 'Inform' as the level of engagement for this project. There are five different levels of community engagement to consider, with each level providing the community more involvement in the decision making process. These levels are: Inform, Consult, Involve, Collaborate and Empower. Examples of each can be found in the Community Engagement Policy. These options are based on the International Association of Public Participation (IAP2) Spectrum and assist in establishing guidelines for clearly communicating with our public and managing community engagement. In order to inform, this report will be posted to the Town's website.

Link to Strategic Plan

Outlining and understanding the Town's present financial status at strategic intervals throughout the year contributes to achieving the Strategic Plan guiding principle of "Leadership in Corporate Management" and improves transparency and accountability to the community.

Alternative(s) to the Recommendation

1. Not Applicable

Conclusions

Having completed eight months of operations, the Town is presently forecasting to end the year with a favourable budget variance from its tax levy funded operations of \$130,000. This forecast is will continue to be heavily influenced by the Town's COVID-19 pandemic assumptions which will continue to be subject to change over the remainder of the fiscal year as the Town strives to keep pace with this volatile situation. This forecast will also continue to be subject to other more normal influencing variables such as the ultimate level of town services that will be consumed by fiscal year end.

Any remaining surplus or deficit at fiscal year-end will be offset through a contribution or draw from the Town's rate stabilization reserve as per the town's 2020 surplus control by-law.

The Water rate funded budget is presently forecasting an unfavourable budget variance of \$254,800.

Attachments

Attachment #1 – Tax Levy Funded Net Operating Forecast Update

Attachment #2 – Water Rate Funded Net Operating Forecast Update

Previous Reports

FIN20-017 – 2020 User Rate Funded Forecast Update – As of April 30, 2020

FIN20-018 – 2020 Tax Levy Funded Operations Forecast Update – As of May 31, 2020

FIN20-012 – Property Tax Due Dates & Penalties

CMS20-020 – Pandemic Recovery Planning – Update No. 2

Pre-submission Review

Agenda Management Team review on October 1, 2020

Approvals

**Approved by Rachel Wainwright-van Kessel, CPA, CMA, Director,
Finance/Treasurer**

Approved by Doug Nadorozny, Chief Administrative Officer