

The Corporation of the City of Kawartha Lakes

Committee of the Whole Report

Report Number CORP2020-007

Meeting Date: June 9, 2020

Title: Financial Update

Description: Update of 2019 year end, 2020 forecast, and 2021 Budget

Ward Number: Various

Author and Title: Jennifer Stover, Director of Corporate Services

Recommendation(s):

That Report CORP2020-007, **Financial Update**, be received.

Department Head:_____

Financial/Legal/HR/Other:_____

Chief Administrative Officer:_____

Background:

In June of each year, staff typically provide Council with a report on the year end surplus and audit from the prior year, an update on the current year financials (2020), an update on the long range financial plan, and commence the budget process with a review of Council's request for capital projects.

The City declared a State of Emergency on March 24th in relation to the Covid-19 pandemic. Since that time, all non-essential activities were placed on hold. As the normal timelines have been delayed due to the pandemic, this report will provide Council with a status update on the 2019 year end, the long range financial plan, and the 2021 budget.

Rationale:

2019 Audit and Year End Position

The audit for 2019 was to have commenced in early April, with completion occurring end of May. A report was scheduled to come to Committee of the Whole with the results of the audit in June. Due to the pandemic, the audit was put on hold. The auditors are scheduled to commence their work, remotely, on June 1. It is expected that the audit will be complete by end of July and the results presented to Committee of the Whole in September.

While the audit is not complete, it is anticipated that the City will be in a surplus position of approximately \$3 million for 2019.

The operating departments within the City generated a net surplus of approximately \$1.0 million. Included in the net department surplus was a deficit in the winter control budget of approximately \$2.6 million, which was largely offset by a surplus in the roads operations budget of approximately \$2.3 million.

The remaining \$1.8 million in surplus is part of the "Corporate Items" budget. The \$1.8 million surplus is comprised of:

- Approximately \$600,000 in bank, investment, and property tax interest;
- Approximately \$600,000 in adjustments in accounting adjustments to ensure compliance with Public Sector Accounting principles; and
- Approximately \$400,000 in OMPF grant funding that wasn't anticipated.

2020 Forecast

A Financial Recovery team has been established with the mandate of forecasting 2020, considering both cashflow and budget.

With the deferral of property taxes from April to June, and the cancellation of recreation programming, a detailed cashflow was necessary to ensure that there were sufficient revenues being received to match the City's expenses, in the short term. Over the balance of 2020 the cashflow was also used to confirm that the revenue stream was sufficient to support the City's capital program.

In April, the City recalled \$10 million in investments to address a shortfall in revenues. The current forecast for cashflow projects an additional draw from investments late in the year of approximately \$2 million. These draws from investments represents internal borrowing and will need to be paid back.

The key assumption in the cashflow projection was the level of delinquency on property tax payments. Although property taxes were deferred to June, approximately 50% of billed revenue was received by the end of April. This was very positive and unexpected. On a typical year, property tax delinquency averages 15%. To be conservative, the cashflow assumes an increased level of delinquency for the three remaining tax due dates in 2020. Staff will continue to monitor these revenues closely, and update the cashflow accordingly.

Another key assumption of the cashflow was a review of the City's operating and capital expenditures. There are certain operating budget items that have been put on hold for the remainder of calendar year as a means of mitigating costs. Staff continue to review the operating budget and will be making recommendations on further reductions for consideration through the Financial Recovery Plan.

Additionally, the capital budget has been prioritized. Attached to this report are four appendices. Appendix A is a list of capital projects that are ongoing. These are projects that had commenced prior to the pandemic and have not stopped. Appendix B is a list of capital projects that were deferred because of the pandemic but are recommended to proceed in 2020. Appendix C provides the list of capital projects that are recommended to be deferred to 2021. The deferral of these projects is primarily due to resource constraints. Finally, Appendix D categorizes the Special Projects budget using the same criteria.

Long Range Financial Plan

A comprehensive update of the long range financial plan was expected to be presented to Council early in the second quarter of 2020. This was also placed on hold due to the pandemic. Given the uncertainty of the full extent that the pandemic will have on the City's finances, it is recommended that the

comprehensive update to the long range financial plan be deferred until 2021. The Financial Recovery Plan and its recommendations will inform this update.

2021 Budget

The 2021 budget is also recommended for deferral due to the pandemic. In a typical year, the budget process would have already commenced at the staff level. Staff have been focused on financial response and recovery and therefore the budget process was delayed.

A budget schedule has now been prepared that anticipates Council budget deliberations in the first quarter of 2021, similar to what occurs following an election.

This change in timing will also allow staff to provide Council with a more comprehensive update on the cost of the pandemic, and the 2020 financial implications prior to establishing the 2021 budget.

Financial/Operation Impacts:

The 2019 year end surplus is anticipated to be approximately \$3.0 million. Upon completion of the 2019 audit, a further report will be presented to Council with recommendations on the disposition of the surplus.

The 2020 financial results are being carefully monitored, including the costs of the pandemic. Upon completion, the Financial Recovery plan will be presented to Council along with recommendations for recovery, as necessary.

Relationship of Recommendation(s) To The 2016-2019 Strategic Plan:

Strategic Enabler – Responsible Fiscal Resource Management

Consultations:

Senior Management Team
Treasurer
Manager, Corporate Assets

Attachments:

Appendix A – Active Capital Projects Ongoing



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Appendix A.pdf

Appendix B – Active Capital Projects Deferred to Fall 2020



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Appendix B.pdf

Appendix C – Active Capital Projects Deferred to 2021



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Appendix C.pdf

Appendix D – Active Special Projects



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Appendix D.pdf

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