



Navigating Through the Financial Impact of COVID-19

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Introduction



- COVID-19 and its associated control measures are having a significant impact on Ontario's people, businesses, and institutions. Municipalities are no exception
- All orders of government are being asked to demonstrate leadership and provide relief and stability to citizens while continuing to provide vital services. Many municipalities are looking at options to provide ratepayers with financial relief through billing deferrals, suspension of interest and penalties on overdue receivables, delays or reductions of development charge payments, etc. Some examples include:
 - Reduction in water/wastewater rates
 - Extended time to pay billings (30- to 90-day extensions) with no interest penalty
 - NSF fees waived
 - Delayed payment/no indexing of DCs
- All these actions come with potential future financial implications and decisions

Commentary



- The OMWA is hosting this webinar to provide helpful guidance on some options for expenditure and revenue management, along with a discussion of the short/medium-term impacts that these options may have on the water/wastewater utility
- It is acknowledged that each water/wastewater utility/municipality is unique and, hence, “one size does not fit all” when it comes to addressing financial matters
- This presentation provides a number of fundamentals to budgets and finance and offers potential options to address the COVID-19 issues facing water/wastewater utilities/municipalities along with considerations to be made in potentially implementing these measures
- Note: while examples used herein focus on water, the findings are directly related to the wastewater service as well



Potential Impacts of COVID-19 on Operating Revenue

Potential Impacts on Operating Revenues



- With the Province implementing COVID-19-related business and employment modifications/restrictions, it is expected that utility-operating revenues will be impacted in several ways:
 - Volume consumption/billing may be directly impacted (i.e. reduced)
 - Utility bills may be delayed/delinquent causing cash flow issues for the utility
 - Minor operating revenues (such as meter sales, contracts for water service during construction, etc.) may not materialize for the year due to reduced residential/ICI construction

Potential Impacts on Consumption



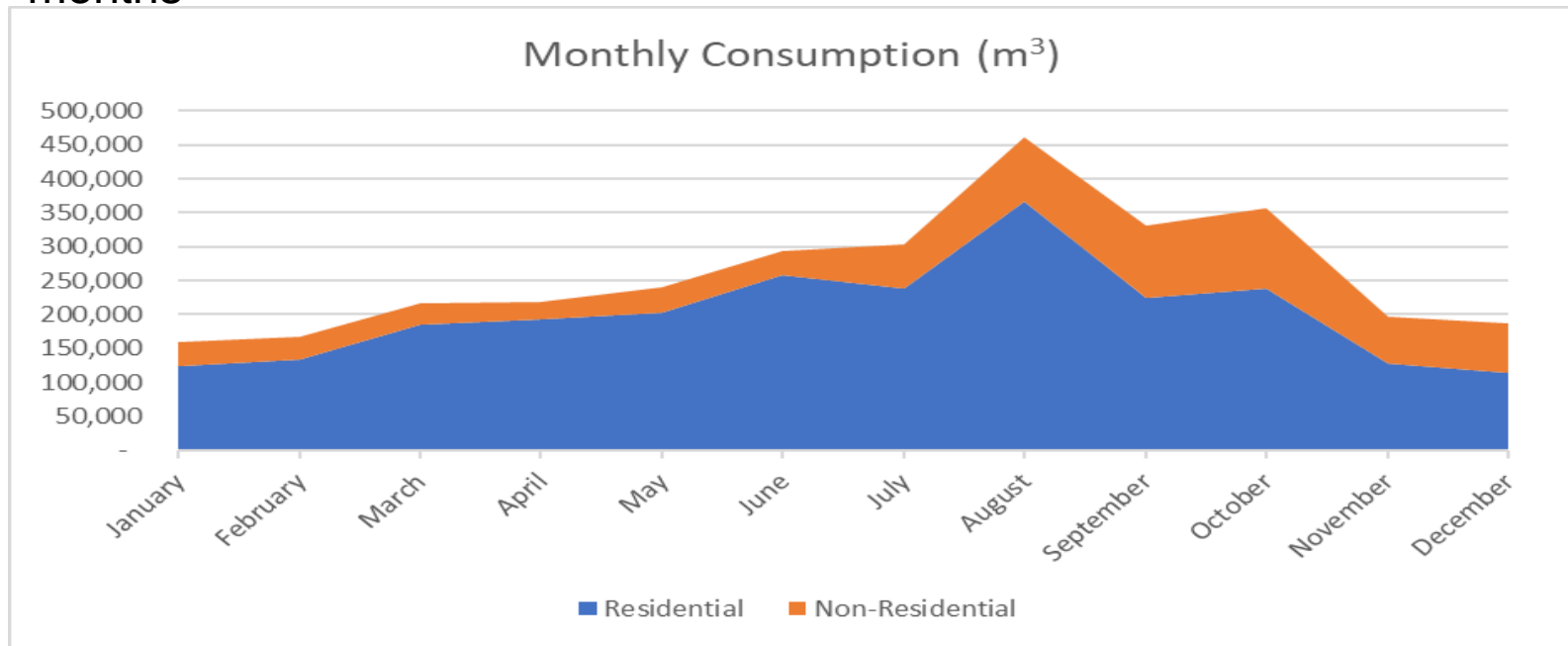
- Water consumption may be impacted in several ways:
 - Non-residential – bars, restaurants, some hotels closed – stay-at-home work force provides for reduced ICI usage
 - Residential – increases in use for stay-at-home workers; however, decisions to reduce consumption (e.g. summer water use) due to household income reductions may see overall reductions
- Based on the writer's communication with various utilities/municipalities, water production reductions have been observed in the last 4-6 weeks – in some cases, it has ranged up to 25% – water production can be a good indicator of how water billings will be impacted

Potential Impacts on Consumption/Water Bills



Example Municipality: Residential/Non-residential Use by Month

- Note that if municipalities are currently (springtime) experiencing reduced volumes now, there may be more significant reductions during the summer months



Consumption Type	January	February	March	April	May	June	July	August	September	October	November	December	Total	%
Residential	123,642	133,235	184,124	193,279	202,434	257,408	238,663	367,346	224,055	238,610	127,552	114,048	2,404,395	77%
Non-Residential	34,574	33,359	31,482	25,097	36,676	36,723	64,834	94,106	106,044	117,982	68,130	72,837	721,844	23%
Total	158,216	166,594	215,606	218,376	239,110	294,131	303,496	461,451	330,099	356,592	195,682	186,885	3,126,239	100%

Volumes in m³



Potential Impacts of COVID-19 on Operating Expenditures



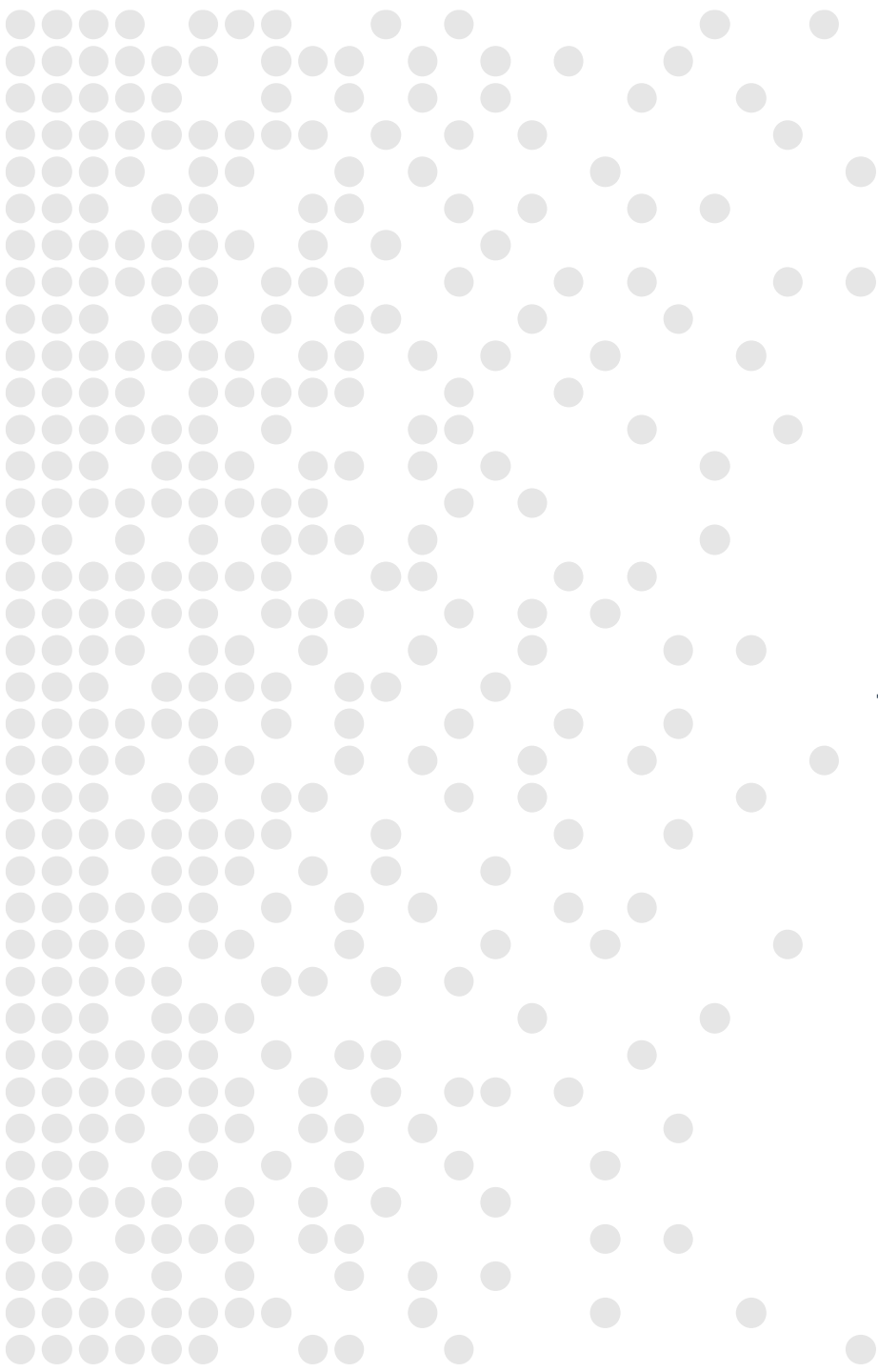
Potential Impacts on Expenditures

- Generally, most operational expenditures are fixed and don't vary with consumption variations – hydro and materials may be the most variable but represent a small portion of the budget (15%)
- The sample municipality below has 79% of its operating budget allocated to the system with 21% allocated to reserve transfers and debt
- Debt payments are fixed – reserve transfers may assist in addressing revenue shortfalls

Sample Operating Budget - Breakdown of Operating Expenditures

Expenditure Component	Administration	Water Supply	Distribution	Total	%
Personnel	466,540	199,880	598,170	1,264,590	26%
Materials	6,700	135,000	230,000	371,700	8%
Utilities	0	325,000	10,080	335,080	7%
Overhead	239,040	40,490	224,800	504,330	10%
Contracts & Maintenance	558,700	260,000	183,820	1,002,520	20%
Other	417,600	0	0	417,600	8%
Debt			3,411	3,411	0%
Transfer to Stabilization Reserve	290,129			290,129	6%
Transfer to Capital Reserve		0	733,420	733,420	15%
Total	1,978,709	960,370	1,983,701	4,922,781	100%

Costs may vary with consumption variations
Potential Areas to Offset Revenue Reductions



Potential Financial Measures to Assist in Addressing the COVID-19 Impacts

Overview



- The following slides consider different expenditure and revenue items which are discussed in more detail relative to funding, cash flow or capital expenditures

Reserves & Reserve Funds



- Generally, municipalities set aside reserves/reserve funds to address planned or potential expenditures in the future. These include:
 1. Rate Stabilization Reserves
 2. Contingency Reserves
 3. Working Funds
 4. Capital Reserves
 5. Lifecycle Reserves
 6. Development Charges Reserve Funds
 7. Other?
- All but item 6 can be either a reserve or reserve fund and have some level of flexibility for use
- Development charges (item 6) must be used for growth-related capital

Reserves & Reserve Funds



- Rate Stabilization, Contingency and Working Funds are well suited to assist with cash flow matters – i.e. to cover off reduced consumption/billing revenues and to cash flow delayed collections
- Capital and Lifecycle Reserves are to cover the capital expenditures – as there may be a number of works-in-progress and/or works that are reaching the end of their life and must be replaced, these reserves would assist in addressing these expenditures
- Development Charges Reserve Funds may only be used for growth-related works; the Act restricts municipalities from borrowing from these funds and hence may only be used for specific growth projects



Reserves & Reserve Funds

- The sample municipality (shown earlier) has established reserves/reserve funds
- Their Rate Stabilization Reserve balance would provide for almost 10% of the planned operating revenue for this year
- While they have planned to use some of the Capital Reserve to construct projects, there is a potential to “loan” to operating up to \$2.3 million (however, they would need to see how this may impact the 2021 capital program)

Description	Capital Reserve	Rate Stabilization Reserve	Development Charges Reserve Fund	Total
Opening Balance	3,557,589	169,892	414,665	4,142,147
Transfer from Operating	733,420	290,129		1,023,549
Development Charge Proceeds			37,546	37,546
Transfer to Capital	1,970,640			1,970,640
Transfer to Operating				-
Closing Balance	2,320,369	460,021	452,211	3,232,601

Debt



- While senior levels of government have the ability to issue debt to cover operating expenditures, municipalities are limited in how they use debt to finance capital and operating expenditures
- In regard to short-term borrowing for operating expenditures, section 407 (2) of the Municipal Act provides that the municipality may borrow:
 - 50 per cent of the total estimated revenues of the municipality during January 1 to September 30 in the year
 - 25 per cent of the total estimated revenues of the municipality during October 1 to December 31 in the year
- For capital, borrowing is restricted to the debt capacity regulations which identify that no more than 25% of annual total own revenue may be allocated to servicing the debt charges
- Borrowing costs require interest payments in addition to the repayment of principal, hence adding additional costs into the future

Capital Expenditures & Revenues



- Delaying the start of new capital projects may be a way to redirect funds from the capital reserve to address operating expenditures, however:
 - Existing in-progress contracts will have to be funded
 - Localized capital spending is a good stimulus to the local economy...jobs and materials are generally acquired locally and have a multiplier effect benefiting other indirect businesses and jobs
 - Historically, senior levels of government have developed cost-sharing grant programs (e.g. Build Canada fund) to stimulate the economy – these programs usually target “shovel-ready” projects to encourage immediate spending
 - DC payments will assist in funding growth works which will then allow residential and non-residential lands to commence construction, further stimulating the local economy – DC collections will assist in moving these works along – some municipalities have made some reductions to the DC’s quantum, while others have entered into delayed payments – the latter is encouraged as it allows some level of cash flow assistance to the builder/developer while preserving cash flow for the municipality

Capital Expenditures & Revenues



- If affordable, it may be a good time to initiate capital projects:
 - Periods of economic slowdown normally experience lower tender prices
 - With oil prices at a 16-year low, asphalt costs will decrease significantly – may be a cost-effective time to undertake water/wastewater projects along with road works

Year-end Deficit and 2021 Budget



- All temporary solutions discussed need to also have regard for the financial position of the service as of the end of the year and the impact on 2021 and beyond; i.e.
 - Any unfunded deficits must be carried over and funded in 2021 – as municipalities cannot budget for a deficit, these negative amounts must be budgeted for – this may require significant rate increases at a time affordability of the ratepayers may be low
 - Long-term debt increases expenditures in subsequent years and becomes an added fixed cost
 - Depletion of reserves during 2020 may leave limited financial flexibility for 2021
 - Consideration would need to be given to the ability for ratepayers to continue to pay bills

Concluding Remarks



- As noted earlier, one solution does not fit all utilities/ municipalities
- The financial position of each will influence the manner in which they address the challenges resulting from COVID-19
- Potential actions need to be assessed based on the immediate needs of the community and the ability to remain financially sustainable over the short to medium term
- Balancing the immediate financial assistance needed for businesses/residents, along with the ability to stimulate recovery, will be the major challenge over the near term



Questions?

