



## **Committee of the Whole Report**

### **For the Meeting of July 11, 2019**

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**To:** Committee of the Whole **Date:** July 2, 2019  
**From:** Chris Coates, City Clerk  
Susanne Thompson, Deputy City Manager/Chief Financial Officer  
**Subject:** Royal Theatre Service Establishment Amendment Bylaw No. 4299  
McPherson Theatre Service Establishment Amendment Bylaw No. 4300

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#### **RECOMMENDATION**

That Council direct staff to advise the Capital Regional District staff that the City requests the CRD convene a meeting with Victoria, Saanich and Oak Bay staff to discuss funding arrangements for the Royal Theatre Service.

#### **EXECUTIVE SUMMARY**

The Capital Regional District established the Royal Theatre Service and the McPherson Theatre Service. These facilities are operated and managed by the Royal and McPherson Theatres Society. Participants in the Royal Theatre Service are the City, Saanich and Oak Bay. The City is the lone participant on the McPherson Theatre Service. The purpose of this report is to bring forward the request from the Capital Regional District (CRD) Board for amendments to the Service Establishment Bylaws for these CRD Services.

Funding for both services is raised by the CRD Requisition and is not a component of the City's budget directly. Funding authority is in accordance with the Service Establishment Bylaws, (Bylaw 2685 for the McPherson and Bylaw 2587 for the Royal) attached as Appendices A and B. The Royal is based on proportionate share of 50% population and 50% assessment. The maximum annual requisition is capped at \$580,000 (\$480,000 for Capital improvements and \$100,000 for operating costs) shared between the participants. The City as sole participant in the McPherson Service pays all costs which are capped at \$750,000 per year (\$400,000 for capital and \$350,000 for operating). There is no apportionment method in the existing Bylaw, and as such, no mechanism to apportion costs should additional participants enter the service.

The amendments proposed specific to the Royal Theatre are to change the taxation methodology, starting in 2020, from a split of 50% assessment and 50% population to assessment only. In addition, the cap of 580,000 would be lifted and capped at the greater of 580,000 or a maximum rate of 0.0079 per thousand of taxable assessments for the Royal. This would see the total taxation revenue able to increase over time based on assessment growth.

The amendments proposed for the McPherson Theatre Service utilize the same taxation methodology but also provide a very important mechanism to apportion costs to new service participants, should any join. This was not part of the initial Service Establishment Bylaw. This is an

important aspect and one that is integral to Council's ongoing interest in seeking additional service participants for the McPherson.

As well the current arrangements that separate capital and operating costs and place limits on the maximum funds for each is something that may warrant further discussion as the proposed amendments don't distinguish between the two so funds could be fully directed to either purpose (capital or operating).

The taxation methodology of shifting to a fully assessment based approach, and a softening of the cap is the issue that may warrant discussion amongst the participants. While Oak Bay has consented to the Royal Service Bylaw amendment, Saanich has not. A two-thirds majority of participants is required to enable the CRD Board to adopt the Bylaw.

Staff suggest a discussion with senior staff of the CRD and Service Participants may be helpful to both understand the purpose of the proposed changes and/or to provide alternatives that can be more widely accepted by all participants.

## **PURPOSE**

The purpose of this report is to bring forward the CRD Board's request for consideration of consenting to the adoption of the two Service establishment Amendment Bylaws addressing the taxation methodology for the Royal Theatre Service and the McPherson Theatre Service

## **BACKGROUND**

The CRD has established both the McPherson Theatre Service where the City is the sole participant, as well as the Royal Theatre Service where the participants are the City, and the Districts of Saanich and Oak Bay. These facilities are operated by the Royal and McPherson Theatres Society. The establishing Bylaws for these two services are attached as Appendices A and B. In order for the Board to adopt the Royal Theatre Bylaw, two-thirds of the participants must consent. As the sole participant in the McPherson Service only the City weighs in.

The CRD is proposing the following changes:

### Royal Theatre

To alter the way in which costs are apportioned amongst the participants, by changing from the current methodology of 50% assessment and 50% population to a fully assessment-based approach; and to lift the \$580,000 annual funding cap to the greater of \$580,000 or a rate of 0.0079 per thousand of taxable assessments of the participants.

### McPherson Theatre

To establish a cost allocation method should additional service participants join this service, and have that method be based on assessments of the participant(s). The maximum requisition remains unchanged at \$750,000.

For both Services the maximum requisition amount of \$750,000 for the McPherson and \$580,000 had limitations on funds directed for capital improvements versus operating Costs. The McPherson is \$400,00 for capital and \$350,000 for operating. The Royal is \$480,000 for capital and \$100,000 for operating. At this point it is not identified as to the rationale behind this change.

For further information, the correspondence from the CRD is attached as Appendix C, the CRD Staff reports on this subject are attached as Appendix D and the proposed Bylaws being considered as Appendix E.



## ISSUES AND ANALYSIS

Council has a stated objective, and has been working to seek additional participants in the McPherson Service. The amendment to the McPherson Service Bylaw to create a funding mechanism to apportion costs if additional participants join, is very important, and very consistent with Council's interest with respect to the McPherson Service. The cost allocation method is the issue staff raise in relation to both proposed amendments as theatres are a user-based services, and population is generally a more significant driver and perhaps a more appropriate to use as a basis to fund than is strictly the assessment base.

In terms of the proposed change, there are impacts on the Royal Service should the Bylaws receive the required 2/3rds consent. A switch from a split of population and assessment can result in higher ongoing costs based upon the assessment growth of a participant relative to the others. The immediate impact of the change proposed on the Royal Service would be a decrease in the amount funded by the city taxpayers for 2020 based on 2019 assessments of approximately \$19,000 in 2019. The concern is over the longer term that should the City's assessment grow at a higher rate, particularly commercial assessment, city taxpayers could end up paying a higher percentage of the costs.

Oak Bay has provided its consent to the changes while Saanich is requesting changes to the methodology to place a limit on the maximum requisition to the greater of the previous maximum or the previous maximum plus a fixed percentage above that. In view of this, the City's decision would determine the outcome of the proposed changes by providing or withholding consent.

## OPTIONS AND IMPACTS

### **Option 1 – Consent to the Adoption of the Bylaws**

This option proposed to accept changes to both Services and move forward under the new approach. This City taxpayers would pay somewhat less per year but there is greater risk for higher fluctuation in future years.

### **Option 2 – Request the CRD Convene a meeting of the Senior Staff of the Participants to jointly discuss ideas to fund the Service. (Recommended)**

This option is an opportunity to have a more involved conversation with the participants about how the service is funded, as well as an opportunity for further discussions about additional participants in the McPherson Service.

#### *Accessibility Impact Statement*

There are no specific accessibility issues arising out of the funding alternatives for the Services

#### *2019-2023 Strategic Plan*

The Royal and McPherson Theatres are significant contributors to the arts and culture of the City and the region. Their continued, sustainable operations are consistent with overarching objectives of the Strategic Plan.

#### *Impacts on 2019-2023 Financial Plan*

Any changes to the way in which taxes are requisitioned by the CRD does not have a direct impact on the City's financial plan as the CRD Requisition does not flow through the City's budget and is a separate line item on the tax notice. As noted above, the proposed change will result in lower CRD tax paid by city taxpayers initially based on 2019 assessments. Nevertheless, there is concern that shifts could occur based on assessment changes that would impact city taxpayers more adversely

over the longer term.

## CONCLUSION

Council continues to pursue additional participants to offset costs to the City for the McPherson Theatre Service while three municipalities share in the cost of the Royal Theatre. The proposed changes to the taxation methodology may have a negative financial impact on city taxpayers over the longer term by shifting from a population and assessment basis to strictly the assessment basis and moves away from one that may be more representative of a user-based service. Council may consider that suggesting a more in-depth discussion amongst staff of the existing participants may offer both insights into the reason for the proposed change, and the opportunity for a more widely accepted solution in the short term.

Respectfully submitted,



Chris Coates  
City Clerk



Susanne Thompson  
Deputy City Manager/Chief Financial Officer

Report accepted and recommended by the City Manager:

Date:

  
July 5, 2019

Appendix A - Royal Theatre Service Establishment Bylaw No. 2587  
Appendix B - McPherson Theatre Service Establishment Bylaw No. 2685  
Appendix C - CRD Correspondence dated May  
Appendix D - CRD Staff Reports  
Appendix E - Royal Theatre Bylaw 4299, McPherson Theatre Bylaw 4300