



## **Committee of the Whole Report**

### **For the Meeting of April 9, 2020**

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**To:** Committee of the Whole **Date:** April 5, 2020  
**From:** Susanne Thompson, Deputy City Manager and Chief Financial Officer  
**Subject:** 2020 Financial Plan – Potential Adjustments

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### **RECOMMENDATION**

1. That Council direct staff to:
  - a. Defer the capital projects listed in the table on page 7 of this report
  - b. Delay the initiatives listed in the table on page 9 of this report
  - c. Reallocate \$11.64 million in unrestricted property tax funding from the deferred capital projects to offset actual and potential revenue shortfalls in the operating budget
  - d. Create a larger operating budget contingency using the funding allocated to the delayed initiatives
  - e. Extend the payment due date for utility bills to 90 days from 45 days and bring forward bylaw amendments to authorize that change
  - f. Extend the payment due date for property taxes to August 1, 2020 to align with the date the City is required to pay the property taxes levied on behalf of the Capital Regional District, the Capital Regional Hospital District, BC Assessment, and the Municipal Finance Authority; and bring forward amendments to the Alternative Tax Scheme Bylaw to align with the August due date
2. That the Mayor on behalf of Council advocate to the Province of BC to:
  - a. Increase amounts for Homeowner Grants, and create a new category of grant applicable to persons who have lost income due to the pandemic
  - b. Reinstate the financial hardship Deferment Program and extend the program to commercial properties
  - c. Amend legislation to align payment due dates for taxes collected on behalf of other agencies with municipal Alternative Tax Scheme Bylaws

### **EXECUTIVE SUMMARY**

On March 19, 2020 Council directed staff to initiate a number of actions related to impacts of COVID-19 including to:

1. Identify measures within municipal jurisdiction to reduce the economic hardship on individuals and organizations impacted by COVID-19 including the temporary deferral of fees, taxes and other payments owing to the City from those suffering hardship.
2. Prepare bylaw amendments to allow for the temporary waiver of financial penalties for non-payment of municipal utilities fees and taxes during provincially declared emergencies.

3. Request that the Province of British Columbia grant local governments the discretion to postpone payment of property taxes with no financial penalty in 2020 for those that meet a provincially determined threshold.
4. Look at the operational and capital plan for 2020 to see what will not be accomplished in this year due to COVID-19 and bring recommendations to Council as to what would come out of the budget accordingly.

Many in our community are facing financial challenges due to COVID-19 and staff have reviewed options within the City's jurisdiction that could provide some relief while balancing the funding requirements to continue to provide the many services our community relies on.

The City must have a balanced budget. Unlike senior levels of government, the City cannot budget for a deficit. Due to the pandemic, the City is experiencing impacts to some revenues, most notably parking. Although we do not know how long this pandemic will last and therefore how large the impact on those revenues will be, this report outlines a number of opportunities to reallocate funding to offset this known, and estimated future, revenue shortfall. In addition, the report outlines various reserve funds that could be used to manage any further gaps, as well as recommends establishing a larger contingency to address any unforeseen costs or additional revenue losses that may arise in the coming months. These opportunities will enable the City to continue providing services to the community and to maintain a balanced budget for 2020.

The City levies approximately \$192 million in utility fees and property taxes to deliver its services. In addition to that, the City also collects taxes on behalf of other agencies such as the Capital Regional District (CRD), Capital Regional Hospital District (CRHD), BC Transit, BC Assessment (BCA), Municipal Finance Authority (MFA) and School District #61. The City also collects user fees on behalf of the CRD for sewage treatment. In total, the City collects approximately \$100 million on behalf of these agencies, and due dates for payment from the City to those agencies are set in legislation. Consequently, these payments are due whether or not the City has collected these taxes. Almost 40% of taxes levied are for these other agencies.

In terms of relief for those experiencing financial hardship due to the pandemic, staff recommend extending due dates for utility bills and property taxes for all ratepayers, due to the limitations noted below. The proposed due date for property taxes is aligned with the date the City is required to remit payment of taxes levied on behalf of the CRD, the CRHD, BCA and the MFA, whether or not taxes have been collected. A number of other municipalities across the country are offering similar relief. The City of Vancouver has extended the payment due date to September; however, one notable difference is that Vancouver collects 'advance' taxes in February each year, equivalent to 50% of the prior year's total property taxes, so this extension only applies to the remaining amount due.

The City can vary property tax due dates, penalty amounts and penalty dates through an Alternative Tax Scheme Bylaw. Council has already adopted an Alternative Tax Scheme Bylaw that reduces the initial penalty on overdue property taxes to 5% - down from 10% in prior years - with a further 5% in September on those tax accounts that remain unpaid at that time. This Bylaw was actioned prior to the pandemic, but is noted here since it does provide some relief compared to prior years.

The City does not have the authority to only change taxation due dates or waive penalties for a certain group of individuals or organizations. That is, the City cannot delay due dates or penalties only for those who are experiencing financial hardship. In addition, the City does not have the ability to confirm, or audit, that someone is actually experiencing financial hardship. However, the Province's Homeowner Grant Program is an already existing scheme that provides some relief to taxpayers, including the ability to vary the amount of relief based on individual circumstances

(seniors receive a larger discount for example) and has the mechanism for audits and enforcement. Council may wish to advocate to the Province for a change to the Homeowner Grant Program for increases to homeowner grant amounts and/or the creation of a new grant category applicable to persons who have lost income due to the pandemic. Council may also wish to advocate to the Province to reinstate the Deferment Program for financial hardship they had in place a number of years ago, and also extend that to commercial properties. These programs would provide relief to individuals and businesses who have been financially impacted by the pandemic without affecting local governments' ability to provide services due to reduced cash flow. The Province sent an 'initial circular' on April 4, 2020 (attached as Appendix A) encouraging "good financial management, including: maintaining a strong level of cash assets, prioritizing core municipal operations, and possibly deferring non-essential capital expenditures until this event passes." There was no indication if further Provincial programs would be announced to assist, although the letter did mention that additional circulars would be shared.

Under normal circumstances, using the current established due dates and penalties, the City has the financial capacity on hand to maintain operations and advance capital projects and does not need to borrow short-term to assist with cash flow until property taxes are collected. The City's other revenue sources and reserves typically enable the temporary ability to cash flow operations. However, as a precautionary measure, staff have explored options should this become necessary this year. The City may be able to obtain a short-term loan from the MFA to assist in managing cash flow until property taxes are collected. The MFA has indicated that they are unable to lend every municipality in BC the funds needed to cover all property taxes and user fees for the year, which some might need should municipalities face collection challenges. They will have some capacity for short-term loans, but are unsure at this time the extent of that capacity. As a result of that limited capacity, they will be using screening criteria which will include a review of each municipality's attempts at managing its own cash flow through reduction in spending, use of reserves, and any changes to due dates and penalties that could impact cash flow.

As a contributor to the economic engine of the region, the City can play a major role both during this pandemic and as part of recovery efforts by continuing to provide services and maintain assets and capital projects, which includes the purchase of materials, equipment and services from a number of businesses in the region. Therefore, Council may consider it is increasingly important to ensure the City maintains the cash flow to do so.

As mentioned previously, the City normally has the cash flow capacity to deliver services without the need to borrow short-term until property taxes are collected. However, should due dates be much deferred and penalties waived (meaning there is no incentive to pay by due dates), and should the City be unable to obtain sufficient additional funding through the MFA, this would have significant impact on cash flow and the City's ability to continue service delivery. This report recommends some budget reductions while preserving core operations and continues projects and initiatives underway. It also recommends providing financial relief to taxpayers and ratepayers by extending due dates for both utility bills and property taxes that can be managed within the City's existing cash flow capacity, while avoiding the unintended consequence of slowing down the local economy by reducing the money the City puts back into the community.

## **PURPOSE**

The purpose of this report is to provide information and seek Council direction on potential amendments to the 2020 Financial Plan and extensions to due dates to address financial impacts related to the COVID-19 pandemic.

## BACKGROUND

The majority of the City's revenue comes from property taxes and utility user fees (approximately \$192 million or 71%). Delaying receipt of those revenues would impact the City's cash flow and as a result the ability to continue providing services and meeting payment obligations. In addition to the City's own taxes and utility fees, collections on behalf of other agencies total approximately \$100 million, for a total collection of approximately \$292 million.

The City's 2020 Financial Plan, operating and capital including projects carried forward from 2019, totals approximately \$375 million. The collection on behalf of other agencies brings that total to approximately \$475 million. While the City has accumulated reserves of approximately \$248 million, including ones for financial stability specifically set up to mitigate unforeseen circumstances such as these, they are insufficient to cover all expenditures should collection of taxes and utility user fees be much delayed.

On March 19, 2020 Council passed a number of motions including:

1. Direct staff to develop an Action Plan without delay identifying measures within municipal jurisdiction to reduce economic hardship on individuals and organizations impacted by COVID-19, including consideration of the following measures:
  - a) Temporary deferral of fees, taxes and other payments owing to the city from those suffering hardship.
2. Direct staff to prepare bylaw amendments to allow for the temporary waiver of financial penalties for non-payment of municipal utilities fees and taxes during provincially declared emergencies.
3. Request that the Province of British Columbia grant local governments the discretion to postpone payment of property taxes with no financial penalty in 2020 for those that meet a provincially determined threshold.
4. Direct staff to look at the operational and capital plan for 2020 to see what will not be accomplished in this year due to COVID-19 and bring recommendations to Council as to what would come out of the budget accordingly.

Due dates for remitting payment to the agencies the City collects property taxes on behalf of are established under various acts including the *Assessment Authority Act*, the *British Columbia Transit Act*, the *Municipal Finance Authority Act*, the *School Act*, the *Hospital District Act*, and the *Local Government Act* as follows:

- August 1 – BCA, MFA, CRHD, and CRD, approximately \$36 million
- On or before the 5<sup>th</sup> day after municipal taxation due date – 75% of school taxes, approximately \$38 million. Then monthly after that.
- December 31 – BC Transit, approximately \$10 million

## ISSUES & ANALYSIS

There are a number of factors that impact the City's cash flow capacity. The following section outlines the main considerations.

### Legislative Context

The City can, under current legislation, change the property tax due date and adjust penalty amounts and due dates. The City already has an Alternative Tax Scheme Bylaw in place that provides for a 5% penalty in July and a 5% penalty in September, rather than a 10% penalty in July.



The City does not have the ability to create distinctions, for tax or penalty purposes, based on individual circumstances. Section 193(2) of the *Community Charter* expressly provides that the normal power to establish variations for different circumstances does not apply to taxation bylaws. In other words, the City cannot provide different due dates or penalty provisions for those adversely affected by the COVID-19 pandemic and resulting economic disruption. Any changes would have to apply equally to all taxpayers.

### Municipal Finance Authority

The City is likely able to obtain some short-term funds from the MFA, however, the MFA has indicated that they will not be able to fund all municipalities in BC to the full extent they may need. As such, screening criteria will be used to prioritize those that have made efforts to preserve their cash flow by reducing spending, using reserves and avoiding extending due dates and eliminating penalties that would negatively affect cash flow.

The City could also seek funding from a financial institution; however, our understanding is that their first priority is individuals and businesses so this is unlikely an option for the City.

In either case, the City would incur additional costs from interest on any loans, and would of course also need to repay such loans, which requires cash flow.

In anticipation of needing some level of short term financing, staff will bring forward amendments to the Revenue Anticipation Borrowing Bylaw passed earlier this year, to increase the authorized amount of borrowing to the maximum allowable under the legislation, which is 75% of the prior year's total tax levy.

### Provincial Property Tax Deferment Programs and Other Legislative Changes

There are a number of Provincial property tax deferment programs in place that provide low interest loans to qualified individuals for residential properties as follows:

- 55 years of age or older, and surviving spouses of any age
- A person with disabilities
- Families with children

The Province did have an additional deferment program in place a number of years ago for those experiencing financial hardship, which could potentially be reinstated and also extended to commercial properties. In addition, the current Homeowner Grant Program may be possible to amend to increase amounts of grants and create a new category of grant applicable to persons who have lost income due to the pandemic.

The benefit to the City of these programs is that the Province pays the City for all approved deferment applications, and the City reduces the amount of school taxes paid by an amount equal to homeowner grants claimed, so the City is kept whole financially.

Due dates for remitting payment to the agencies the City collects property taxes on behalf of are established under various acts including the *Assessment Authority Act*, the *British Columbia Transit Act*, the *Municipal Finance Authority Act*, the *School Act*, the *Hospital District Act*, and the *Local Government Act*. The earliest payment date is August 1 for payments to BCA, MFA, CRHD, and CRD, whether or not taxes have been collected. The Province could consider aligning the due date for remitting these taxes with property tax due dates in municipal Alternative Tax Scheme Bylaws.

## The City's Budget

The City's budget determines the amount of funding the City requires to provide its services, maintain infrastructure and deliver capital projects. The City is required under the *Community Charter* to have a balanced budget – that is, the City is not authorized to budget a deficit.

There are two ways in which the City can manage its cash flow needs:

1. Deferring projects to a future date reduces the need for funding at this time
2. Reallocating the funding for deferred projects, where not restricted, to offset revenue shortfalls

The majority of funding comes from property taxes and utility user fees (approximately \$192 million or 71%.)

The City has some additional revenue sources, including those from parking (budget of approximately \$19.6 million), construction permit fees (budget of approximately \$3 million), recreation (budget of approximately \$2 million), Victoria Conference Centre (budget of approximately \$3.6 million), and property leases (budget of approximately \$2.2 million). Some of these revenue sources have been greatly impacted by the pandemic and as such new revenue sources or reduction in expenditures to offset would be needed to ensure the City does not run a deficit.

We are currently experiencing much reduced revenues for parking. While there are some offsetting expenditure reductions, the estimated net financial impact on a monthly basis is approximately \$1.2 million.

Also, our recreation facilities have been closed resulting in no revenue generation. However, these operations are property tax subsidized, meaning expenditures exceed the revenue generated. Therefore, there is only a negligible net financial impact to the City.

The Victoria Conference Centre has also been closed. Some of the events that were to take place in the coming months have been rescheduled, some potentially to later this year and some to next year. Based on current information, there is a potential revenue shortfall related to events of approximately \$2 million in 2020. In addition, due to the closure of the VCC and also the Empress Hotel, parking revenues are much reduced with a potential shortfall of \$140,000 per month.

All other revenues appear to remain on track at this time, but we are monitoring all closely.

A portion of the City's budget provides grant funding to non-profit organizations. Staff recommend continuing this important funding through the City's various grant programs, some of which Council has already approved and staff have issued payment for. However, some proposed increases to some programs and the creation of a new program are included in the list of potential deferrals because they are unlikely be actioned this year.

In reviewing the budget to determine what can be deferred to free up cash flow capacity, staff used the following principles:

- Continue with projects that maintain existing infrastructure as opposed to creating new ones or expanding existing ones
- Continue with all safety related projects
- Continue with projects underway

Using the above principles, staff have determined that approximately \$22 million can be deferred as follows:

### 2020 Capital Projects - Potential Deferrals

|  | Draft Budget \$      | Deferral \$          | Remaining Budget \$ |
|--|----------------------|----------------------|---------------------|
| <b>Active Transportation</b>   |                      |                      |                     |
| Bus Shelter Installation   | \$ 31,000            | \$ 31,000            | \$ -                |
| David Foster Harbour Pathway   | 2,468,000            | 968,000              | 1,500,000           |
| Pathway Upgrades   | 982,000              | 432,000              | 550,000             |
|  | <b>\$ 3,481,000</b>  | <b>1,431,000</b>     | <b>\$ 2,050,000</b> |
| <b>Neighbourhoods</b>  |                      |                      |                     |
| Wayfinding   | \$ 45,000            | 45,000               | \$ -                |
| <b>Parks</b>   |                      |                      |                     |
| Topaz Park - Southern Park Enhancements                                  | \$ 3,800,000         | \$ 3,800,000         | \$ -                |
| Topaz Park - Artificial Turf Field                                       | 4,794,000            | 4,494,000            | 300,000             |
| Dogs in Parks  | 165,000              | 70,000               | 95,000              |
|  | <b>\$ 8,759,000</b>  | <b>\$ 8,364,000</b>  | <b>\$ 395,000</b>   |
| <b>Street Infrastructure</b>   |                      |                      |                     |
| LED Signal Head/Ped Countdown Signal and Audible Ped Signal Installation | \$ 108,000           | \$ 108,000           | \$ -                |
| New Traffic Signal Safety Upgrades and Installations                     | 458,000              | 100,000              | 358,000             |
| Seasonal Animation   | 29,000               | 29,000               | -                   |
| Traffic Controller Replacement Program                                   | 505,000              | 205,000              | 300,000             |
| Gate Of Harmonious Interest Chinatown                                    | 1,181,000            | 831,000              | 350,000             |
| Traffic Signal Fibre Optic Upgrade                                       | 89,000               | 25,000               | 64,000              |
| Surface Infrastructure Program   | 530,000              | 80,000               | 450,000             |
| Audible/Accessible Pedestrian Signals                                    | 17,000               | 17,000               | -                   |
| Pagoda Fixtures - Electrical Upgrades                                    | 100,000              | 50,000               | 50,000              |
|  | <b>\$ 3,017,000</b>  | <b>1,445,000</b>     | <b>\$ 1,572,000</b> |
| <b>Retaining Walls and Railings</b>                                      |                      |                      |                     |
| Wharf Street 1112 Retaining Wall   | \$ 461,000           | 361,000              | \$ 100,000          |
| Ross Bay Seawall Replacement   | 150,000              | 150,000              | -                   |
|  | <b>\$ 611,000</b>    | <b>\$ 511,000</b>    | <b>\$ 100,000</b>   |
| <b>Facilities</b>  |                      |                      |                     |
| VCC Upgrades and Repairs   | 1,613,000            | 876,000              | 737,000             |
| Parks Public Washroom  | 667,000              | 400,000              | 267,000             |
| Crystal Pool & Wellness Centre Replacement Project                       | 7,926,000            | 7,926,000            | -                   |
| Public Works Facility Master Plan  | 250,000              | 250,000              | -                   |
| Community Centre Improvement Program                                     | 589,000              | 539,000              | 50,000              |
|  | <b>\$ 11,045,000</b> | <b>\$ 9,991,000</b>  | <b>\$ 1,054,000</b> |
| <b>Total</b>   | <b>\$ 26,958,000</b> | <b>\$ 21,787,000</b> | <b>\$ 5,171,000</b> |

Important to note, and as explained in further detail below, approximately half of the above projects are funded from capital reserves and can therefore not be redirected to fund revenue shortfalls in operations; however, deferring those projects do help with cash flow management. The other half is funded from property taxes (approximately \$11 million) and this funding can be reallocated to fund the revenue shortfalls identified.

Staff have also reviewed the new and expanded initiatives Council approved during the budget process that have yet to be actioned and could therefore be delayed. The following is a listing of those initiatives totalling approximately \$3 million:

| Potential Available Reallocation                             | FTE         | NMC<br>(Ongoing)    | 2019 Surplus<br>(One Time) | B&I               |
|--|-------------|---------------------|----------------------------|-------------------|
| <b><u>Accessibility and Inclusion</u></b>                    |             |                     |                            |                   |
| Accessibility and Inclusion Recreation Role - 1 FTE          | 1           | 52,000              |                            |                   |
| Gender Diversity Training for All Staff                      |             |                     | 28,000                     |                   |
| Welcoming City Strategy                                      |             |                     | 50,000                     |                   |
| <b><u>Housing</u></b>  |             |                     |                            |                   |
| Tenant Housing Ambassador - 1 FTE                            | 1           | 107,900             |                            |                   |
| Housing and Development Summit                               |             | 15,000              |                            |                   |
| Social Planner - 1 FTE                                       | 1           | 125,111             |                            |                   |
| <b><u>Arts and Culture</u></b>                               |             |                     |                            |                   |
| Canada Day Special Duty Policing                             |             | 107,000             |                            |                   |
| Festival Investment Grant Program                            |             | 25,000              |                            |                   |
| Special Duty Policing - Cost for First Three Police Officers |             | 53,000              |                            |                   |
| Create Victoria - Cultural Infrastructure Grant Program      |             |                     | 100,000                    |                   |
| Create Victoria - Cultural Spaces Roadmap                    |             |                     | 25,000                     |                   |
| Create Victoria Implementation Position - 1 FTE              | 1           | 113,400             |                            |                   |
| Special Events - In Kind Services                            |             | 19,000              |                            |                   |
| <b><u>Banfield Park to Selkirk Bike Route</u></b>            |             |                     |                            |                   |
| Banfield Park to Selkirk Bike Route                          |             |                     | 35,000                     |                   |
| <b><u>Childminding</u></b>                                   |             |                     |                            |                   |
| Childminding - Committees                                    |             | 1,800               |                            |                   |
| <b><u>Climate and Environment</u></b>                        |             |                     |                            |                   |
| Building Energy and Emissions Specialist - 1 FTE             | 1           | 108,000             |                            |                   |
| Climate Leadership Plan - Oil to Heat Pump Incentive Program |             |                     | 300,000                    |                   |
| Climate Champion Program                                     |             |                     | 50,000                     |                   |
| <b><u>Heritage</u></b>                                       |             |                     |                            |                   |
| Heritage Position - .5 FTE                                   | 0.5         | 50,000              |                            |                   |
| <b><u>Managing Growth and New Development</u></b>            |             |                     |                            |                   |
| Secretary - Legislative Services - 1 FTE                     | 1           | 80,500              |                            |                   |
| Development Services - 1 FTE                                 | 1           | 142,500             |                            |                   |
| <b><u>Greater Victoria Coalition to End Homelessness</u></b> |             |                     |                            |                   |
| Coordinated Implementation of Pandora Task Force             |             |                     | 50,000                     |                   |
| <b><u>Placemaking</u></b>                                    |             |                     |                            |                   |
| Place-Making - Engagement Costs                              |             |                     | 8,000                      |                   |
| <b><u>Protocol</u></b>                                       |             |                     |                            |                   |
| Protocol   |             |                     | 20,000                     |                   |
| <b><u>Reconciliation and Indigenous Relations</u></b>        |             |                     |                            |                   |
| Reconciliation Training                                      |             |                     | 34,650                     |                   |
| Truth and Reconciliation Dialogues                           |             |                     | 80,000                     |                   |
| Indigenous Relations Function                                |             |                     | 75,000                     |                   |
| Witness Reconciliation Program                               |             | 30,000              |                            |                   |
| <b><u>Equity, Diversity and Inclusion</u></b>                |             |                     |                            |                   |
| External Community Liaison - 2 FTE                           | 2           | 215,900             |                            |                   |
| Equity and Inclusion Coordinator -1 FTE                      | 1           | 107,900             |                            |                   |
| External Contractor  |             |                     | 75,000                     |                   |
| <b><u>Strategic Plan Support Services</u></b>                |             |                     |                            |                   |
| Engagement   |             |                     | 75,000                     |                   |
| <b><u>Sustainability Mobility Strategy</u></b>               |             |                     |                            |                   |
| Transportation - 1 FTE                                       | 1           | 142,600             |                            |                   |
| Public Secure Bike Parking                                   |             |                     |                            | 500,000           |
| <b><u>NeighbourHub - 709/711 Douglas Street</u></b>          |             | 11,460              |                            |                   |
| <b><u>Banfield Park Swimming Dock Study</u></b>              |             |                     | 15,000                     |                   |
| <b>Total</b>   | <b>11.5</b> | <b>\$ 1,508,071</b> | <b>\$ 1,020,650</b>        | <b>\$ 500,000</b> |



There is an opportunity to manage the impact of the estimated revenue losses by reallocating the funding for the proposed deferred projects and initiatives, and to establish a larger contingency for further unforeseen costs or additional revenue losses. Establishing a larger contingency now would provide greater flexibility later, especially if this pandemic is prolonged.

There may be additional 'under-spends' within departmental budgets this year, as is the case many years, however, it is too early to estimate what those may be. These 'under-spends' would provide additional budget room should it become needed and as such, no adjustments to budgets are recommended at this time.

Another mitigation strategy is transfers to reserves, which can be done - and adjusted if necessary - at the end of the year once actual revenues and expenditures are known. Continuing to set aside funding in reserves as successfully as the City has been able to do to this point is what is enabling the City to have cash flow capacity for parts of the year. It is also what provides necessary funding for upgrades to City infrastructure and facilities, which would help in the recovery efforts for our community. Therefore, it is recommended that all reserve transfers remain as budgeted at this point. Again, by holding off on actual transfers until the end of the year, there is an opportunity to revisit these at a later date, if necessary.

If property taxes and utility billing due dates and penalties remain the same, and taking the above estimated revenue reductions and deferral of projects into account, the City should have the cash flow to fund all operations until the end of the year without having to obtain a short-term loan from the MFA. In other words, by deferring the projects and initiatives, those savings should be sufficient to cover the estimated short-fall in revenues.

#### Reserve Fund Capacity and Liquidity

The City has a number of reserves which are invested in various investment vehicles with different maturity dates. These reserves are what enables the City to continue funding operations and capital projects for the first part of the year before the property tax due date. Although the reserve levels are significant (approximately \$248 million), they are not significant enough to provide complete cash flow coverage for an entire year should payments of taxes and utility user fees not be received, especially considering the requirement to levy taxes on behalf of other agencies and remit those by legislated due dates.

The majority of the reserves are restricted for specific purposes and cannot be used to fund operations. In other words, while the reserves can be used to manage cash flow, they cannot be drawn down on to provide the funding to cover costs incurred to deliver programs and services, nor to offset revenue shortfalls.

However, the financial stability reserves were set up to mitigate unforeseen situations such as these. The target balances for the general, water and sewer reserves are equal to 60 days of expenses, and the stormwater reserve is equal to 45 days of expenses. The current balances in the reserves are:

|              |             |
|--------------|-------------|
| General Fund | \$8 million |
| Water        | \$920,000   |
| Sewer        | \$835,000   |
| Stormwater   | \$450,000   |

Council could choose to use some of these reserves to fund funding shortfalls should they materialize. However, given that there are a number of capital projects and other initiatives that

have yet to be actioned, there is an opportunity to first defer those before additional funding from these reserves is used. For awareness, should the financial stability reserves be used, there is no specific funding source within the budget to replenish them. Historically, they have been funded through annual surpluses. If depleted completely, it would likely take many years to replenish based on the assumption that Council may wish to continue using at least a portion of the annual surplus to fund one-time initiatives.

## **OPTIONS & IMPACTS**

The following section outlines options for Council's consideration. These options are those that are fiscally prudent, align with the availability of financial stability reserve funding should it become needed, and would have the least impact on cash flow and service provision while still providing some relief to those suffering financial hardship in the community.

### Extending Payment Due Dates

Utilities are currently billed 3 times per year with payment due 45 days after billing, after which a 5% penalty is applied. The City levies approximately \$200,000 in utility penalties annually.

Property taxes are due on the first business day in July, after which a 5% penalty applies, with a further 5% penalty in September on any remaining balance unpaid at that time.

Extending due dates for utilities to 90 days after billing would defer receipt of payment of approximately \$2-3 million monthly and can be managed within existing reserve levels and liquidity.

Extending the due date for property taxes has a larger impact on cash flow due to the legislative deadlines to pay the taxes collected on behalf of other agencies regardless of whether the City has actually collected the taxes or not. As such, delaying the due date beyond August 1 may result in cash shortages should the MFA be unable to provide sufficient funding.

The City cannot change the property tax due date for a select group of customers only, i.e. those suffering financial hardship. If offered, it would apply to all. For utilities, although legislation does not prohibit it, a system is not in place to administer this and the City does not have the ability to confirm or audit if a customer is experiencing financial hardship. In addition, user fees are established to cover costs and any costs incurred to administer the program would result in an increase to the user fees.

### Eliminating Penalties

Council has provided direction to bring forward bylaw amendments to temporarily waive penalties for both utilities and property taxes during provincially declared emergencies.

The City must levy penalties on property taxes not paid by the due date. However, as the City has already done, an Alternative Tax Scheme Bylaw can be established that sets out multiple penalty dates and amounts. The City's Bylaw provides for a 5% penalty in July and a second 5% penalty in September rather than a 10% penalty in July. The City cannot provide different property tax penalty provisions for those adversely impacted by the pandemic.

Similarly to the discussion above regarding due dates, for utility bills, the City does not have a system in place, nor could one be easily set up, to only eliminate penalties on utility bills for those who have suffered financial hardship. If offered, it would apply to all. It is important to note that if there were no penalties, even those who could afford to pay may choose not to do so resulting in

potentially significant cash flow impacts. Therefore, waiving penalties is not recommended. An alternative approach could be extending due dates as described above.

### Budget Reallocations or Reductions

Due to the revenue shortfall discussed in the 'Issues and Analysis' section of the report, and for fiscal prudence reasons as well as to limit the impact on services, it is not recommended that the property tax increase be reduced. The planned property tax increase for 2020 is 3.35%, which equates to \$85 for an average residential property and \$237 for a typical business. Staff recognize that many in our community are struggling financially at this very difficult time. Unfortunately, these increase amounts, if reduced, are unlikely to provide material relief to taxpayers. It is still unknown how long this pandemic will last and therefore the revenue loss estimates may be greater than anticipated, and/or City costs not covered by Emergency Management BC may increase (extensive facility cleaning for example). The recommended alternative approach is to reallocate funding and create a larger contingency by deferring some initiatives and capital projects identified using the principles outlined above.

Should Council wish to reduce the property tax increase, Council could consider:

1. Using the ongoing funding previously allocated to initiatives as outlined in the first column of the table on page 9 - \$1.5 million. Staff had recommended that this funding be set aside in a contingency to manage any unforeseen additional costs during this pandemic, and if not needed would be available to action those initiatives at a later date. The impact of using this funding to reduce the property tax increase would therefore result in a lower contingency and new funding would be required to action the initiatives later.
2. Reducing services and reallocating that funding. Staff have no direction on what those services might be, so further clarification would be necessary.
3. Reducing reserve fund transfers. As discussed in this report, the City has, over time, established significant reserves, and these reserves are what enables the City to have cash flow capacity for parts of the year. The reserves is also what provides necessary funding for upgrades to City infrastructure and facilities, which would help in the recovery efforts for our community. Staff had recommended, as a mitigation strategy, the reserve fund transfers remain as budgeted at this point. As outlined, by holding off on actual transfers to the end of the year, there is an opportunity to revisit these later in the year, should additional funding be needed for revenue shortfalls and/or cost increases related to the pandemic. Some of the transfers to reserves are restricted, such as Gas Tax grants from the Federal Government and other under contractual obligations. However, approximately \$12 million are unrestricted transfers of property taxes to equipment and infrastructure reserves.

### Advocacy to the Province

The homeowner grant program administered by the Province provides for some limited assistance with property taxes to residential homeowners. The program provides for different amounts of a provincial grant toward property taxes depending on individual circumstances. Its administration already includes mechanisms for verification of entitlement and audit function. As such, it may be well suited to serve as a means to provide relief to those adversely affected by the pandemic and resulting economic disruption. For example, the homeowner grant amount could be increased for all who qualify. Alternatively, a new category of a grant could be added to provide increased grants to those who suffered income loss due to the pandemic. Such modifications would provide relief to homeowners without disrupting tax revenues for local governments and allowing local governments to continue to provide the critical services to their communities both during the pandemic and during the recovery period.

In addition, the Province had a Deferment Program in place a number of years ago specifically for those experiencing financial hardship. Therefore, this may be a simple but effective addition, especially if it is also expanded to include commercial properties.

Finally, as mentioned earlier in the report, amending the various acts that provide specific due dates for payment by local governments to the agencies they collect taxes on behalf of would reduce the impact on cash flow for municipalities.

The City does not have the ability to modify the homeowner grant program, the deferment program or change legislated due dates for payment of taxes to other agencies the City collects taxes on behalf of. However, Council could advocate for such changes with the Provincial Government, either directly or through organizations such as UBCM. At the staff level, we have already initiated conversations to raise awareness, and to seek support in advocacy efforts, with our professional associations such as the Government Finance Officers Association and the Local Government Management Association. In addition, we have raised this with staff at UBCM.

### *Accessibility Impact Statement*

Many initiatives within the City's Financial Plan address accessibility challenges. Given the pandemic, some of these initiatives may be delayed.

### *2019 – 2022 Strategic Plan*

Should Council determine that some projects and initiatives should be deferred, the timelines in the Strategic Plan would be adjusted.

### *Impacts to Financial Plan*

Any Council decisions on changes to the project and initiative budgets would be incorporated into the 2020 Financial Plan before final approval.

### *Official Community Plan Consistency Statement*

Not applicable.

## **CONCLUSIONS**

The City contributes to the region's economy through continued service provision, and Council may consider it is of significant importance to position the City and the community for speedy recovery. By keeping our service levels as close to normal as possible, we are mitigating some of the economic impacts of the pandemic. Therefore, to preserve the City's cash flow capacity, eliminating penalties is not recommended.

However, Council could consider extending some payment terms for utilities, such as 90 days rather than the current 45 days without severely impacting the City's cash flow.

Also, Council could consider delaying the property tax due date to August 1 instead of July 2, 2020, with the 5% penalty on that date and a further 5% penalty on September 1.

Finally, the preferred option to preserve the City's cash flow capacity is to advocate to the Province to reinstate and expand the financial hardship Deferment Program to commercial properties, to

increase Homeowner Grant amounts and/or set up a new category for those experiencing financial hardship, and to amend the legislation that stipulates the payment dates the City must adhere to in remitting tax payments to other agencies we collect on behalf of.

Respectfully submitted,



Susanne Thompson  
Deputy City Manager and Chief Financial Officer

**Report accepted and recommended by the City Manager:**

  
**Date:** April 6, 2020

**Attachments:**

Appendix A – Ministry of Municipal Affairs Circular: Municipal Budgeting, Taxation, and Financial Reporting During Covid-19