



Committee of the Whole Report

For the Meeting of August 6, 2020

To: Committee of the Whole **Date:** July 28, 2020
From: Susanne Thompson, Deputy City Manager and Chief Financial Officer
Subject: 2020 Budget Update and Review of Deferred Items

RECOMMENDATION

That Council, for 2020, direct staff to:

1. Use any unspent expense budgets towards the expected operating budget revenue shortfall and additional pandemic related costs
2. Use funding from initiatives in Appendix A funded by 2019 surplus, that are not initiated by Council today, towards the expected operating budget revenue shortfall and additional pandemic related costs
3. Use funding from any initiatives in Appendix A funded by new property tax revenue, less any amounts expended in 2020, towards the expected operating budget revenue shortfall and additional pandemic related costs
4. Use up to \$11.64 million of the budgeted property tax funding for the capital budget to offset the remaining deficit (adjusted down by any unconditional grant amount received from the Province of BC)

EXECUTIVE SUMMARY

In response to the COVID-19 pandemic and to address revenue shortfalls, in April, Council directed staff to implement a number of actions including some related to the 2020 budget as follows:

1. Defer approximately \$22 million in capital spending to increase cash flow capacity and potentially reallocate \$11.64 million in property tax funding from the capital budget to offset revenue shortfalls in the operating budget
2. Defer approximately \$2.5 million of initiatives to create a larger operating budget contingency to potentially offset revenue shortfalls in the operating budget

As part of the April report, staff also suggested that potential unspent funds within departmental expense budgets could be used to partially offset some of the anticipated revenue shortfalls. As is typical in any year, departmental expense budgets are unspent for a variety of reasons including vacancies, cost being lower than expected, or schedules for initiatives being adjusted. These unspent funds, along with revenues that have exceeded the budget form part of the surplus for the year. As noted in the April report, if revenue shortfalls are more significant than the above three mitigation strategies could cover, another option would be to reduce the planned transfers to reserves, although this would be the least desirable solution from a financial planning perspective

as it simply shifts the funding impact to the capital budget, and since reductions to those transfers were already made to reduce the property tax increase to zero for 2020.

Council also directed staff to bring the deferred initiatives back on August 6 for Council's consideration to initiate them, pending an update on the City's financial situation. This report provides this update for Council's information and deliberation. The City continues to be faced with the difficult task of balancing competing priorities and staff strive to provide complete information to support Council's decision making to minimize unintended consequences.

The pandemic has resulted in some additional costs, including those related to additional cleaning protocols of City facilities and costs not recoverable from the Province related to the encampments. The estimated revenue shortfalls and additional pandemic related costs range from \$12.5 million to \$17.5 million for the year.

Since April, Council has reallocated some of the funding from the deferred initiatives to address emerging issues. Appendix A provides an updated listing of the deferred initiatives and capital projects. As indicated in the appendix, the ongoing funding will be automatically included in the draft 2021 budget unless Council directs otherwise. However, the one-time funding that is remaining would only be carried forward to 2021 if Council initiated the initiatives in 2020; if not initiated, the funding would be used to offset the revenue shortfalls unless Council provides alternate direction.

Staff recognize that Council may wish to initiate some of the deferred items now. For awareness, those initiatives that include hiring of additional staffing, even if initiated now, would likely not significantly impact the 2020 budget due to typical hiring timelines. Therefore, the 2020 allocation could still be used to offset the expected deficit caused by revenue shortfalls. However, Council may wish to consider that any ongoing costs will impact the 2021 budget and, as previously reported, revenue shortfalls are likely to continue.

Earlier this year, Council implemented a number of measures in support of individuals and organizations facing economic hardship as a result of the pandemic. For property taxes, the due date was extended to August 4 (instead of July 2) and penalty dates were staggered over a number of months, starting in August for residential, utility and recreational properties and in October for commercial and industrial properties. For utility billings, due dates were extended to 90 days from invoice date rather than the previous 45 days. Both of these revenue streams do not impact the budget and the deficit/surplus for the year, but they can impact the City's cash flow if payments are delayed. To-date, utility bills continue to be largely paid by the new due dates and we have not noticed a change in overall collection levels. Property taxes for residential, utility and recreational properties had achieved 71% collection by July 30. Since the penalty date was delayed to October for commercial and industrial properties, the expectation is that the majority of those will be paid by the end of September; to July 30, approximately 53% had been collected. A verbal update on collection levels by the tax due date of Aug 4 will be provided at today's meeting. As a result of continued revenue collection for both utilities and property taxes, the City has been able to manage its cash flow without requiring short-term borrowing from the Municipal Finance Authority.

Staff recommend a multi-faceted approach to avoiding a year-end deficit resulting from the revenue shortfalls and unexpected additional costs due to the pandemic. Should a deficit be the end result, the *Community Charter* requires that such a deficit be funded first in the following year's budget. Staff recommend avoiding such a situation since this simply defers the issue to a future year and 2021 is expected to be challenging, specifically related to those revenues that are impacted by the slowdown in the local economy. Although the Province is now allowing municipalities to borrow from restricted reserves to offset deficits, and repay such borrowing over a number of years, the recommended approach does not utilize this new option and avoids deferring the issue to future

years and avoids the impact on the capital budget since the reserve funding remains in place. The recommended mitigation strategies for 2020 are expected to be sufficient to offset the estimated deficit for the year.

In addition, on July 22, the Province announced that they plan to provide financial support to transit and local governments (Appendix B). Details are yet to be provided, but this may be a funding source to help offset some of the increased costs and/or revenue shortfalls the City is experiencing due to the pandemic.

PURPOSE

The purpose of this report is to provide an update on the City's 2020 budget to inform Council's decision making regarding the initiatives and capital projects Council put on hold in April, and to seek Council's direction on balancing the expected deficit for the year.

BACKGROUND

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.

In response to a staff report addressing the above direction, on April 9, 2020, Council passed the following motions:

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

- g. That Council review and consider amendments to the 2020 budget in July 2020 with specific attention to the tables on pages 7 and 9 of this report
 - h. Reduce the transfer from property taxes by \$4.68 million to be proportionally allocated between the Vehicles and Heavy Equipment, City Equipment and Buildings and Infrastructure reserves to reduce the property tax increase to zero percent for 2020
 - i. Amend the Alternative Tax Scheme Bylaw and adjust penalties to 2 percent per month for August, September, October, November and December for 2020
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

Subsequently, Council directed that the reporting back date for review and consideration of the deferred items take place on August 6 rather in July to align with the property tax due date.

ISSUES & ANALYSIS

The COVID-19 pandemic has significantly impacted the community and the City. The impact to the City's budget includes revenue losses from sources related to economic activity, and increased costs specifically due to pandemic response.

Estimated Revenue Impacts

As previously reported, the City has revenue sources that are impacted by economic activity 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). The estimated total revenue loss is \$11.65 million to \$16.65 million as outlined in more detail below.

At the outset of the pandemic, the revenue loss for parking was approximately \$1.2 million per month. Since the Province moved to Phase 3 of its *Restart Plan*, revenue losses are improving and are currently approximately \$950,000 per month. The estimated revenue loss this year ranges from \$8 million to \$12.8 million.

There will be no net impact to the budget for construction permit fees since the City has a stabilization reserve that will offset any shortfalls, if needed.

Since the closure of the Crystal Pool and Fitness Centre, no revenues are generated for that facility. However, lower operating costs offset this revenue loss so there is only a negligible net financial impact to the City. The Save on Foods Memorial Arena is also closed and the expected revenue loss related to the City's share of ticket sales is approximately \$250,000.

The Victoria Conference Centre closure and the current restriction on the size of gatherings has resulted in revenue losses, related to events and parking, and are estimated at \$2.3 million to \$2.5 million for the year.

A number of the City's tenants of commercial spaces have been negatively impacted due to provincial health orders, reduction in local customers, and limited tourism as a result of COVID-19. The Federal rent assistance program (CECRA) does not extend to municipalities; therefore the City is working with its tenants on potential rent adjustments where those tenants' businesses have been significantly impacted. While it is expected that some revenue loss will occur in the short-term, this approach is intended to protect the City's real estate portfolio for the longer-term and to minimize prolonged vacancies. The estimated revenue reduction, from the annual budgeted revenue for 2020, is \$1.1 million.

Additional Pandemic Response Costs

The City has increased cleaning protocols for all its facilities, and are also incurring costs which are not recoverable from the Province related to the various encampments. Council allocated \$300,000 from contingency and the Late Night Great Night program to cover pandemic related costs. Over and above that allocation, the City has incurred costs for bylaw enforcement, public works, parks and facilities and these are estimated to be \$850,000 for the year.

Proposed Mitigation Strategies

The April 9th report identified a number of mitigation strategies to offset the expected revenue shortfall and additional costs, and staff recommend utilizing those strategies to offset the deficit for the year.

It is estimated that unspent funds within departmental expense budgets, due to reasons such as vacancies, lower than expected costs or adjusted schedules for initiatives will be approximately \$3.17 million.

Council put a number of initiatives on hold earlier this year, and since that time, has reallocated some of that funding to emerging issues. The updated table is included in Appendix A. The items funded by surplus, if not initiated by Council today, could be reallocated. If reallocated, this would mean that no funding would be provided to these items and new funding would be required to initiate them at a later date. The remaining amount is \$658,050.

The items funded by new tax revenue, even if initiated by Council today, will not require the full annual amount and any unspent funding could be reallocated to offset the deficit. This funding is ongoing and will be included in the draft 2021 budget unless otherwise directed by Council. However, Council may wish to consider that any ongoing costs for new and increased services will impact the 2021 budget and, as previously reported, revenue shortfalls are likely to continue. In other words, Council may wish to consider balancing competing priorities both from this list and any Strategic Plan initiatives for future years that have yet to be funded. In addition, during the 2020 financial planning process, Council had discussed the possibility of 're-envisioning' Canada Day. As such, Council may wish to provide this direction before allocating the additional funding for this event in 2021. The remaining amount for 2020 is \$1,233,856.

The capital budget is partially funded by property taxes, \$11.64 million. A number of capital initiatives were put on hold as outlined in Appendix A to allow the reallocation of the property tax funding and reduce funding from reserves. Staff recommend that Council defer initiating at least \$11.64 million of these projects so that this funding can be used to offset the expected deficit.

The April report also discussed reserve fund levels and the annual contributions to the reserves. These reserves provide necessary funding for upgrades to infrastructure and facilities, which contribute to the recovery efforts for our community. To achieve a zero percent tax increase for

2020, Council reduced the 2020 allocation to infrastructure reserves by \$4.68 million. Staff do not recommend reducing the reserve fund transfers further in order to avoid unintended consequences in future years regarding capital investment levels.

On July 22, the Province announced that they plan to provide funding to transit and local governments as part of a joint effort between the Province and the Federal Government. Details have yet to be released, but these may be unconditional grants that could fund revenue shortfalls and/or additional costs due to the pandemic. Should the City be successful in receiving such grants, hopefully at least a portion of the deficit could be offset.

Finally, should the above mitigation strategies not be sufficient in addressing the expected deficit, the City's Financial Stability Reserve could also be used. Staff do not recommend doing so at this point since the 2021 budget has yet to be developed and the impact of the pandemic, especially the length of it, is still unknown. Therefore, staff recommend leaving those funds as a contingency for the 2021 budget.

The current balances in the reserves are:

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

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.

Cash-flow Capacity

To-date, the City has not experienced an interruption in payments of utilities and property taxes from customers. Due dates were extended and the majority of payments have so far been made by the new due dates. As such, there has been no need to borrow short-term, and our investments have been sufficient to cover cash flow needs for the first part of the year.

OPTIONS & IMPACTS

The following section outlines options to address the expected deficit for Council's consideration. The recommended option is fiscally prudent, and minimizes the impact on programs and services and capital infrastructure investments, both now and for 2021 onwards.

Option 1 – Utilize the Mitigation Strategies Endorsed in April (recommended)

Using the mitigation strategies endorsed by Council in April, the expected deficit could be offset as follows:

	Low Range Estimate	High Range Estimate
<u>Revenue Shortfall</u>		
Parking Revenue	\$8,000,000	\$12,800,000
Victoria Conference Centre Revenues	2,300,000	2,500,000
Lease Revenue	1,100,000	1,100,000
Arena Revenue	250,000	250,000
<u>Additional Costs due to Pandemic</u>		
Public Works	300,000	300,000
Parks, Recreation & Facilities	350,000	350,000
Bylaw Services	200,000	200,000
Range of Total Estimated Shortfall	\$12,500,000	\$17,500,000
<u>Mitigation Strategies</u>		
<u>Reallocation of Unspent Expense Budgets</u>		
Vacancies	-\$1,400,000	-\$1,400,000
Conferences/Travel/Training and Development	-335,000	-335,000
Recruitment	-50,000	-50,000
Parks, Recreation & Facilities	-385,000	-385,000
Other	-1,000,000	-1,000,000
<u>Reallocation of Funding from Deferred Initiatives</u>		
Deferred Initiatives Funded by Surplus	-658,050	-658,050
Deferred Initiatives Funded by New Tax Revenue	-1,233,856	-1,233,856
Reallocation of Property Tax Funding for Capital Budget	-7,438,094	-11,640,000
Financial Stability Reserve		-798,094
Total for Mitigation Strategies	-\$12,500,000	-\$17,500,000

This option minimizes impacts on services, and balances both capital and operating needs. Should unconditional grant funding be provided by the Province, this could offset the reduction in the transfer to the capital budget.

In the event that the deficit reaches the high end of the estimated range or higher, the City's Financial Stability Reserve could be used to avoid a year-end deficit. However, it is not

recommended that this funding be used in 2020, unless necessary, since revenue shortfalls are expected to continue into 2021 and as such may be required next year.

Option 2 – Variation of Option 1, as Determined by Council

Staff recognize that Council may decide that some of the initiatives put on hold are important to initiate at this point. As such, Option 1 could be varied by reducing the reallocated funding from those initiatives, and instead further reducing the transfer to the capital budget. This would result in shifting the impact to the capital budget and may impact the investments for 2021 onwards. At this point, since the draft 2021 budget has yet to be finalized and introduced to Council, it is not possible to identify which projects may be impacted.

Option 3 – That Council Provide Alternate Direction

Staff may not be aware of all priorities and emerging needs and, as such, Council may wish to provide alternate direction to staff.

Accessibility Impact Statement

Many initiatives within the City's Financial Plan address accessibility. Due to the pandemic, some of these initiatives were delayed, but others were implemented – for example, remote participation in Council meetings.

2019 – 2022 Strategic Plan

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

Impacts to Financial Plan

The proposed mitigation strategies are intended to offset the expected deficit for the year. If mitigation strategies are not implemented and the year-end result is a deficit, this deficit must be carried over to the 2021 budget and must be funded first as required under the *Community Charter*. By adjusting funding allocations as recommended, the year-end result will be a net zero.

Official Community Plan Consistency Statement

Not applicable.

CONCLUSIONS

The COVID-19 pandemic has had significant impacts on our community, and has resulted in revenue losses and additional costs for the City. This report outlines a number of mitigation strategies that can offset the expected deficit, while continuing to support the City's many programs and services. As previously reported, 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 and mitigate some of the economic impacts.

Respectfully submitted,



Susanne Thompson
Deputy City Manager and
Chief Financial Officer



Report accepted and recommended by the City Manager:

Date: July 30, 2020

List of Attachments

Appendix A – Listing of Deferred Initiatives and Capital Projects

Appendix B – Media Release: Province bolsters COVID-19 support for local governments, transit