

April 14, 2020 Council Presentation

COVID-19 pandemic impacts: Financial Update  
and Short-term Actions



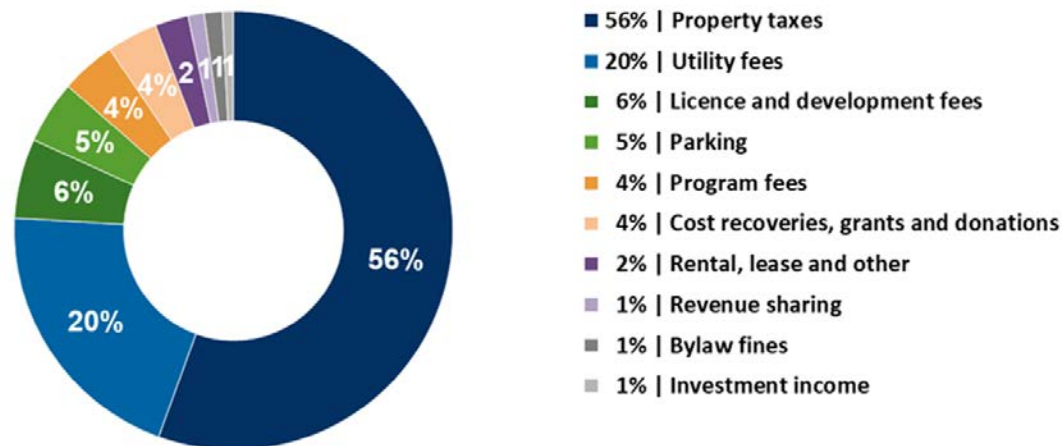
# Agenda

- Key messages
- Financial framework
- Short term actions
- Scenarios for response and recovery
- Advocacy with senior government

- Across Canada, local governments are facing significant financial challenges.
- Many revenues (non-tax/utility) have declined significantly as a result of closure of non-essential services and the province-wide physical distancing order.
- These decreases in revenue represent a funding gap issue for local government as revenues that are lost during the time of the COVID-19 pandemic in most cases will not be recovered in the future.
- The City also faces a significant cash flow issue should delinquencies increase due to financial hardship.
- Senior government support is needed to support municipalities during this time as they do not have capacity to absorb losses and cash flow risks
- Staff have developed potential scenarios and will be preparing plans related to the those scenarios

- ↘ Unlike the provincial and federal government, local governments cannot run deficits or borrow to balance operating budgets.
- ↘ Local government operating budgets are largely funded by property tax and utility fees (generally 75-85%)
- ↘ Other revenues such as parking, permits, community/rec programs, etc. (15-25%) which help support the delivery of key city services.

DRAFT 2020 OPERATING REVENUES  
\$1,624 MILLION



- ↘ Local governments collect taxes on behalf of Other Taxing Authorities (OTAs) - Provincial school tax, Translink, Metro Vancouver, BC Assessment, Municipal Finance Authority BC, Regional Districts, etc.
- ↘ These are significant – over ½ of the tax bill.
- ↘ Increased delinquency in payment of tax/utility billings have significant cash flow issue for the City, particularly with respect to the need to finance the shortfall until collection (which can be over 3 years) including OTAs.



- That the remittance due date for the July main property tax notices be delayed from July 3, 2020 to September 2, 2020.
- That Council request the Province to delay the remittance due date for other taxing authorities' requisitions to after September 2, 2020
  - including the Provincial School Taxes, Translink, Metro Vancouver, BC Assessment, and Municipal Finance Authority BC, such that the City does not have to prioritize the use of City working capital, reserves and/or borrowing to pay senior and regional government and agencies before actual tax collection.

- That Council endorse the following requests submitted by Metro Vancouver and UBCM to the Province to support local governments during the COVID-19 crisis:
  - Expand the existing Provincial Property Tax Deferment program to support property owners who are experiencing financial difficulties, including residents, businesses and non-profit agencies, thereby lowering the delinquency rate for municipalities;
  - Provide financial backstop to provincial and regional taxing authorities for delinquent payments on property taxes and utility fees, as the City does not have the financial capacity to keep them whole should delinquency rate increase; and
  - Provide direct operating grants to cover the City's significant revenue losses such that the City can continue to provide public safety and other essential services while being prepared for the recovery of the economy.

- To mitigate some of the initial financial impacts to the City's operating budget, the City has:
  - Issued temporary layoff notices to 1500 staff impacted by the facility closures.
  - Restrictions have been placed on new hiring and travel.
  - Staff are reviewing discretionary costs for opportunities to further reduce costs.
  - Should the severity and length of the crisis continue through the year, such that the city's fiscal position deteriorates and support is not received by senior government, the City will need to consider further reductions including grants, discretionary spending and additional reductions in services to the public resulting in additional layoffs.

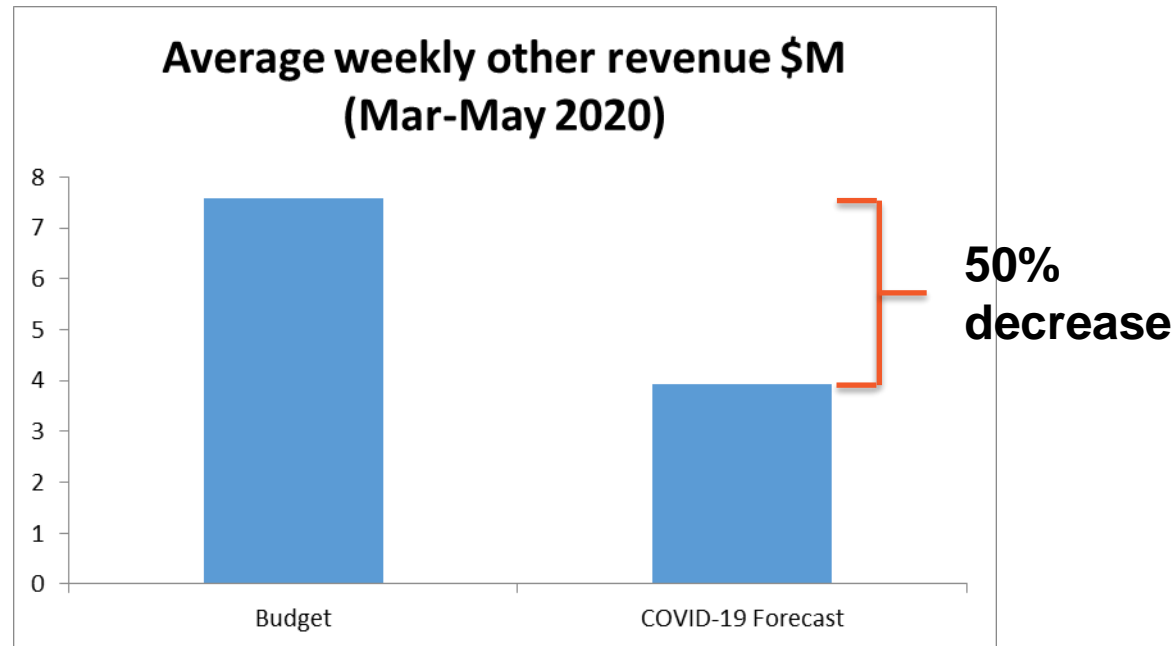


- ↘ The 2020 capital budget is currently under review to determine impacts of COVID-19 on specific capital projects.
  - ↘ Projects that are currently underway and have contractual requirements are expected to continue if funding is secure, work can be performed safely, and where work is considered an essential service (e.g. construction).
  - ↘ Projects that support the economy such as those projects required for 3<sup>rd</sup> party development that is underway (eg. utility connections) will continue.
  - ↘ Historically, municipalities have also played an important role in economic recovery by delivering infrastructure as part of federal government infrastructure programs. Where appropriate, work that can continue to prepare key projects for the recovery will be considered (e.g. design work to enable future construction).
  - ↘ Should the crisis continue through the year, the capital plan would be revisited with a lens to reduce the City's contribution from the operating budget and operating impacts of new capital, by prioritizing critical projects and those that are key to a speedy economic recovery.
  
- ↘ Senior Government Advocacy for Municipal financial support

- Staff have considered a number of scenarios based on the following factors:

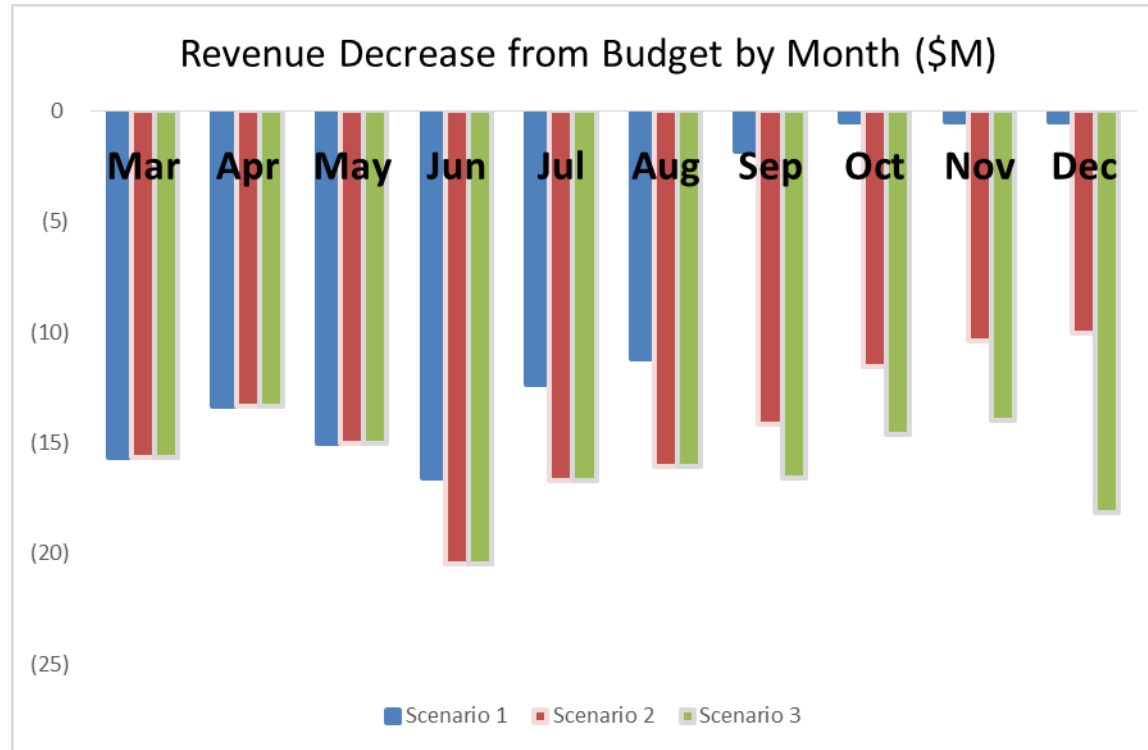
Response Phase		Recovery Phase	
Length of restrictions	Extent of restrictions / non-essential service closures	Rate of recovery after restrictions are lifted	Shape and ultimate end point of the recovery curve (driven by the level of regional, national, and global economic recovery)

Scenario	End of restrictions	Recovery period
Scenario 1	End of May	3 months
Scenario 2	End of August	6 months
Scenario 3	End of December	12 months (2021)



- Immediate revenue reduction of \$4-5M per week due to COVID-19

# Revenue impact scenarios



# SCENARIOS – FUNDING GAP

Overall 2020 Budget Impact- \$ millions			
	Scenario 1 Restrictions lifted end of May 3 month recovery period	Scenario 2 Restrictions lifted end of Aug 6 month recovery period	Scenario 3 Restrictions lifted end of Dec Recovery period extends into 2021
Revenue Impacts	(92)	(152)	(168)
Expense Impacts and mitigations	26	40	36
Provincial funding support for emergency response costs and DTES	5	11	17
Other Provincial funding support	TBD	TBD	TBD
Net 2020 budget deficit	(61)	(101)	(116)
2021 Budget Impacts as part of recovery phase	-	(10)	(73)
Total Budget Impact in 2020 and 2021	(61)	(111)	(189)



<b>2020 Revenue Impacts - \$ millions</b>			
	Scenario 1 Restrictions lifted end of May 3 month recovery period	Scenario 2 Restrictions lifted end of Aug 6 month recovery period	Scenario 3 Restrictions lifted end of Dec Recovery period extends into 2021
Parking	(29)	(48)	(51)
Park Board	(21)	(36)	(38)
By-law Fines	(10)	(17)	(17)
Permit and licence fees	(6)	(11)	(14)
Civic Theatres	(6)	(11)	(12)
Investment income	(4)	(4)	(4)
Provincial revenue sharing	(5)	(8)	(10)
Impacts from consolidated entity revenue decreases	(6)	(8)	(10)
Rent and lease revenue	(2)	(5)	(7)
Other	(2)	(4)	(5)
<b>Total Revenue impacts</b>	<b>(92)</b>	<b>(152)</b>	<b>(168)</b>

<b>2020 Expense Impacts and mitigations - \$ millions</b>			
	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>
Reduced Salary expense due to closures	24	40	42
Non-salary and variable cost savings due to closures	6	10	11
Incremental COVID 19 response costs	(5)	(11)	(17)
<b>Total Expense impacts and mitigations</b>	<b>26</b>	<b>40</b>	<b>36</b>

## ADDITIONAL CASH FLOW RISK

**Cash flow risk for each additional 10% of property tax and utility bill delinquency (all scenarios)**

\$130 million (all scenarios)

- Additional mitigation:
  - Staff will be establishing a financial plan to balance the 2020 operating budget utilizing further cost reductions and the financial stabilization reserve as necessary.
  - Provincial support will likely be critical in order to continue providing essential city services.
  - In addition to the ongoing provision of essential services, staff aim to continue to provide services such as permitting and business licensing that will be critical to the economic recovery in Vancouver.
  - We will likely not be able to continue to provide these services without partnership and support of the province.

- Expand the Provincial Property Tax Deferment Program (PPTDP) to include all property owners who are experiencing financial difficulty, including residential, business and non-profits
- Align the remittance date for other taxing authorities with the City's revised due date
- Backstop provincial/regional taxing authorities for delinquent payments so the City does not need to prioritize our limited reserve funds to finance provincial agencies
- Provide direct, unconditional grants to cover revenue losses so the City can continue to provide essential public services such as police and fire and be prepared to support the recovery of the economy