COVID-19 Pandemic Impacts: Financial Update and Short-Term Actions

Follow-up Meeting – April 28, 2020

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Agenda

- **Recap of April 14 Meeting**
- **Provincial Request Update**
- **Property Tax Date Update**
- **Financial Impact Update**
- **Next Steps**

Recap of April 14 Meeting

Recap of April 14 Meeting

- Council endorsed the City to collaborate with Metro Vancouver and Union of BC Municipalities to advocate the Province to support local governments during the COVID-19 crisis
- Council deferred decision on property tax due date changes to the next meeting on April 28 to allow time to incorporate any information on actions from the Provincial Government
- Council directed staff to provide a mitigation plan to address the expected financial deficit in May

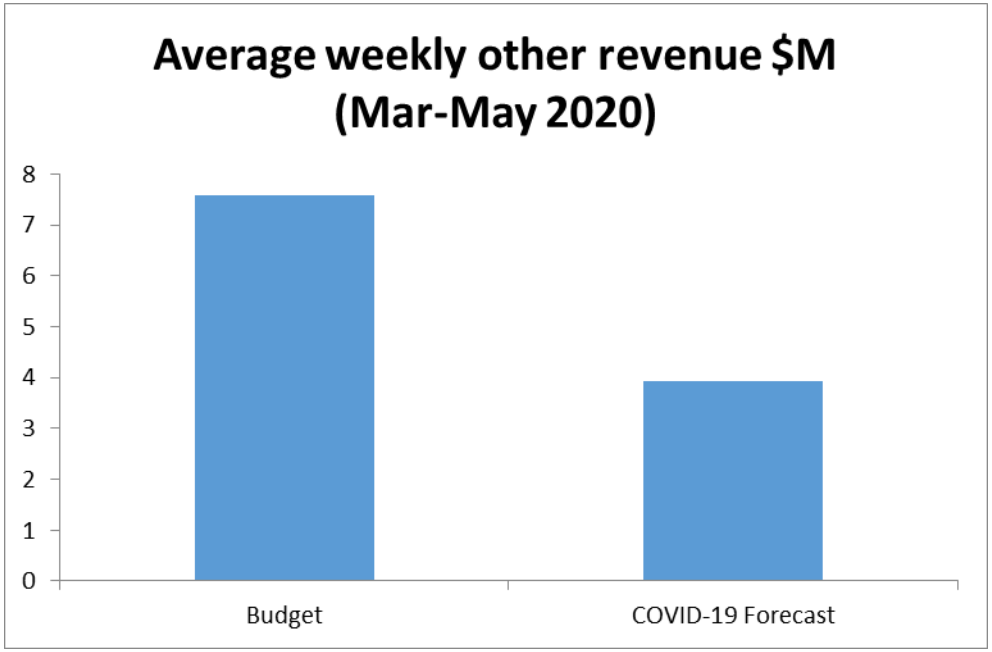
Recap of April 14 Meeting (cont'd)

- Staff presented 3 possible scenarios on the financial impacts of the COVID-19 pandemic, reflecting potential dates for lifting of restriction and estimates of the recovery period

Scenario	End of restrictions	Recovery period	Budget Impact
Scenario 1	End of May	3 months	$61M
Scenario 2	End of August	6 months	$110M
Scenario 3	End of December	12 months (2021)	$189M

Revenue impacts

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



Financial impacts – Scenario 2

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2020 Revenue Impacts
($ millions)

	Scenario 2 Restrictions lifted end of Aug 6 month recovery period
Parking	(48)
Park Board	(36)
By-law Fines	(17)
Permit and licence fees	(11)
Civic Theatres	(11)
Investment income	(4)
Provincial revenue sharing	(8)
Impacts from consolidated entity revenue decreases	(8)
Rent and lease revenue	(5)
Other	(4)
Total Revenue impacts	***(152)***

2020 Expense Impacts and mitigations
($ millions)

	Scenario 2
Reduced Salary expense due to closures	40
Non-salary and variable cost savings due to closures	10
Incremental COVID 19 response costs	(11)
Total Expense impacts and mitigations	***40 (ACTIONS TAKEN TO DATE)***
Provincial funding support for emergency response costs/DTES	11
Other Provincial funding support	(TBD)
TOTAL EXPENSE IMPACT	***51***
Net 2020 budget deficit	***(101)***
2021 Budget Impacts	(10)
Total Budget Impact in 2020 and 2021 (rounded)	***(110)***

Incremental gap to be addressed

Liquidity impacts

ADDITIONAL CASH FLOW RISK	
Cash flow risk for each additional 10% of property tax and utility bill delinquency (all scenarios)	$130 million (all scenarios)

<u>April 28, 2020 update</u>: with reduction of provincial school taxes on commercial properties, cash flow risk is $110 million on every 10% delinquency

Provincial Support Request Update

Provincial Support Requests (IWG & UBCM)

- **Expand Property Tax Deferment Program** to support residents, businesses and non-profit agencies who need help to lower tax delinquency
- **Delay tax remittance date for other taxing authorities** so that municipalities don't need to borrow from working capital/reserves to pay the Province and regional agencies before tax billing
- **Provide financial backstop** to regional agencies **to cover** their portion of **tax delinquency**
- **Provide operating grants** to the City **to address significant revenue losses** in order to maintain public safety and other essential services while preparing for recovery

Provincial Announcement: Property Tax Measures for Businesses

For all industrial, businesses and recreation/non-profit properties:

- Provincial school tax lowered to achieve ~25% reduction in total tax bill
- Late payment penalties postponed to October 1, 2020

Provincial Announcement: Property Tax Measures for Municipalities

- Municipalities can retain the provincial school tax till Dec 31, and use it to advance ***full*** payment to Translink, BC Assessment, Metro Vancouver and Municipal Finance Authority in Aug (instead of Aug & Dec)
- Municipalities can borrow from existing capital reserves to cover ***temporary*** revenue shortfalls, and repay within 5 years
- Municipalities can extend revenue anticipation borrowing through MFA for an additional year
- Municipalities can delay tax sale & redemption for 1 year

What does it mean to the City?

- Deferred payment of provincial school tax helps ease City's short-term cash flow challenge

However…

- Property Tax Deferment Program not expanded
- City continues to own delinquency risk; need to draw from working capital/reserves to pay the Province, Translink, etc.
- Without operating grants from senior governments, City would need to cut services, lay off additional staff, and borrow from reserves, repayable through future tax increases

Property Tax Dates

Implications to Property Tax Dates

Commercial

Industrial, businesses and recreation/non-profit properties (class 4-8)

- **Province has mandated late payment penalty due date of October 1, 2020**
- Municipalities under the Community Charter have the option to retain the original July payment due date; under the Vancouver Charter, Vancouver does not have this option

Recommendation:

- **Council to consider delaying commercial payment due date to September 30, 2020** to align with October 1 penalty date

Implications to Property Tax Dates

Residential

- No mandate from Province but suggested to **keep July 3 payment due date** to maintain cash flow
- Due to Vancouver Charter restrictions, taxes due in July would need to be paid in July
- In order to allow residential property owners with short-term cash flow issues to pay later, Council to consider:

  1) Change **payment due date to September 2, 2020** as originally *recommended by Staff at April 14 Council meeting*, or

  OR

  2) Change **payment due date to September 30, 2020** to *align with commercial classes as per provincial mandate*

Recap on 2020 Property Tax Dates

	Original Tax Due Date	Revised Tax Due Date	Revised Penalty Due Date
Commercial Properties: Provincial mandate penalty date Oct 1	July 3	Sep 30	Oct 1
Residential Properties: Staff recommendation on Apr 14 Council report	July 3	Sep 2	Sep 3
OR			
Residential Properties: Align with Commercial property dates	July 3	Sep 30	Oct 1

Good Liquidity and Cash Flow

- Investment Portfolio Liquidity
  - Conservative investment approach based on Vancouver Charter
  - Good liquidity to meet unforeseen short-term cash needs and reserve draws
  - Sinking Fund reserve already funded for next two years' debenture maturities

- 2020: Sufficient Cash Flow to Absorb COVID-19 Impact
  - 2020 total cash flow impact, approx. $340 million, consists of:
  - Normal operations, approx. $130 million; and
  - COVID-19 impact, reserves drawdown approx. $210 million

o 2021–2023: Sufficient Cash Flow and Liquidity During Recovery Phase
  - Will continue to monitor changing factors that impact cash flow and liquidity

Relief to Taxpayers

What does it mean to taxpayers?

- Provincial school tax relief reduces overall tax bill for commercial properties, and provides those experiencing cash flow challenges more time to pay taxes

- Subject to Council approval, residential properties with cash flow challenges will also have more time to pay taxes, particularly to support social and co-op housing and rental properties

Overall tax levy for a $1m property	**Residential Class 1**	**Business & Other Class 6**	
2020 General levy	**1,570**	**4,338**	
2020 OTAs (pre-COVID)	1,328	4,778	
Original 2020 (pre-COVID)	**2,898**	**9,116**	
Reduction in non-residential provincial school tax	-	(2,613)	**29% savings**
Current 2020 (6.74% CoV increase)	**2,898**	**6,503**	

Financial Impact Update

Scenario 2 - Summary

Scenario 2 – restrictions lifted end of August, 6 month recovery period	Amount ($M)
Revenue loss	152
Incremental COVID response costs	11
Total budget impact:	163
Initial cost mitigations: • Layoffs at closed facilities (1,800 staff) • Variable cost savings from closed facilities • Provincial funding from EMBC	(43)
Net budget gap	**110**
Further cost mitigations already in place: • Exempt furloughs and deferred increases Cost mitigations to balance the budget • Discretionary cost savings • Additional layoffs from essential service review • Restoring revenues (Parking, Golf) • Reserves	(110)
Balanced budget forecast	-

How is Vancouver different from other municipalities?

- COV generates 25% of its revenue from sources other than property tax and utility fees – higher than other Metro municipalities

- As a regional centre, Vancouver has incurred COVID response costs that other municipalities may have not e.g. support for vulnerable populations

How is Vancouver different from other municipalities?

- Other Major urban centres across Canada have similar financial challenges
- Federation of Canadian Municipalities report:
  - One-time property tax levy to cover municipal losses not a viable alternative
  - Bridging municipalities' 2020 fiscal shortfalls without cutting services—assuming six months of physical distancing—**would require dramatic residential property tax levies** in the order of:

    Toronto - 56%
    Calgary - 23%
    Vancouver - 22%
    Montreal - 18%
    Mississauga - 17%

Actions completed to date

Staffing:

- Issued temporary layoff notices to 1,800 staff impacted by facility closures
- Exempt staff furloughs – 10% reduction in pay; 0% pay increase; merit increases delayed
- Restrictions placed on new hiring

Non-staffing costs:

- Restrictions on travel
- Reviewing all discretionary costs for opportunities to further reduce costs

To balance the 2020 budget under Scenario 2, will need to consider further reductions including grants and additional reductions in services to the public, resulting in additional layoffs

Filling the $110 million budget gap

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Reserves used for half of the budget gap ($55M)

Est $M	Category	Approach
50-60	**Reserves**	• Use of revenue stabilization reserve and budgeted 2020 transfers to reserves • Retain balance for future years/scenarios

Remaining gap of $55M to be addressed via incremental actions:

Est $M	Category	Approach
20-30	**Salary**	• Exempt furloughs and deferred salary increases • Staffing review based on essential services analysis to determine layoff requirements
10-15	**Non Salary**	• Limit all non urgent discretionary spend to end of 2020 • Adjustments to Vancouver Plan and other large non-salary budgets
5-10	**Revenues/ Other funds**	• Opportunities for parking reset and Golf restart earlier in the year; Funding available from other funds
3-5	**Other**	• Delay budget investments
40-60	**TOTAL INCREMENTAL ACTIONS**	

Discretionary Spending Update

Discretionary Spending Guidelines e**ffective immediately until further notice**

All groups should, where possible, delay spend to later in the year or 2021

Essential services should focus on limiting costs where possible – consider revised needs based on scaled back service levels

Non-essential services should limit costs to the bare minimum / critical to service delivery

Discretionary spending next steps

Temporarily **decrease** the **approval authorities** to allow for further review of all purchases

Establish **updated budget/forecast** for both essential and non-essential services to ensure clear line of sight on acceptable spend levels

Establish **reporting and tracking to updated** 2020 departmental **targets**

If Council were to further reduce City taxes…

- In Dec 2019, Council approved the 2020 Operating Budget of $1.6 billion - $849 million from property tax.
- Final property tax increase based on the *2020 Revised Roll* reduced from 7.0% to 6.7%.
- Each 1% of property tax reduction ~$8M additional budget shortfall
- Further reducing 2020 tax increase from 6.7% to 6%
  - A residential property (valued @ $1M) – save $11
  - A commercial property (valued @ $1M) – save $30 in addition to provincial school tax savings of $2,613 (29% savings)
- The City has already taken action to mitigate the estimated $163m impact of the COVID-19 pandemic with layoffs, facility closures, pay reductions, service reductions and expenditure savings, as well as utilizing reserves

Capital Plan Recalibration

Capital Plan: Context

Overarching goals:

- Renew aging assets
- Provide new amenities to serve growth
- Address new needs & policies

One-time projects
(e.g. renew Marpole Library)

Ongoing programs
(e.g. sidewalk, curb ramp)

FUNDING SOURCES

- City contributions
- Development contributions
- Partner contributions

FINANCING METHODS

- Reserves
- Pay-as-you-go
- Debt

2019-2022 Capital Plan: Objectives & Investments

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OBJECTIVES:

- Increase funding to **renew aging infrastructure**
- Preserve & create **affordable housing & childcare**
- Advance priorities from **city-wide strategies & community plans**

City assets: **$25 B**

Service Category	Existing assets	New assets
Affordable housing	$40 M	$500 M
Childcare	$10 M	$115 M
Parks & open spaces	$75 M	$190 M
Arts & community facilities	$240 M	$175 M
Civic facilities & equip.	$155 M	-
Transportation	$160 M	$150 M
Water & sewer	$530 M	$85 M
Solid waste	$90 M	-
Renewable energy	-	$40 M
Technology	$70 M	$30 M
Emerging priorities	$90 M	-
Overhead	$20 M	-
Sub-total	**$1.5 B**	**$1.3 B**
GRAND TOTAL:	**$2.8 B**	

2019-2022 Capital Plan: Funding

- **City contributions** primarily used to renew existing assets:
  - **Debt** financing is typically for City assets with anticipated lifespan >10 years
  - Grants & most technology projects rely on **'pay-as-you-go'** funding

- **Development contributions** primarily used to provide new/ expanded amenities & infrastructure to support growth
  - Some are **delivered by the City ($1B)**

    e.g. Marpole civic centre
  - Some are **delivered by developers** as **in-kind projects ($0.6B)**

    e.g. inclusionary housing, Oakridge community centre & library

- Medium & large-scale projects often involve **renewal & expansion**: mix of City & Development contributions

COVID-19: Impacts & Opportunities

- **Reassess priorities and desired outcomes** with reduced funding
- Maintain critical infrastructure & amenities in **state of good repair**
- **Seize opportunity to transform** as part of rebuild and recovery

"A pessimist sees the difficulty in every opportunity;
an optimist sees the opportunity in every difficulty."

– Winston Churchill

COVID-19: Recalibrating the Capital Plan

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COVID-19 constraints

- Staff redeployment
- Physical distancing
- Public engagement
- Public expectations

Financial

- City funding capacity
- Support local economy
- Potential for stimulus funding
- Partnership opportunities

Criticality

- 'Must do' vs 'Nice to do'
- Critical rehab/renewal vs. enhancement
- Urgency
- Service level (unit cost)

Post-COVID new world order

- Changing business models
- Changing priorities
- Enhance infrastructure & community resilience

Municipal Responsibility

- Municipal vs. senior gov't mandate
- Philanthropic org. & non-profits as funders / service providers

Outcomes

- Maintain assets in state of good repair
- Minimize infrastructure backlog

COVID-19: Capital Plan Funding Impacts

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City Contributions ($1.1 B)	Development Contributions ($1.6 B)	Partner Contributions ($0.1 B)
• Property tax • Utility fees • User fees • City reserves	• DCL, CAC, DBZ • Connection fees for water/sewer	• Federal gov't • Provincial gov't • TransLink • Non-profit partners

Significant collection risk for 2020 + limited appetite for tax/fee increase in 2021/22

Slowdown in pace of development for 2020/21 + possible lower DCL/CAC rates due to soft market

Risk with TransLink funding programs

Possible increase in infrastructure stimulus package

COVID-19: Capital Plan Recalibration Framework

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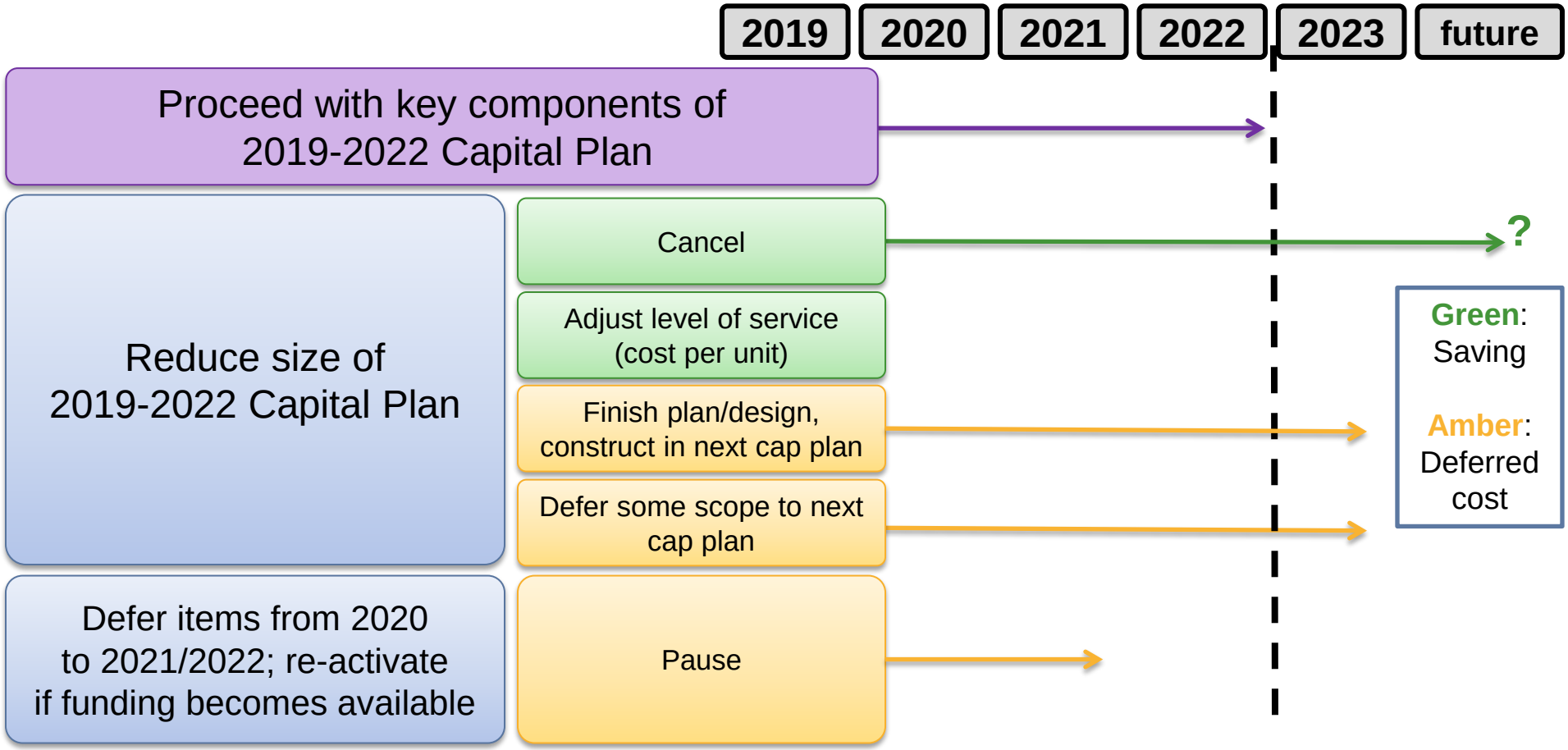

Be ready to tap into infrastructure stimulus funding

Be able to advance key Council priorities:

- Affordable housing | Equity & social resilience
- Urban Indigenous community | Partnerships
- Renewal of critical aging infrastructure & facilities
- Strengthening emergency preparedness & post disaster recovery
- Climate emergency response

Example 1: Marpole-Oakridge Community Centre

Scope of work: ~$65 M

- Renew community centre (29,000 sf) & childcare (45 spaces)
- Expand community centre (+11,000 sf) & childcare (+24 spaces)
- Add outdoor pool

Funding sources:

- City cont'n: ~$30 M (debt)
- Dev. cont'n: ~$35 M (reserves)

- Aging infrastructure: MOCC is City's oldest community centre
- Renewing & expanding childcare to support city-wide priority
- New outdoor pool to advance Park Board's Aquatic Strategy

Example 2: Granville Bridge

Scope of work: ~$50 M

- Structural rehab (under construction): ~$25 M
- Connector (planned): ~$25 M

Funding sources:

- City cont'n: ~$8 M (debt)
- Dev. cont'n: ~$27 M (reserve)
- Partner cont'n: ~$15 M (pay-go)

- Aging infrastructure: Granville Bridge built in 1954
- Connector: making walking/cycling safer & more comfortable; advances City's Transportation Plan & Climate Emergency Response

Example 3: Technology

Scope of work: $100 M

- Maintenance & upgrades of existing systems & infrastructure ($75 M)
- Technology transformation ($25 M)

Funding sources:

- City cont'n: ~$100 M
  - ~$90 M pay-go & ~$10 M debt

- Fundamental to public-facing services & back-of-house support
- Platform for transformation of how City operates (e.g. remote access during pandemic) and serves the public (e.g. digital library services)

Next Steps

- Continue engagement with the Province and the Federal Government (through FCM with other major cities)

- Continue to evaluate and finalize strategy to close budget gap including review of:
  - Capital Plan projects
  - Discretionary spending
  - Additional service reductions/layoffs
  - Revenue opportunities

- Report back in May 2020

- Continue to update and refine scenario analysis as more information becomes available

QUESTIONS