



STAFF REPORT TO FINANCE AND AUDIT COMMITTEE

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DATE: April 16, 2020

TO: STANDING COMMITTEE ON FINANCE AND AUDIT

NAME AND TITLE: Kris Dalio, Director of Finance

SUBJECT: Financial Update and Response to COVID-19 Pandemic Impacts

ATTACHMENT(S): Appendix "A" - Proposed Capital Project Deferrals
Appendix "B" - Proposed Capital Project Funding Source Changes

RECOMMENDATION(S):

That the Standing Committee on Finance and Audit recommends to Council:

1. That Council APPROVES the capital project deferrals shown on Appendix "A" attached to the report from the Director of Finance to the Standing Committee on Finance and Audit dated April 16, 2020, titled "Financial Update and Response to COVID-19 Pandemic Impacts" and that the 2020 - 2024 Capital Plan be AMENDED accordingly.
2. That Council APPROVES the proposed funding source changes for certain capital projects as set out in Appendix "B" attached to the report from the Director of Finance to the Standing Committee on Finance and Audit dated April 16, 2020, titled "Financial Update and Response to COVID-19 Pandemic Impacts", and that the applicable Capital Plans be AMENDED accordingly.
3. That Council APPROVES the short-term loans identified in the report from the Director of Finance to the Standing Committee on Finance and Audit dated April 16, 2020, titled "Financial Update and Response to COVID-19 Pandemic Impacts", be paid in full using the Capital Expenditure Reserve and the General Infrastructure Reinvestment Fund Reserve as the funding sources, and DIRECTS Administration to reflect these changes in the proposed 2020 - 2024 Financial Plan Bylaw, which would result in a 2020 tax levy decrease from 3.44% to 2.22%, for Council's consideration at the May 11, 2020 regular Council meeting.
4. That Council DIRECTS Administration to return a bylaw to amend the City of Prince George Comprehensive Fees and Charges Bylaw No. 7557, 2004, to eliminate the 10% penalty on late Sewer, Water and Solid Waste utility payments for the period of July 1st to December 31st, 2020, for Council's consideration at the May 11, 2020 regular Council meeting.

PURPOSE:

This report has been prepared to update the Committee on the financial impacts of the COVID-19 pandemic. Estimated revenue losses and changes to the expenses of the City are shown in this report as well as measures that have been taken so far to mitigate the impact such as capital project deferrals, staffing adjustments and other expense reductions.

STRATEGIC PRIORITIES:

Sustainable Finance Guideline 14.1 directs budget management. The City Manager may approve cumulative budget amendments in a calendar year of up to 5% of the total operating budget. Council must approve subsequent amendments beyond that 5%. Administration is working towards having a fiscally responsible year in light of the pressures created by the pandemic.

The financial plan bylaw must be adopted prior to the adoption of the annual property tax bylaw and both bylaws must be passed before May 15th of each year. If the Committee approves the recommendations in this report, they can be presented to Council during the April 27th Open meeting. Should Council approve the recommendations at that time, Administration would then bring the financial plan, tax rate, and fees and charges bylaws to Council and request that the power bestowed by ministerial order to pass first three and final readings all in the same May 11th Open Council meeting be exercised.

FINANCIAL CONSIDERATIONS:

Operational Impacts

Since the start of the COVID-19 crisis, the City has been following the direction of the Province and complying with the mass gatherings and physical distancing requirements by closing recreational facilities such as aquatics, arenas and the Prince George Conference and Civic Centre. The annual revenue that these facilities receive is approximately \$7 million. However, the financial impacts on the City from COVID-19 reach far beyond those related to recreation. There are somewhat less obvious financial impacts to the City in many other service areas that Administration is trying to quantify and respond to. As the duration of the event is still unknown, a table of operational impacts below has been estimated at a *per month* cost. The order that resulted in the closure of facilities was made on March 16th.

Operational Financial Impacts from COVID-19	
Loss of Revenue	Per month
Gaming	\$ 225,000
Investment	100,000
Community Services (Aquatics, Arenas, Civic Centre, etc.)	580,000
offset by part-time workers no longer being scheduled	(165,000)
Development Services (licensing, permitting, etc.)	130,000
Bylaw Enforcement	30,000
Off-Street Parking	160,000
BC Transit	100,000
Sewer Metered	40,000
Water Metered	40,000
Parks	8,000

	\$1,248,000
Expense Savings	
Travel, conferences, etc.	(72,670)
Fuel costs in Fleet Services	(100,000)
Hiring freeze on current vacancies not deemed essential	(59,146)
Reduction in summer season limited duration labourers	(83,288)
Elimination of exempt staff cost of living salary increase (1.75%)	(20,417)
Estimated financial loss per month	\$ 912,479

Notes and assumptions are as follows:

- The City receives 10% of the Treasure Cove Casino's net income. Because physical distancing has required casinos to close, the City will not be receiving this income during this time. Gaming funds are the primary source of revenue for the City's Capital Expenditure Reserve;
- Assuming the return on investment decrease that the market has seen since the start of the event is semi-permanent, investment revenue is expected to be \$1,200,000 less in 2020 than it was in 2019;
- Approximately 100 part-time staff in Community Services have not been scheduled as a result of the closure of the City's facilities;
- Development Services has observed an estimated 50% drop in revenue;
- Zero revenue is assumed for Bylaw and Off-Street parking as the City has refunded parking payments and is no longer ticketing monetarily for bylaw enforcement;
- Free Fare has been implemented by BC Transit. For now, the City is still getting advertising revenue but, if that changes, the revenue loss would increase to \$200,000/month;
- Sewer and Water metered revenue – each fund collects about \$2,000,000/year in the usage part of its revenue. With many businesses not operating during this event, a decrease in the consumption revenue of the metered utility bills is expected and a 25% reduction in revenue is assumed. The City completed its last meter reading in the first week of March and another one is not scheduled until early June. More accurate information can be obtained at that time;
- Business travel has been restricted to essential travel only;
- Fuel costs have decreased greatly. The City is anticipating some savings in the use of its fleet;
- At this time, competitions for 15+ vacant budgeted positions have been frozen;
- Thirteen Limited Duration Summer Labourer positions will not be filled;
- A 1.75% budgeted cost of living increase to exempt staff (to match the 2020 CUPE increase) will not be implemented.

It is important to note that the Council Remuneration Bylaw indicates that the annual adjustment applied to Mayor and Councillor remuneration, effective January 1st of each year, is the **lesser** of:

- (a) the annual percent wage increase applied to City of Prince George exempt staff salaries; or

- (b) the average of the wage adjustment for the fourth quarter of the previous year and the wage adjustment for the first, second and third quarter of the current year for the public administration industry published by Human Resources and Skills Development Canada as the Average Annual Percentage Wage Adjustments by Quarter.

Because of the way this bylaw is currently worded, Council's 2020 remuneration has already been processed. However, not implementing a cost of living increase to exempt staff in 2020 will have the effect of Council members not receiving a cost of living increase in January of 2021. If Council members wished, they could approve that their 2020 wage increase be discontinued effective May 1, 2020.

- Consistent with other City of Prince George exempt staff, the City Manager requests that Council approve that her salary remain the same in 2020 as it was in 2019.

Other considerations for the 2021 budget year:

- Traffic Fine Revenue could potentially be reduced assuming traffic is down as well as the enforcement of it. The City collects approximately \$1M/year in Traffic Fine Revenue that supports general operations;
- There is potential risk to the City's cash flow if property taxes/utilities delinquencies increase as the year goes on. The City may need to do revenue anticipation borrowing in early 2021 and pay the interest that comes with doing that.

Capital

Administration has reviewed the City's Capital Plan and identified potential projects for deferral. Projects that have progressed past a reasonable point or that are required for safety will be continuing. Non-critical projects are being proposed for deferral to future years to free up funding and assist the City to meet overall cash flow requirements. Some projects cannot be completed in 2020 due to reduced staff (e.g. not filling the Limited Duration Labourer positions above) and/or access to specific contractors or supplies. Proposed deferred projects were also reviewed with consideration given to: risks of infrastructure failure; impacts on future costs; and ability to complete work while maintaining appropriate physical distancing.

Attached to this report is a list of capital projects that are proposed to be deferred to the year 2021 or beyond. A brief summary of that attachment is as follows:

- 16 General projects for a total of \$18.34 million
- 2 Water projects for a total of \$1.64 million
- 3 Sewer projects for a total of \$4.85 million

The 2020 Capital Plan was previously approved with a total value of \$74.4 million of capital projects. The City has also carried forward capital projects from previous years worth \$48.6 million. Deferring \$24.8 million of projects will leave the 2020 capital plan with a total value of \$98.2 million. Capital projects are funded entirely by the City's reserves or MFA debt.

Property Tax Deferrals

The *Community Charter* sets July 2nd as the property tax deadline for municipalities with a mandatory 10% penalty to be applied to payments that are outstanding past the deadline. However, municipalities have the ability to set a different deadline and penalty system through a bylaw process. The City already exercises that ability through Bylaw 7280. This bylaw changes the deadline

to the first Friday in July (unless that Friday is Canada Day, in which case it is moved to July 8th). While legislatively the penalty must add up to 10% in the calendar year, municipalities can alter how the 10% is distributed. Currently, the City distributes that 10% through a 5% penalty to outstanding amounts after the first Friday in July and an additional 5% penalty to outstanding amounts after the second Friday in September. Interest rates are regulated by the Province and interest is not applied until January 1st of the following year.

The City also collects taxes on behalf of other organizations: Hospital, School District, Regional District (including the 9-1-1 funding), Municipal Finance Authority and BC Assessment. The deadline for paying these other organizations is also regulated by the Province and funds are due on July 31st, whether the City has collected the taxes or not. The exception to this is the School Tax. The province made an announcement on April 16th that the deadline for School Tax is going to be December 31st of this year. The budgeted 2020 tax collection for School Tax is \$28.9 million. The remaining organizations' taxes total \$15.9 million. If the deadline for the City's property taxes was delayed further than July, the City's cash flow would be severely compromised when remitting the necessary July payments, coupled with the added risk of high delinquency of this year's collection. Unless the Province extends their remaining July 31st remittance deadlines or provides a "backstop" to municipalities for uncollected property tax revenue, it is Administration's recommendation to not defer property taxes.

Utilities Deferrals

Council has the ability to set deadlines, penalties and/or applicable interest on utilities through the City's Comprehensive Fees and Charges Bylaw. The general guidance is that user fees for services (including interest and penalties) must be related to the cost of providing the services; an inordinately high interest rate or penalty would be subject to challenge.

Currently, the City collects the annual revenue for its flat accounts in two payments a year - in early April and early October. These payments represent the periods of January 1st – June 30th and July 1st – December 31st. The annual revenue for metered accounts is collected quarterly and the deadlines are roughly six weeks after March 31st, June 30th, September 30th and December 31st. A 10% penalty is applied to any amounts that are unpaid on the respective deadlines. There are no interest charges unless the bill remains unpaid long enough to roll over to unpaid taxes, at which point the Provincial regulated interest rate applies.

In order to provide financial relief to utility payers in the second half of 2020, Administration recommends that the 10% penalty for late payments be eliminated. Administration further recommends that in 2021, the utility **penalty payment** system for overdue utility accounts be replaced by an **interest payment** system for overdue utility accounts.

The January – June payment deadline for flat accounts was April 3rd; at that time, 88% of accounts had been paid, which is fairly consistent with prior years.

2020 and 2021 Tax Levy Increase

Council approved a 3.44% tax levy increase, or an estimated annual \$77 (\$6.42/month) increase to the Representative Home, for 2020 earlier this year. Municipalities across the province are finding ways to revisit their budgets to provide financial relief to their communities. Many of them have taken similar actions to the City of Prince George such as capital project deferrals and staffing adjustments. Other municipalities are also supporting some of their losses with reserves. The City has the opportunity to take a similar approach with a slight twist on how the use of reserves could lower the 2020 tax levy.

In the last couple of years, the City had two high dollar unexpected capital expenses to fund: the Willow Cale Bridge and the Winnipeg Street Sinkhole. In early 2019, the City entered into two short-term borrowing agreements with the Municipal Finance Authority to fund approximately \$8.5 million between the two projects. Short-term borrowing has a maximum window of five years in which the debt must be repaid. Because of this short time, the annual debt servicing costs associated with these two loans is high and was a driver in the tax levy increases for both 2019 and 2020.

Also in 2019, the City received \$8.1 million of revenue in the form of the Northern Capital Planning Grant. An option to reduce the 2020 and 2021 tax levies would be to change the funding source for upcoming capital projects to use the Northern Capital Planning Grant. This would free up funds in both the Capital Expenditure Reserve and the General Infrastructure Reinvestment Fund Reserve to repay the remaining balance on those loans, which is \$7,022,540. There is no penalty for paying out short-term loans and the reduction of debt servicing costs for the remainder of 2020 would be \$1,337,851. This is equivalent to a 1.22% reduction in the 2020 tax levy. If Council approves this recommendation, the final 2020 tax levy increase would be 2.22%, which would match the 2019 CPI increase of 2.2%. This would result in an approximate reduction of \$27 (\$2.25/month) in the 2020 tax increase from \$77 (\$6.42/month) to \$50 (\$4.17/month) to the Representative Home.

As the City has already made the first quarterly repayment in 2020, there would also be an additional base budget reduction in 2021 for the final quarterly payment of \$456,605, or approximately 0.42% of the tax levy.

SUMMARY AND CONCLUSION:

Administration is working to both identify and mitigate the financial impacts of the COVID-19 pandemic. With the uncertainty of the duration and severity of the event, Administration is constantly monitoring and balancing the short-term and long-term financial health of the City during this evolving crisis.

RESPECTFULLY SUBMITTED:

Kris Dalio, Director of Finance

APPROVED:

Kathleen Soltis, City Manager

Meeting Date: 2020/04/20

APPENDIX A - 2020 Capital Plan Budget by Service Category

Service Category	Approved Capital Plan	Proposed Carry Forwards	Total Budget	Proposed Deferrals	Amended Budget
Civic Facilities	43,484,635	21,676,767	65,161,402	13,513,981	51,647,421
Roads	7,675,000	1,610,878	9,285,878	400,000	8,885,878
Water Operations	6,755,000	5,357,199	12,112,199	1,638,171	10,474,028
Parks	3,771,000	2,150,632	5,921,632	1,585,000	4,336,632
Sewer Operations	3,010,000	5,862,278	8,872,278	4,846,679	4,025,599
Street Lighting	2,650,000	498,031	3,148,031		3,148,031
Fleet Services	2,548,000	5,450,971	7,998,971		7,998,971
Engineering	1,600,000	662,580	2,262,580	1,500,000	762,580
IT Services	1,090,000	1,878,742	2,968,742		2,968,742
Development Planning and Administration	500,000		500,000		500,000
Storm Drainage	430,000	2,675,445	3,105,445	1,155,792	1,949,653
Fire Protection	354,000	296,516	650,516		650,516
Exhibition Park and Community Arenas	267,500		267,500	184,000	83,500
Bylaw Enforcement		219,782	219,782		219,782
Aquatics	140,000		140,000		140,000
Events & Civic Centre	118,000	203,500	321,500		321,500
District Energy System		20,800	20,800		20,800
Solid Waste Services		17,632	17,632		17,632
Totals	74,393,135	48,581,753	122,974,888	24,823,623	98,151,265

APPENDIX A - 2020 Capital Plan Budget by Service Category

Deferred Projects Detailed List

	Capital Plan	Carry Forwards	Less 2020 Cost Estimate	Total
Civic Facilities Deferrals				
1419 - Kin 3-Replace Skate Floor	145,000			145,000
1459 - CH-Glazing Replacement Phase 2	530,000			530,000
3242 - Little Prince Train Shelter Replacement	546,500			546,500
3283 - 3990 18th Ave-Building Addition	1,900,000		140,000	1,760,000
3108 - AQC-Mech/Bldg Envelope Upgrade	8,580,000			8,580,000
3254 - AQC-Building Components Renewal	349,750	561,639	250,000	661,389
115391 - PW Yard Development		1,391,092	100,000	1,291,092
Total Civic Facilities	12,051,250	1,952,731	490,000	13,513,981
Parks Deferrals				
0931 - Boulevard Restoration	160,000			160,000
1189 - Off Leash Areas	25,000			25,000
1378 - Playground Replacement Program	250,000			250,000
3301 - Cottonwood & Heritage River Trail Refurbishment - 202C	925,000		25,000	900,000
3302 - CJG Park-Build Volleyball Courts	250,000			250,000
Total Parks	1,610,000	0	25,000	1,585,000
Road & Storm Deferrals				
3215 - Churchill Rd Sidewalk	400,000			400,000
115403 - Hart Ind-Storm Drain Treatment		1,155,792		1,155,792
Total Road/Storm	400,000	1,155,792	0	1,555,792
Community Arenas Deferral				
1107 - CN-Digital Road Sign	184,000			184,000
Engineering Deferral				
3288 - Playhouse Parking Lot Replacement	1,500,000			1,500,000
Sewer Deferrals				
314270 - Western Acre Lagoon Upgrade		1,468,740	160,000	1,308,740
314229 - Danson Lagoon System Upgrade		994,146		994,146
314294 - WWTC Renewal		2,963,793	420,000	2,543,793
Total Sewer	0	5,426,679	580,000	4,846,679
Water Deferrals				
3101 - Water Main Replacement	2,000,000		1,224,000	776,000
411195 - Water Facilities Renewal	950,000	312,171	400,000	862,171
Total Water	2,950,000	312,171	1,624,000	1,638,171
Total Deferrals Proposed				24,823,623

APPENDIX B - Proposed Capital Budget Funding Source Changes

Projects	Current Funding Source	Proposed Funding Source	2020
0311 - Tree Planting Greening the City	9254 - Capital Expenditure Reserve	9250 - Northern Capital Planning Grant	55,000
0931 - Boulevard Restoration	9254 - Capital Expenditure Reserve	9250 - Northern Capital Planning Grant	160,000
1467 - Accessibility Improvements	9254 - Capital Expenditure Reserve	9250 - Northern Capital Planning Grant	100,000
1503 - Off-Site Works	9254 - Capital Expenditure Reserve	9250 - Northern Capital Planning Grant	500,000
3283 - 3990 18th Ave-Building Addition	9254 - Capital Expenditure Reserve	9250 - Northern Capital Planning Grant	1,900,000
3289 - Boundary Rd and Hwy 16 Signalization	9254 - Capital Expenditure Reserve	9250 - Northern Capital Planning Grant	150,000
3302 - CJG Park-Build Volleyball Courts	9254 - Capital Expenditure Reserve	9250 - Northern Capital Planning Grant	12,500
0232 - Kin Atrium-Furniture Replacement	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	40,000
0382 - Nature Park Improvements	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	41,250
0715 - IT Maintenance	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	170,000
0724 - IT Replacements	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	315,000
1029 - Storm Drainage - Catch Basin Replacement Program	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	100,000
1093 - Sidewalk and Walkway Rehabilitation	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	60,000
1097 - Trails Rehabilitation	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	50,000
1107 - CN-Digital Road Sign	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	184,000
1278 - CC-Replace Flooring	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	296,885
1378 - Playground Replacement Program	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	50,000
1385 - Park Washroom Refurbishment	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	15,000
1419 - Kin 3-Replace Skate Floor	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	7,250
1459 - CH-Glazing Replacement Phase 2	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	530,000
1500 - Drainage Improvements	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	44,000
3037 - Park Signage	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	15,500
3068 - CC-2020 Replace Furniture and Equipment	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	75,000
3074 - CC-Venue Signage	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	43,000
3148 - ECRA-Replace Accessibility Lift	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	75,000
3220 - Storm Water System Rehabilitation	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	100,000
3226 - Fleet Shop Equipment	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	100,000
3229 - CH-Transformer Replacement	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	310,000
3242 - Little Prince Train Shelter Replacement	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	546,500
3249 - Traffic Controller and Signal Optical Detection Upgrade	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	75,000
3288 - Playhouse Parking Lot Replacement	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	150,000
3294 - Prepaving Storm Water Infrastructure	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	150,000
1287 - 18th Ave Yard - Replace Fuel Pumps	9278 - General Infrastructure Reinvestment Fund	9250 - Northern Capital Planning Grant	136,000
			6,556,885
	<i>Projects Deferred to 2021</i>		<i>3,540,250</i>
	9254 - Capital Expenditure Reserve		2,877,500
	9278 - General Infrastructure Reinvestment Fund		3,679,385