

STAFF REPORT TO COUNCIL

1100 Patricia Blvd. | Prince George, BC, Canada V2L 3V9 | www.princegeorge.ca

DATE: July 21, 2020

TO: MAYOR AND COUNCIL

NAME AND TITLE: Kathleen Soltis, City Manager

SUBJECT: 2020 and 2021 Financial Information

ATTACHMENTS: None

RECOMMENDATION:

THAT Council DIRECTS Administration to prepare high-level 2021 budget guidelines based on three tax levy increase options: zero percent; one percent; and two percent.

PURPOSE:

To provide Council with information concerning 2nd quarter 2020 variance results; year-end high-level operating budget projections and the available reserves for funding potential 2020 operating losses; and the potential 2021 budget gap.

To obtain direction from Council concerning preliminary tax levy options upon which Administration could develop budget guidelines, consult with the public, and prepare the 2021 budget for Council's consideration.

STRATEGIC PRIORITIES:

This report relates to the following Council Focus Areas:

1. Maintain fiscal sustainability and balance service levels with affordability of City services, facilities, and operations; and
2. Provide a workplace where employees are safe and healthy and committed to excellence, service, accountability, and transparency.

BACKGROUND:

On March 16, 2020, because of the COVID-19 pandemic, the Provincial Health Officer ordered that people not hold mass gatherings of more than 50 and directed that people maintain physical distance of two metres. Since that time, following intense cleaning protocols has also been required. During the past few months, Administration has followed PHO orders and guidelines and has done its best to balance public and staff safety with some service provision, continuation of meaningful work for staff, and financial prudence. Our actions were taken within the framework of weathering a temporary storm and being prepared to take a leadership role in the community's economic recovery.

It's now four months after the start of the pandemic, the Province is in Phase 3 of its Restart Plan, and Administration's optimism has dimmed considerably. The pandemic continues and, while the Northern Health Authority region is faring well, other parts of the province, country, and world aren't

doing nearly as well. Under Phase 3 of the Province's Restart Plan, City facilities can open and events can be held, but gatherings still can't have more than 50 people in attendance, physical distancing of two metres should still be maintained, and strict cleaning protocols must be adhered to. There are no indications of when Phase 4 of the Province's Restart Plan will begin or when these restrictions will be somewhat relaxed. Unfortunately, the restrictions are such that, while there is interest in the community and the organization to open facilities and hold events, it isn't financially prudent to do so.

Administration has analyzed the City's 2020 2nd quarter operating budget variance results, with very preliminary and high level projections of year-end results. The City's second quarter variance analysis shows that the financial gap that the City was facing for 2020 has been substantially closed, mostly due to the decision to close City recreational facilities such as aquatics and arenas. Reducing facility expenses to offset the revenue loss from areas most affected by COVID-19 was paramount to minimizing the impact on the City's finances for the year. As of June 30th, the City is approximately \$3M over budget. \$2M is attributed to foregone gaming revenue from the Province that the City is no longer receiving as the Treasure Cove Casino is still closed. The other \$1M is mostly a \$1.8M budget overage in snow removal that is offset by savings in other divisions, predominantly through discretionary expenses such as training and travel that are not being incurred. It is expected that the City can hold the year-end operating 2020 deficit to \$3M as it has done to date.

Examples of actions that could continue to be taken to mitigate the 2020 financial gap are: keeping facilities closed until financially prudent to open them (that would mean that associated staff on layoff would continue to be on layoff); not filling most vacant positions; minimizing discretionary expenses such as travel and non-safety-related training; and using the City's reserves with payback over a five year period (with no interest) as the Provincial Government has recently permitted.

The City's reserves balance is projected to be approximately \$50M by year-end. As the City receives its prime source of revenue during tax collection time in the summer, reserves are normally used to fund the City's net expenses for the first half of every calendar year. A potential consequence of borrowing from reserves to fund a 2020 operating deficit is that the City may then need to borrow funds from the Municipal Finance Authority (MFA) by way of a Revenue Anticipation Borrowing Bylaw in order to cover year 2021 January through June net expenses. While this is a common annual practice for some municipalities, it would be unusual for the City to do so and interest charges would be incurred on the amount that would be required to be borrowed from the MFA.

Prime Minister Trudeau announced late last week that there would be some financial assistance to local governments for operating expenses and, specifically, for transit expenses. As the details of those funding supports have not been released yet, they have not been accounted for in any projections in this report.

This report is also intended to start discussion concerning the 2021 budget guideline preparation. While Administration would normally conduct this process through the Standing Committee on Finance and Audit, given the current complex financial circumstances, Administration assumes that all of Council will want to be involved in the discussion. Mr. Dalio has done some work on the projected tax levy increase, given the current circumstances. A rough projected tax levy picture with large assumptions has been prepared. Given the City's loss of revenues due to COVID-19, it paints a worrisome picture – i.e. the City's 2021 budget deficit could exceed \$6 million and, without significant actions being taken, a 5.63% tax levy increase could be required to close the gap. Please see the table on the next page for more information. To put this increase in context, the May Canadian all-item consumer price index was negative and the just released June all-item consumer price index was slightly positive (0.7%).

Estimated Levy Increase for 2021 - General Operating Fund		
Row		2021
1	Change in Expenses over last year	
2	City Staff Salaries and Benefits Total (Decrease)	(5,038,103)
3	Prince George Public Library (1.75%)	66,239
4	RCMP Contract (2.24% - including retro agreement)	479,740
5	Utilities	
6	Hydro Payable (2%)	53,758
7	Natural Gas Payable (1%)	5,059
8	Water (3%); Sewer (5%)	16,481
9	District Energy Payable (2%)	29,269
10	Internal Debt (Endowment Reserve)	-
11	External Debt	1,129,249
12	Fleet expenses	245,686
13	Transit Service cost	200,000
14	One-time expenses (decrease)	(60,000)
15	Other adjustments	145,442
16	Contingency	-
17	Repayment of operating loss to reserves	500,000
18	Snow Control	-
19	General Infrastructure Reinvestment	-
20	Road Rehabilitation	-
21	Total Increased (Decreased) Expenses	\$ (2,227,180)
22		
23	Change in Revenue over last year	
24	Tax Base Growth (Non-Market Change)	\$ 750,000
25	Grants-in-lieu	-
26	Fortis Franchise Fee	-
27	Fees and Charges (decrease)	(8,358,121)
28	Investment Revenue (decrease)	(1,000,000)
29	Internal recoveries from other funds (decrease)	(23,223)
30	Fire Operations Communication Centre for 911 Dispatch	15,450
32	Traffic Fine Revenue Sharing	-
33	Total Increased (Decreased) Revenue	\$ (8,615,894)
34		
35	Increase required to total municipal tax levy	\$ 6,388,714
36	Increase as a %	5.63%

Administration is exploring ways to reduce expenses and to increase revenues and will provide information to, and obtain feedback from, Council during Standing Committee on Finance and Audit and Council meetings to be held from September to December. A COVID-19 compliant “Talktober” will also be developed to obtain feedback from the public.

SUMMARY AND CONCLUSION:

Like cities throughout Canada, COVID-19 is causing unforeseen, unprecedented, and significant financial pressures in 2020 which are expected to continue through 2021. Administration is working on reducing the 2020 financial gap and, together with Council, would like to begin early development of the 2021 budget.

This report has been prepared to provide Council with information concerning 2nd quarter 2020 variance results; year-end high-level operating budget projections and the available reserves for funding potential 2020 operating losses; and the potential 2021 budget gap. Administration requests that Council provide direction concerning preliminary tax levy options upon which Administration could develop budget guidelines, consult with the public, and prepare the 2021 budget for Council's consideration.

RESPECTFULLY SUBMITTED:

Kathleen Soltis, City Manager

Meeting Date: 2020/07/27