

Business and Organization Requests for Financial Support

ISSUE

Efforts by governments to contain the 2019 Novel Coronavirus (COVID-19) have led to an unprecedented shutdown of several industries in the global, national, and local economy. This containment response has resulted in substantial revenue or income losses for individuals, businesses, and governments. Nationally, governments have responded in various ways to provide financial and non-financial support to individuals, businesses, and not-for-profit organizations. Despite these efforts, some local organizations are seeking additional financial supports from the City of Saskatoon (the City). This report addresses those requests and offers policy considerations for evaluating those requests.

BACKGROUND

Since the emergence of COVID-19 in March 2020, federal, provincial, and municipal governments have implemented several measures in response to the pandemic. Most importantly for Saskatchewan was the declaration of a State of Emergency by the provincial government on March 18, 2020. This declaration resulted in the shutdown of several public institutions, businesses, industries, and activities from late March to early June.

In anticipation of the declaration, the City closed its leisure centres to the public on March 16, 2020. This was followed by the closure of all other civic facilities on March 19, 2020. On that same day, the City implemented a property tax and utility payment deferral program, where late payment fees on overdue property taxes and utility bills are waived until September 30, 2020. It also suspended all utility disconnections until September 30, 2020, resulting from overdue accounts.

To reduce the risk of transmission of the virus to riders and drivers, Saskatoon Transit subsequently altered its operations by implementing rear-door entry and exit. As a result, transit fare collection was suspended due to the inability to collect. On the same day, the City also suspended payments for all designated pay parking zones.

On April 23, 2020, the Government of Saskatchewan released its Re-open Saskatchewan Plan, laying out a gradual re-opening of the various industries and institutions forced to close in response to COVID-19. As of June 8, 2020, restaurants and bars were permitted to open, but with limited capacities under the plan. In response to the plan, the City of Saskatoon reinstated parking charges and transit fares.

As a result of these and other COVID-19 response measures, at its April 27, 2020, meeting, City Council received a report from the Chief Financial Officer outlining the projected financial impact to the City. A revised financial forecast is anticipated to be before City Council in June 2020.

The negative economic impacts emerging from the pandemic spurred the Government of Canada to announce various income and financial support programs to help individuals and businesses during the containment phase(s) of the pandemic. Appendix 1 provides a summary of the most significant business and organizational support programs.

As the appendix shows there are a wide variety of federal programs to support for-profit and some not-for-profit organizations. Targeted support is also provided to specific sectors and industries in the economy. Some smaller scale provincial support programs have also been implemented to address any gaps in the federal ones. Absent from this list, however, are any specific operational support programs for municipalities.

Despite the lack of additional operating support to date, in May 2020, the Government of Saskatchewan announced the \$150 million Municipal Economic Enhancement Program (MEEP). MEEP provides a per capita transfer to Saskatchewan municipalities for capital infrastructure projects. The City of Saskatoon will receive \$35.5 million from the program, and will apply the funding to various capital projects to help support an economic recovery from COVID-19.

CURRENT STATUS

As explained in the background section, the City has implemented various financial relief measures to support businesses and other organizations through the pandemic. Although these measures were not exclusively targeted to businesses and organizations, they do benefit as the approaches are largely universal. The City is also investing almost \$400 million in capital projects to improve infrastructure and help the economy recover. Despite these measures, the City of Saskatoon has received several requests for financial support from individual businesses, business associations, and organizations. A summary of these requests are provided in table format in Appendix 2.

The appendix also classifies the requests into three categories: (a) tax subsidy, or more appropriately, tax expenditures or subsidies; (b) fee subsidy, and (c) a direct grant. The requests total an estimated \$5 million, if those received to date were all granted. Some local hotels have requested tax relief, directly to the Mayor's Office. The Mayor has responded to these requests, and as a result, they are not included in this report.

The largest financial request comes from the Canadian Federation of Independent Business (CFIB). It's letter (see Appendix 9) asks to freeze commercial and industrial property taxes at their 2019 levels. If granted, this would result in a \$3.6 million reduction in property tax revenue for 2020. To support this request, the City would have to reduce expenditures or maintain them, and shift the tax burden to residential properties.

To offer additional perspective and clarity on these requests, Appendices 3 through 7 provide short background documents that explain:

- the nature or intent of the requests;

- how the program is administered including any policy, bylaw, or legislative requirements; and
- the potential financial implications to the City if the specific request is granted.

For example, Appendix 3 describes the request by Enterprise Taxi License holders to waive fees for the most intense period of the pandemic restrictions (March to May). As the appendix explains, Enterprise licenses are a subset of overall taxi licenses; they operate under a regulatory regime established through the *Bylaw 9651 - Vehicles for Hire Bylaw, 2019*; and they have a different license fee structure, resulting in a financial impact of approximately \$12,500 if such fees are waived. A similar approach is used for the remaining appendices, with the exception of Appendices 8 through 9.

Appendices 8 through 9, by contrast, are direct requests to the City by business associations or some private business. For these items, there are no additional backgrounders. However, the nature of these requests are summarized in Appendix 2 and elaborated on in the next section of the report.

DISCUSSION/ANALYSIS

Policy Considerations for Financial Relief

Responding to the COVID-19 pandemic requires policy coordination among the federal, provincial, and municipal governments to ensure that Canadians receive the supports they need to get through it. Each of these orders of government have differing fiscal restrictions, tools, and capacities.

For example, the federal tax system is designed in such a way to generate revenues from broad-based income and sales taxes, which then can be used to achieve vertical equity through income support programs. In fact, about 85% of federal revenues come from general taxes. As a result, it possesses significant fiscal capacity and greater ability to generate revenues, and borrow and finance debt relative to provinces, and certainly, municipal governments. This makes it the best order of government to provide relief. This is a major reason why the Government of Canada is taking the lead and implementing several programs to provide support to individuals, businesses, and other organizations.

Provinces to a lesser extent also offer such fiscal flexibility and, as noted, have also provided various relief measures. As noted, the City has provided some relief to individuals, businesses, and organizations resulting from the COVID-19 pandemic, despite its more restricted financial framework.

The City uses property tax revenues to generally fund a variety of services that are said to largely benefit the community as a whole: police services, fire services, and road maintenance to name a few. Unless otherwise exempt by legislation, every person or organization who owns property in the City directly pays property taxes. When tax expenditures are provided to recipient firms or organizations, the tax burden then increases for non-recipient taxpayers because the City's expenditures remain unchanged.

However, a large share of City revenues are derived from users of the services. The City enacts user fees, permits, and licenses to help pay for the services that directly benefit the user of the service. In some cases, like public transit and recreation, the fees represent a portion of the cost and the rest is subsidized by the property tax. But for many other services, the fee is set to recover the cost of the service and/or implemented to support the regulation of activities.

Thus, some services that the City provides are not services in the traditional sense, but instead, provide legal permission for citizens to conduct various activities on their property. For example, the City issues permits and licenses for the development, construction, and use of all commercial, industrial, institutional, or residential properties and buildings. These act as regulatory fees in the sense that they ensure the public costs of monitoring quality of life, health, and safety standards are recovered from the individual or business generating the cost.

There may be a desire by Cities to provide targeted relief to for-profit businesses in the form of either a tax expenditure, a fee subsidy, or a grant. As the report will show, some Cities have adopted some of these approaches. The contradiction with this approach is that, on the one hand, Cities are asking federal and provincial governments for financial support for their own budgets. On the other hand, they are providing tax or fee subsidies, which adds to their existing revenue challenges. In the absence of additional intergovernmental fiscal transfers, providing additional financial support to businesses could have substantial fiscal risk to the City.

Approaches in Other Jurisdictions

Cities across Canada have responded in very similar ways to the pandemic, although some differences are worth highlighting below. For example, Cities have responded by offering:

- property tax payment period extension/deferral;
- utilities payment deferrals; and
- reduction, or elimination of, transit fares and parking fees.

This, mostly, uniform approach is predominantly a function of the strict budgetary, legal, and service provision constraints that Cities operate under. Chief among them are that they must balance their operating budgets, and cannot borrow to fund current operating expenses.

Despite these constraints, both the City of Edmonton and the City of Calgary have established recovery grants. The grants differ in each City, as Calgary's only applies to not-for-profit community organizations¹. Edmonton's, by contrast, applies to both for-profit businesses and business associations. For example, the City of Edmonton recently enacted the Edmonton Economic Recovery Grant². According to the City, the objective of the grant is to "help Edmonton businesses recover from COVID-19. It

¹ <https://www.calgary.ca/CSPS/cema/Pages/COVID-19-Community-Partners.aspx>

² https://www.edmonton.ca/programs_services/funding_grants/edmonton-economic-recovery-grant.aspx

provides local businesses and business organizations with flexible funding in order to relaunch and strengthen their business models”.

The City of Edmonton has allocated \$5.3 million for the grant program. The grant has two streams, individual business grants and organization grants. The program provides matching grants – the City and the proponent split 50/50. Successful applicants can be awarded up to \$75,000³.

The Cities of Calgary, Edmonton, and Regina have waived the regulatory fees to support temporary or outdoor patios for use on public rights-of-ways, such as sidewalks⁴. The City of Regina estimates that this measure will cost \$25,000. These fee subsidies are typically targeted to specific locations of a city, such as downtown. Appendix 5 explains Saskatoon’s approach with respect to parking patios.

In terms of other targeted supports, it appears that most of the major Cities in Canada have not waived building permit fees or development permit fees. The City of Calgary has provided the temporary elimination of certain development charges, but not all. Moreover, Calgary also appears to be the only City to date to waive taxi and limousine driver fees, and reduce taxi and limousine plate licence fees by 50%.

Potential Options for Providing Support

If City Council elected to provide support to businesses and organizations what are some approaches that they could take? This part of the report offers some general approaches for consideration. Appendices 3 through 7 also provide potential options for addressing some of the targeted requests.

Before addressing the options, it may be beneficial to offer some policy considerations for City Council to contemplate. These considerations recognize that policies have trade-offs and the goal here is to draw some attention to those trade-offs. They are:

- Who benefits? Is the support broad-based, or targeted? Do only a few organizations benefit, or do many?
- Who pays? Is the support a tax subsidy, a fee subsidy, or a grant? If it’s a tax subsidy, then all other taxpayers are paying for it and their future tax burden rises accordingly.
- Is it distortionary? Does the policy support help to distort the market by enticing consumers to choose one particular business in the same industry over another?
- Does it support a cost-recovered program or a regulatory regime? Is the measure a fee subsidy that would then require cost recovery to be paid for by other users or participants? Is the fee supporting a regulatory regime that grants permission to citizens and property owners to engage in certain activities in compliance with the City’s standards?

³For more explanation see the link in note 2.

⁴ For the approaches in these cities, see <https://www.calgary.ca/CSPS/cema/Pages/COVID-19-Applying-for-an-outdoor-patio.aspx>; and https://www.edmonton.ca/business_economy/temporary-outdoor-patios-sidewalk-cafes-and-retail-space.aspx

- Is it fiscally sustainable? Does the support constrain future budgetary revenues or expenditures?
- How easy is the support to administer? Does it require special or additional administrative processes and personnel to manage the program?

Option 1: Rely on Existing Measures

This option proposes that the City continue with the status quo and utilize the supports that it is currently providing, described in the previous section. In addition, the proponent organizations could rely on the variety of federal and provincial support programs as summarized in Appendix 1.

The City budgets for penalties and interest on late payments of taxes and fees. With the deferral of taxes and fees and the waiving of penalties of late payments, the City is estimating total revenue losses of about \$800,000 by the end of the 2020 fiscal year. This estimate includes residential and non-residential property owners and utility consumers.

Option 2: Provide Support to Not-For-Profit Organizations

This option proposes to provide financial support to not-for-profit partner organizations who either deliver services or programs on behalf of the City. This option could apply to only those not-for-profit organizations which receive funding support from the City on an annual basis, through the terms and conditions of an agreement (i.e., Tourism Saskatoon). It could apply to organizations who support vulnerable populations (i.e., the Lighthouse), or both. Based on the requests provided in Appendix 2, this support is estimated at approximately \$156,000 in 2020 based on applications received to date, with the bulk of the support going to Tourism Saskatoon.

Option 3: Establish a Merit-Based Grant Program

This option proposes to establish a recovery grant that would permit for-profit and not-for-profit organizations to access support funding if necessary. This option is similar to the approaches used in Edmonton and Calgary (as described in section 2). The grant would be application-based, and the applicant would be required to meet various criteria in order to be successful. Criteria could include job preservation or creation. It could also offer some measure of how much COVID-19 has forced an organization to change how it functions, such as the need to provide personal protective equipment, or efforts to support physical distancing.

To implement this option, City Council would need to allocate a budget to the program. Hypothetically, the budget could be set at roughly \$2 million, and proponent support could be capped at an amount, say \$50,000. It would also likely need to adopt a policy to set out broad objectives to the Administration. The Administration would need to establish procedures including an intake process, and evaluation criteria. The maximum grant could be set. If City Council chose this option, the Administration would report back to a future City Council Meeting on the operational logistics.

IMPLICATIONS

Any implications emerging from the topics discussed by this report are explained in the preceding sections or the accompanying appendices.

NEXT STEPS

Depending on what requests are approved by City Council, the Administration may need to make bylaw or policy amendments to formally enact the request.

APPENDICES

1. COVID -19 Federal and Provincial Support Programs for Businesses and Organizations
2. Summary of Requests for Financial Relief or Support
3. Backgrounder: Enterprise Taxi Licenses
4. Backgrounder: Temporary Reserve Parking (TRP) Program
5. Backgrounder: Parking Patios and Sidewalk Cafes
- 5a. Letter: Tourism Saskatoon
6. Backgrounder: Building Permits and Development Fees
7. Backgrounder: Saskatoon Airport Authority Tax Abatement Agreement
- 7a. Letter: Saskatoon Airport Authority
8. Submission for Grant Assistance - Tourism Saskatoon
9. Submission for Tax and Fee Relief Canadian Federation of Independent Business

Report Approval

Written by: Mike Jordan, Chief Public Policy and Government Relations Officer
Reviewed by: Kerry Tarasoff, Chief Financial Officer
Approved by: Jeff Jorgenson, City Manager

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