

DATE OF MEETING APRIL 20, 2020

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SUBJECT **2020 – 2024 FINANCIAL PLAN AND PROPERTY TAX OPTIONS**

## **OVERVIEW**

### **Purpose of Report:**

To provide Council with an update on the projected property tax increase and outline options.

## **BACKGROUND**

The Provisional 2020 – 2024 Financial Plan Bylaw “Financial Plan Bylaw 2019 No. 7307” was adopted by Council at the 2020-JAN-13 Council Meeting. The Financial Plan reflected decisions made by Council during the budget review process in 2019. The provisional projected property tax increases in the Provisional 2020 – 2024 Financial Plan were:

	2020	2021	2022	2023	2024
General Asset Management Reserve	1.0%	1.0%	1.0%	0.0%	0.0%
General Property Tax Increase	4.2%	1.9%	2.4%	1.9%	1.8%
<b>Total Municipal Taxes</b>	<b>5.2%</b>	<b>2.9%</b>	<b>3.4%</b>	<b>1.9%</b>	<b>1.8%</b>

The 1% annual increase for the General Asset Management Reserve is currently scheduled to end in 2022. Staff intend to bring forward recommendations regarding funding for the General Asset Management Reserve prior the end of the annual increase.

A Final 2020 – 2024 Financial Plan Bylaw and a Property Tax Rates Bylaw must be adopted by 2020-MAY-15 to enable the calculation and collection of 2020 property taxes.

## **DISCUSSION**

The Provisional 2020 – 2024 Financial Plan has been updated to include changes to estimates including benefits, traffic fine revenue, RDN Recreation Services Agreement revenue and growth. The plan has also been updated for a delay in the arrival date of the 3 new RCMP members and directives from Council. Summarized below are the projected property tax rate increases for 2020 to 2024 based on changes to the Financial Plan since provisional approval.

	2020	2021	2022	2023	2024
General Asset Management Reserve	1.0%	1.0%	1.0%	0.0%	0.0%
General Property Tax Increase	3.5%	2.0%	2.4%	1.9%	1.8%
<b>Total Municipal Taxes</b>	<b>4.5%</b>	<b>3.0%</b>	<b>3.4%</b>	<b>1.9%</b>	<b>1.8%</b>

Attachment A provides an updated breakdown of the 2020 Key Budget Drivers.

### Impact on Typical Home

	2019	2020	\$ Change	% Change
<b>Assessment - Average Home</b>	<b>\$518,384</b>	<b>\$527,145</b>	<b>\$8,761</b>	<b>1.7%</b>
Property Taxes	\$2,110	\$2,205	\$95	4.5%
Municipal User Fees				
Water Fees	552	594	42	7.5%
Sewer Fees	135	141	6	4.0%
Sanitation Fees	170	171	1	0.6%
<b>Total Municipal Taxes &amp; User Fees</b>	<b>\$2,967</b>	<b>\$3,111</b>	<b>\$144</b>	<b>4.8%</b>

Rounded to nearest dollar

Assumes a typical single family house with average assessment change of 1.69%

With the changes to the economic climate and the Province of BC declaring a Provincial Health Emergency on March 17, Staff have prepared options for Council's consideration if they do not wish to proceed with the budget as presented.

In considering alternative options a number of factors must be taken into consideration including:

- The extent of the economic impact of COVID-19 is uncertain. The three options provided reflect revenue and expenditure projections prior to the declaration of a Provincial Health Emergency.
- **2021 – 2024 property tax increases are a projection. They may increase or decrease as the 2021 Budget and 2021 – 2025 Financial Plan are developed. The City uses modified zero-based budgeting to update the Financial Plan each budget cycle.**
- Revenue and growth projections for 2021 will be updated as part of the upcoming budget cycle. Economic conditions may require projections to be lowered. This will increase the tax rate in 2021 beyond the projected rate unless corresponding expenditure reductions are also implemented. To reduce expenditures, changes to service levels would likely need to be considered.
- At the 2020-MAR-18, Special Council Meeting, Council approved Staff's recommendation to allocate \$2,955,073 of the 2019 General Surplus to the Special Initiatives Reserve to allow Council maximum flexibility in accessing these funds for the best use.
- Any funding used from the General Financial Stability Reserve must be repaid within a reasonable timeframe.
- One time funding to reduce property taxes results in an increase to the tax rate in year 2.

### Option #1 – Approve 2020 – 2024 Financial Plan as Presented

The 2020 – 2024 Financial Plan has a 4.5% property tax increase for 2020. The impact to a typical home will be \$95 for municipal taxes.

#### Advantages:

- Due to the economic uncertainty at this time and how this may impact 2021 this option provides the lowest projected starting point for 2021 property taxes giving Council the most flexibility for 2021 property tax rates.

- The full \$2,955,073 allocated to the Special Initiatives Reserve is available to fund any potential shortfall to 2020 revenues or costs incurred because of COVID-19 and the resulting closure of facilities with no impact to future tax rates.

Disadvantages:

- Provides no additional financial relief for residents during the current economic crises.

**Option #2 – Smooth Property Tax Increase between 2020 and 2021**

Allocate \$830,000 from the Special Initiatives Reserve to reduce 2020 property taxes by smoothing the 2020/2021 increases.

**Projected Property Tax Increases:**

	2020	2021	2022	2023	2024
General Asset Management Reserve	1.0%	1.0%	1.0%	0.0%	0.0%
General Property Tax Increase	2.8%	2.8%	2.4%	1.9%	1.8%
<b>Total Municipal Taxes</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.4%</b>	<b>1.9%</b>	<b>1.8%</b>

**Impact on Typical Home**

	2019	2020	\$ Change	% Change
<b>Assessment - Average Home</b>	<b>\$518,384</b>	<b>\$527,145</b>	<b>\$8,761</b>	<b>1.7%</b>
Property Taxes	\$2,110	\$2,189	\$79	3.8%
Municipal User Fees				
Water Fees	552	594	42	7.5%
Sewer Fees	135	141	6	4.0%
Sanitation Fees	170	171	1	0.6%
<b>Total Municipal Taxes &amp; User Fees</b>	<b>\$2,967</b>	<b>\$3,095</b>	<b>\$128</b>	<b>4.3%</b>

Rounded to nearest dollar

Assumes a typical single family house with average assessment change of 1.69%

Advantages:

- Provides some financial relief to residents in uncertain economic times.
- Allocation will still leave an unallocated balance of \$2,125,073 in the Special Initiatives Reserve, which could be a potential funding source for any shortfall to 2020 revenues or costs incurred because of COVID-19 and the resulting closure of facilities.

Disadvantages:

- Increases the projected starting property tax increase for 2021 as reserve funding is one-time funding.
- Due to the uncertainty around how quickly the economy may recover this may put additional upward pressure on property taxes in 2021.

**Option #3 – No Operating Property Tax Increase, Property Tax Increase for General Asset Management Reserve Only**

Allocate \$2,955,073 from the Special Initiatives Reserve and \$824,927 from the General Financial Stability Reserve to limit the property tax increase to the 1% annual increase for the General Asset Management Reserve.

Repayment of \$824,927 from the General Financial Stability Reserve is distributed over 2021 to 2024.

**Projected Property Tax Increases:**

	2020	2021	2022	2023	2024
General Asset Management Reserve	1.0%	1.0%	1.0%	0.0%	0.0%
General Property Tax Increase	0.0%	5.8%	2.4%	1.9%	1.8%
<b>Total Municipal Taxes</b>	<b>1.0%</b>	<b>6.8%</b>	<b>3.4%</b>	<b>1.9%</b>	<b>1.8%</b>

**Impact on Typical Home**

	2019	2020	\$ Change	% Change
<b>Assessment - Average Home</b>	<b>\$518,384</b>	<b>\$527,145</b>	<b>\$8,761</b>	<b>1.7%</b>
Property Taxes	\$2,110	\$2,131	\$21	1.0%
Municipal User Fees				
Water Fees	552	594	42	7.5%
Sewer Fees	135	141	6	4.0%
Sanitation Fees	170	171	1	0.6%
<b>Total Municipal Taxes &amp; User Fees</b>	<b>\$2,967</b>	<b>\$3,037</b>	<b>\$70</b>	<b>2.3%</b>

Rounded to nearest dollar

Assumes a typical single family house with average assessment change of 1.69%

**Advantages:**

- Provides some financial relief to residents in uncertain economic times.

**Disadvantages:**

- Substantially increases the projected starting property tax increase for 2021 as reserve funding is one-time funding.
- Funding from the General Financial Stability Reserve will need to be repaid.
- If additional funding were required to address any shortfall to 2020 revenues or costs incurred because of COVID-19 and the resulting closure of facilities additional funding would be needed from the General Financial Stability Reserve. This would impact future property tax increases as funds must be repaid.
- Due to the uncertainty around how quickly the economy may recover this may put additional upward pressure on property taxes in 2021.

**Additional Considerations - Shifting Tax Burden from Business/Other Class to Residential Class**

The business community has been greatly impacted during the COVID-19 Pandemic as many have been unable to operate due to the Province of BC declaring a Provincial Health Emergency on March 17th.

Historically an option that has been utilized is the shifting of a portion of municipal taxes between classes. Between 2009 and 2013, a portion of municipal taxes were shifted from Major (Class 4) and Light Industry (Class 5) to Residential. This change was gradually shifted from Major and Light Industry classes to bring those tax rates in line with the Business/Other class tax rate. Since 2013, these three classes have all had the same municipal tax rate.

Outlined below is one example of how the classes would be impacted by shifting tax values from Business/Other to Residential:

If the 2019 municipal tax values for the Business/Other class were kept at the same values as 2018, the increase to typical residential property would have been 7.2%. This would have resulted in an increase of an additional 2.2% in taxes for a typical home.

**Business/Other Tax Values\***

	2018	2019	\$ Change	%
Taxes Collected	\$28,589,331	\$30,029,048	\$1,439,717	5.0%
Taxes Collected with Shift	\$28,589,331	\$28,589,331	\$0	0.0%
<b>Net Change to Business/Other Class</b>				<b>-5.0%</b>

**Residential Tax Values\***

	2018	2019	\$ Change	%
Taxes Collected	\$67,259,675	\$70,646,773	\$3,387,098	5.0%
Taxes Collected with Shift	\$67,259,675	\$72,086,490	\$4,826,815	7.2%
<b>Net Change to Residential Class</b>				<b>2.2%</b>

\*As the 2020 tax rates have yet to be determined, the 2019 tax rates were used to calculate the estimated impact of doing a shift from Business/Other to Residential.

The typical residential property would have paid an additional \$45 in taxes if taxes were shifted from Business/Other to Residential in 2019.

**Impact on a Typical Home - Original 5.0%**

	2018	2019	\$ Change	%
<b>Assessment - Average Home</b>	<b>\$467,220</b>	<b>\$516,418</b>	<b>\$49,198</b>	<b>10.5%</b>
Property Taxes	\$2,003	\$2,102	\$99	5.0%
Municipal User Fees				
Water Fees	514	552	38	7.5%
Sewer Fees	130	135	5	4.0%
Sanitation Fees	165	170	5	3.0%
<b>Total Municipal Taxes &amp; User Fees</b>	<b>\$2,812</b>	<b>\$2,959</b>	<b>\$147</b>	<b>5.2%</b>

**Impact on a Typical Home - Revised to 7.2%**

	2018	2019	\$ Change	%
<b>Assessment - Average Home</b>	<b>\$467,220</b>	<b>\$516,418</b>	<b>\$49,198</b>	<b>10.5%</b>
Property Taxes	\$2,003	\$2,147	\$144	7.2%
Municipal User Fees				
Water Fees	514	552	38	7.5%
Sewer Fees	130	135	5	4.0%
Sanitation Fees	165	170	5	3.0%
<b>Total Municipal Taxes &amp; User Fees</b>	<b>\$2,812</b>	<b>\$3,004</b>	<b>\$192</b>	<b>6.8%</b>

Attachment B outlines how the City of Nanaimo compares to other municipalities with comparable populations and/or are neighbouring communities.

## **CONCLUSION**

Staff will be returning to Council 2020-MAY-04 with the decision report for the Final 2020 – 2024 Financial Plan.

### **SUMMARY POINTS**

- The project property tax increase for 2020 based on the current Final 2020 – 2024 Financial Plan is 4.5%.
- Alternative options for Council to lower 2020 property tax rates have been presented.
- A Final 2020 – 2024 Financial Plan Bylaw and a Property Tax Rates Bylaw must be adopted by 2020-MAY-15 to enable the calculation and collection of 2020 property taxes.

## **ATTACHMENTS**

Attachment A – 2020 Budget Drivers

Attachment B – 2019 Business/Other Class Multipliers – Comparable Population and/or Neighbouring Communities

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