

**Chief Financial Officer's Report to
Priorities and Finance Committee
2019 May 14**

**ISC: UNRESTRICTED
PFC2019-0590**

Small Business Resiliency Grant

EXECUTIVE SUMMARY

The prolonged economic downturn facing Calgary necessitates innovative and perhaps unconventional approaches to provide potential support to small businesses. As directed by Council, Administration has prepared the conceptual framework for a potential Small Business Resiliency Grant program ("SBRG") and performed due diligence to identify and assess the potential risks and benefits associated with this type of grant program. Using a new and innovative approach for The City to provide support to small businesses affords us an opportunity to capitalize upon the risks that Council is comfortable to assuming.

This information is being provided to enable Council to weigh the risks involved and whether the potential benefits to the small business community are commensurate, appropriate and in line with the risk tolerance level acceptable to Council in making the final decision whether to move forward with this grant program.

ADMINISTRATION RECOMMENDATIONS:

That the Priorities and Finance Committee recommends Council:

1. Receive this report for information;
2. Approve the conceptual framework of a Small Business Resiliency Grant program, including the draft Terms of Reference included in this report;
3. Direct Administration to develop an implementation plan for the first year of a potential two year grant program utilizing the first \$35.9 million of \$70.9 million of one-time funding (\$44 million from the Fiscal Stability Reserve and \$26.9 million within the Budget Savings Account from the 2017 and 2018 Phased Tax Program funding not required due to appeal resolutions). Year one of the program will be run based on a Terms of Reference finalized by Q3 2019 to the satisfaction of the City Manager and Chief Financial Officer. The results from the first year of the program will then be evaluated, and any material changes to be considered will be brought to PFC prior to implementation of year 2;
4. To facilitate Administration's implementation of this program a budget request of up to \$1.5 million (to be allocated from the \$35.9 million of the grant program funding in the first year) based upon information known at this time;
5. Direct Administration to report back to Priorities and Finance Committee with an implementation report by Q4 2019 for information; and
6. Direct that attachment 7 remain confidential pursuant to section 27(1)(a) of the *Freedom of Information and Protection of Privacy Act*.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2019 April 08, Council adopted Recommendation 1 of Report C2019-0382 and gave three readings to Proposed Property Tax Bylaw 13M2019. This resulted in a residential combined property tax rate increase of 3.45%, and a non-residential combined property tax rate decrease of 3.07% (before the impact of Business Tax Consolidation).

On 2019 April 01, in consideration of report C2019-0352 Council approved:

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- Direct Administration to develop criteria for a Small Business Sustainment Grant to a maximum of \$70.9 million of one-time funding (\$44 million from the Fiscal Stability Reserve and \$26.9 million from the 2017 and 2018 Phased Tax Program funding not required due to appeal resolutions), returning to the Priorities and Finance Committee on 14 May 2019.
- Direct Administration to explore the creation of a small business assessment class for implementation in 2021 reporting back to PFC in 2019 June.

On 2018 November 14, in consideration of report C2018-1158 Council approved:

- Direct Administration to meet with the Chamber of Commerce, Commercial Real Estate Advisory Committee of Calgary, Economic Development and other interested stakeholders by the end of April 2019, to share ideas and options generated through the tax shift work undertaken in point 3 above. Following this engagement, bring a joint Administration / business community presentation to the Priorities & Finance Committee on May 14, 2019.

On 2018 March 19, in consideration of report PFC2018-0045, Council approved the implementation of the 2018 Municipal Non-Residential Phased Tax Program (PTP).

On 2018 March 19, in consideration of report PFC2018-0187, Council established the Economic Development Investment Fund (EDIF). This fund has been further refined as is now known as the Opportunity Calgary Investment Fund (OCIF).

On 2017 January 23, in consideration of report C2017-0057, Council approved the implementation of the 2017 Municipal Non-Residential Phased Tax Program (PTP).

On 2016 February 02, in consideration of report PFC2016-0081, Priorities and Finance Committee reviewed options for possible relief for businesses.

BACKGROUND

The trying economic conditions over the past few years have had a profound negative impact on the business community within the city of Calgary. Since 2014, the substantial drop in the price of oil, together with increased costs and taxes imposed by other orders of government (such as the minimum wage increase and the Carbon Tax), and continued strong economic headwinds faced by business owners have all negatively impacted the business community. The very steep and rapid decline in the market value of a small number of very high valued non-residential properties redistributed the property tax responsibility to other non-residential properties such that some non-residential properties have suffered untenable property tax increases.

Small businesses (defined as those with less than 50 employees) are the heart of the economic engine of Calgary. According to Statistics Canada, approximately 95% of all businesses in Calgary are small businesses. These businesses provide employment opportunities and contribute to the economy. Small business owners and start-ups, deal with many barriers to entry and personal financial risk. We continuously hear this through social media, other news outlets and simple conversations with our business owners. It is up to us, The City, to maintain

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an ongoing open dialog with the business community who can help us identify opportunities that will support their success. While businesses have been impacted by a variety of policy and environmental factors beyond The City of Calgary's control, we do have an opportunity to support our economy in a variety of ways. Supporting local business owners means delivering service, value and innovation.

The City of Calgary has been taking action to support Calgary's economy, keep Calgarians working, and reduce the cost of local government. Some examples include:

- To support economic recovery and growth for citizens and businesses, Council created the \$100 million Opportunity Calgary Investment Fund (OCIF). The OCIF is intended to support projects that will stimulate growth in targeted sectors of Calgary's economy. It is for existing local businesses that are expanding their operations and for attracting new business and investment to Calgary.
- Under Council direction, Administration has achieved significant savings and has provided notable benefits to Calgarians through the intentional management of The City's financial position and progress in using the Performance Management System. Part of these savings are being allocated to provide funding to respond to the economic recovery including the \$70.9 million offered for the potential Small Business Resiliency Grant. Since Action Plan 2015-2018 was approved, The City has achieved \$607 million in savings, efficiencies and reductions through intentional management including:
 - \$135 million in base savings through reductions in business unit budgets, corporate costs, and manageable costs to reduce the previously approved 2015-2018 tax rate increases to respond to the change in economic conditions. Furthermore, in response to landfill revenue shortfalls, reductions to landfill services were implemented while also freezing fees.
 - \$115 million in reductions for lower than budgeted increases for exempt employees, workforce management and union settlements. These savings were used to reduce previously approved tax rate increases and to offset projected revenue shortfalls with some savings available for future use.
 - \$112 million in operating savings has been contributed to the Budget Savings Account (BSA) reserve with another \$203 million in capital budget savings identified and reallocated to projects that benefit Calgarians including OCIF, Calgary Transit, the Crowchild Trail short-term improvements project, Main Streets Program, and initiatives to lower the property tax rate, to name a few.
 - \$204 million intentional cost savings was used to fund certain initiatives such as the phased tax programs (PTP) for tax relief, community services, and the low-income transit pass for Calgarians in need.

Council has also implemented many programs to provide support and assistance to the business community in Calgary over these trying times. The City of Calgary together with many of its partners have implemented key programs and initiatives to encourage growth and vibrancy. Some examples are included in attachment 1.

The PTP was introduced in 2017 to mitigate the redistributive effects caused by the rapid decline in the market value of a number of high valued downtown office buildings. A second

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PTP was implemented in 2018. Feedback from stakeholders has indicated that these programs may not have been as successful as anticipated at reaching the businesses most impacted severely by the tax shift and therefore a third PTP for 2019 was not approved by Council to date.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Conceptual Framework

The direction provided by Council was for Administration to develop criteria for a potential Small Business *Sustainment* Grant. However, after considerable discussion within Administration, it was felt that the concept of financial resiliency and recovery better captured the intended essence of this program. Therefore, the title of the proposed program is renamed - Small Business *Resiliency* Grant (SBRG).

The concept of a SBRG that runs in 2019 and 2020 is to support those Calgary small businesses most severely affected by the economic downturn and, to a limited extent, the most negatively impacted by the effect of the non-residential property tax redistribution. It is estimated, based upon information available to the City and through Statistics Canada, there could be up to 50,000 businesses that may be eligible for a SBRG. As The City currently does not capture an accurate registry of small businesses, which is part of the information required to assess eligibility for the grant program, it is difficult to provide an accurate estimate of the number of potential applicants.

This report articulates the conceptual framework for a SBRG. In order to develop a successful and efficient program that provides for maximum benefit while minimizing risk and unintended consequences, considerable care and attention to detail is required to develop the Terms of Reference, the application form, comprehensive communications plan, and to develop all required administrative systems and processes. The program development is based on lessons learned and insight from other existing City of Calgary grant programs. In response to the direction of Council, this report is intended to lay out the conceptual framework of how such a program could potentially operate, and to present a draft Terms of Reference. This report also provides a draft of an application form in order to provide the Priorities and Finance Committee with an understanding of how the application and review process could possibly work.

Administrative Framework

The concept of this grant program is to have a fully online application process and to employ, where possible, automation in the review of applications, the allocation of the grants, and the processing of payments. While all applications must be submitted by the applicant through an online form, individual registration support is anticipated to be available through 311. The plan is to leverage existing City systems, datasets, and processes as much as possible to draw on current existing information for application verification. An inherent challenge in the building of the program is ensuring the confidentiality of financial information that will be required to assess eligibility for the program. This information is not currently collected by The City of Calgary. This information gathering is a key element of program administration. It is also important to note that an online application system that can handle this volume and data storage requirements does not currently exist and would have to be developed based upon existing

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grant application and other registry programs. The potential for up to 50,000 potential applicants raises a scalability issue for the online system and may also place significant pressure on the 311 system that will require substantial additional resources. In addition, as there is a large discrepancy in the number of businesses identified by Statistics Canada vs The City's business licensing program (50,000 vs 35,000) there may also be a rush to register businesses in order to be eligible for the grant program thereby creating the need for additional resources as well.

The program is intended to be location based (grant applicable per location). Though there would be considerations / limits based on total size of the business (all locations). Only businesses located within Calgary that pay City of Calgary non-residential property tax either directly or indirectly are eligible. Other eligibility criteria are contained in the draft Terms of Reference (Attachment 2). Attachment 2 also includes a draft Application Form. It is envisioned that the application process will be a two-step process.

- Step one. Confirm eligibility. The applicant would need to meet all the eligibility criteria (see Attachment 2).
- Step two. Only after all eligibility criteria are satisfied would the applicant fill in an application form. Only applicants / applications that are fully eligible and have fully completed the application form will be processed.

The concept would be that, businesses would be grouped based upon their number of employees – and at this time only businesses with less than 20 employees would be eligible. Further analysis is required to confirm the business size eligible. There would be a minimum and maximum grant available, and that some number of grant levels based upon the number of employees would be available between those maximum and minimum thresholds. Confirmation of the number of valid applications will be required in order to finalize the grant levels. However, based upon the best current estimates of the potential eligible number of businesses, the minimum grant would be set is estimated to be \$750 and the maximum grant is estimated at \$4,000.

As this is proposed to be a two year grant program, an application would be required in each year, consideration will be given to potentially develop a "short form" application for the second year should the applicant stipulate that basic key information remains the same as provided in the year one application.

It is important to note that there are material risks with the implementation of this program. A number of issues and significant risks are identified in the Risk Assessment section of this report.

In addition to providing information on the specifics of how the program would work, information is also provided in this report for comparative purposes on what other jurisdictions have done to address similar issues (attachment 3), a summary of stakeholder engagement feedback on this potential program (attachment 4), an estimate and identification of administrative costs and capacity issues to implement this program (attachment 6) and a confidential attachment on the legal risks (attachment 7).

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If after considering the potential benefits, impact upon businesses that are eligible, issues, risks and associated administrative costs, and if Council wishes to proceed with developing this grant program, Administration can use the draft concept, together with any further direction, and work on finalizing aspects of the program and return with a program for final approval by The City Manager and Chief Financial Officer for implementation in 2019.

Stakeholder Engagement, Research and Communication

An internal working group within Administration was pulled together to provide input to the development of this conceptual framework. Business units represented in this working group include: Calgary Neighbourhoods, Finance, Assessment, Law, Customer Service and Communication, Planning and Development and Information Technology.

Administration has engaged Heuristic Consulting Associates (HCA) to conduct a preliminary jurisdictional scan to determine if any other jurisdiction in Canada has such a program and to gather any available information and data. The preliminary information obtained to date is that no other jurisdictions have implemented a similar program and in fact many Canadian municipalities in other provinces are prohibited by their enabling legislation from providing direct aid to businesses. Further information on the results of the jurisdictional scan can be found in Attachment 3.

Administration has also engaged HCA to undertake stakeholder engagement and research work specifically with respect to two areas of focus:

- Engagement with the Chamber of Commerce, Commercial Real Estate Advisory Committee, Calgary Economic Development and other stakeholders to share ideas relating to the tax shift work and possible medium and long-term solutions (Direction from Council 2018 November 14).
- Engagement with stakeholders, especially adversely affected small businesses, related to a SBSG concept. (Direction from Council 2019 April 1)
- Attachment 4 provides further detailed material regarding the engagement work/stakeholder engagement sessions undertaken by HCA to date.

The feedback on the possible medium and long term solutions related to the tax shift is included in attachment 4 but is not a topic for this report. That information instead will be more fulsomely considered by the Financial Task Force – the setup of that Task Force will be brought forward to PFC on 2019 June 4 to finalize Terms of Reference and approve the go forward steps.

In regard to the SBRG, HCA has compiled the feedback received to date on this program and has summarized the key points brought forward as follows:

- Consideration of support for small business by Council is viewed as positive recognition that there are significant issues facing small business in our community.
- Although small businesses would welcome support, the majority of stakeholders felt strongly that the SBSG is not workable and is unlikely to meet its objective to support struggling businesses.
- It is seen as another 'band-aid' solution that does not address the underlying problem.
- Important risks / disadvantages that stakeholders perceive with SBSG:

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- They will add significant administrative costs at a time when taxpayers are expecting the City to cut municipal expenditures and improve cost management.
- Benefits of the SBSG will not be distributed equitably.
- The amount of assistance available over two years may be immaterial to offset property tax increases. The funding required will deplete resources for more viable solutions.
- Stakeholders suggest a simpler and more equitable solution. Use the \$70.9 million funding to reduce the Non-Residential tax rate so that all businesses receive some benefit.

Administration also had an opportunity to recently meet with the Business Advisory Committee to discuss the potential SBRG. During that discussion, it was found that a top concern from business representatives is still the overall tax shift. They further commented that if a SBRG were to be made available, their primary concerns were to ensure that when assessing who is eligible and what amount is available, the process is transparent and enforces the principles of fairness and equity.

Strategic Alignment

The proposed SBRG program aligns with two fundamental Council Priorities:

- A Prosperous City
- A Well Run City

Social, Environmental, Economic (External)

As previously noted, the challenging economic environment experienced over the past few years and severe economic headwinds faced by the Calgary business community have taken their toll on all Calgarians. Attachment 5 provides further summary information regarding the current economic conditions in Calgary and the effects on Calgarians.

Financial Capacity

Current and Future Operating Budget:

In accordance with Council direction of 2019 April 01, a maximum of \$70.9 million of one-time funding is currently available (\$44 million from the Fiscal Stability Reserve and \$26.9 million within the Budget Savings Account from the 2017 and 2018 Phased Tax Program funding not required due to appeal resolutions) for a potential Small Business Resiliency Grant.

It is expected that there will be operating costs associated with the development, testing, communication, and implementation of this program. At this time, the minimum preliminary cost estimate for the direct operating costs of the program is up to \$1,000,000. This is a high-level estimate and actuals may be significantly different. Attachment 6 provides a summary of the minimum cost estimates for the \$1,000,000. The cost estimates include the impact on business licensing, additional 311 support, financial resources required to review and audit the applications received and grant payment processing costs. Administration does not currently have the resources or funding available to execute this work, and funding is required if the

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program is approved. If the program is over a period of two years, additional funding would be required in 2020 and a request will have to be made to Council for these funds.

Current and Future Capital Budget:

There will be capital cost requirements associated with a Small Business Resiliency Grant program relating to the online application process. Although, The City has other online grant application systems that could be adapted for this program, further work is required to explore if there are additional requirements specific to this direction especially as it relates to scalability and security of the sensitive financial information that is being required to be submitted for each business. Attachment 6 provides a summary of the preliminary capital cost estimates of up to \$500,000. There is currently no capacity within the capital budget to fund any capital requirements relating to this program. Future capital costs impact is currently unknown at this time.

Risk Assessment

While many Calgary businesses have been affected to some degree over the past few years due to the challenging economic conditions, it is difficult in an efficient and succinct manner to identify the most affected businesses or the businesses most in need of financial support. The economic conditions have affected different types of businesses differently, and other economic and non-economic stressors may have also affected some businesses, but not others.

The principle risk in the development of such a program is ensuring that the funding is in fact required by the business and is meaningful for the business. The transparency and integrity of this program is paramount.

The draft Terms of Reference note the following principles:

- **Effectiveness.** Ensuring that the limited funding has maximum impact both for the applicant business and broader community. The grants payable under this program need to “make a difference” to the business and to the community. The level of impact would be difficult to measure with consistency and certainty given the broad range and types of businesses. It is important also that the positive effect of such a program be lasting.
- **Efficiency.** Ensuring that the program is administratively efficient, both for the applicant and for the administration / adjudication process. While the concept of the program is to make it as efficient as possible, including as much use as possible of online entry and programmatic application processing, there will still be significant effort and costs associated with the full development and implementation of this program.
- **Risk minimization.** Ensuring that risks such as legal risk, financial risk, and reputational risk are contained as much as possible. These risks should be carefully examined as it is unlikely they can be completely mitigated or avoided without substantially altering the purpose and effectiveness of the program.
- **Transparency.** Ensuring that the program is well understood, and all decisions made in respect of application adjudication are as transparent as possible.

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- Integrity. Ensuring, to the greatest extent possible, that duly qualified applicants receive funding.

Issues / Risks:

1. **Volume.** Small business is defined in the Matters Related to Assessment Subclasses (MRAS) by number of employees. The City of Calgary does not currently collect information on the number of employees each registered business has, so at this time it is difficult to accurately gauge how many businesses may be eligible for this grant program. Based on preliminary analysis, it is estimated that approximately 20,000-50,000 Calgary business could be eligible for this SBRG program. Further analysis is ongoing, and this estimate will be updated and refined as additional information is obtained. However, developing and implementing an application and grant review process that would support this potential volume would be a challenge as The City does not currently manage any grant programs of this size. Other programs range from a few hundred to a few thousand applications.
2. **Effectiveness.** What level of funding would make a material impact for a business? As discussed earlier, while no grant maximum is being recommended at this point, as an example, a program with a maximum grant of \$5,000 and a minimum grant of \$750, with an estimate of a total yearly available grant amount of \$35,000,000 and an estimated low-end number of eligible applicants of 20,000 business, yields an average grant of \$1,750 per business. This average grant, along with the maximum grant level must be considered in the context of "making a difference".
3. **Cost of Program Administration.** Funding would be required for programming (development, testing, etc.), communications, and staff time would be required for program implementation and administration. It is envisioned that the design of any systems and processes to support this program will leverage existing systems and processes and re-use existing systems as much as possible. However, it is expected that specific functionality and processes will be required and scalability is an issue. The timeline to do the system related work is anticipated to be approximately 6 months, however this work may be able to be expedited depending upon how complex the final evaluation criteria and related algorithm to assess the criteria may be. Manual processes may need to be used temporarily if the criteria and algorithm are complex. Further significant 311, business licensing and finance resources will also be needed.

Stress will also be placed on existing systems and processes. For comparison, the accounts payable division of Finance currently issues approximately 30,000 cheques per year in total. Depending on the number of successful applications, the volume of work in accounts payable alone could increase by over 65 percent. There is currently no capacity within Accounts Payable to take on this work without additional funding support. Even simple elements of the program such as ordering stock, supplies and mailing costs could be estimated to be a minimum of \$40,000 per year (based on an estimate of 20,000 cheques processed and mailed). Should direction be provided to implement this program, the intent will be to use least cost options wherever available. The effort and potential costs for program administration are initially estimated to be up to \$100,000. EFT payments appear on the surface to be a more cost effective method of payment, however, with the

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administrative requirements to establish vendors, makes this a more costly option. Administration recommends proceeding with issuing cheques should this program proceed. Outsourcing is not an available option as this would cause significant risk in various capacities including violation of union contracts, delegation of authorities, recording, reconciliation and fraud mitigation.

4. Verification / Auditing. While the program will attempt to make use of as many automated verification functions as possible (example – cross checking the application with existing City datasets such as Business Registry / Business Licensing, property assessment roll, accounts receivable for outstanding payments to The City, etc.), there will still be manual requirements for verification to ensure, as much as possible, the correctness and validity of applications. Additional costs could be incurred to validate data. Additional manual verification of supplied financial information and spot and or risk-based auditing of financial and other supplied information will be required to ensure accuracy and transparency. This process of verification is expected to be resource intensive, require a specific skillset, and would require additional funding to support the work. However, even with these verification and auditing programs in place, the risk of invalid application remains.
5. Privacy. Program applicants will be providing valuable and confidential economic and financial information. The program must ensure and safeguard this information. While all appropriate steps will be taken in the design of the program and the systems and processes used by the program to ensure privacy, there still can be a residual risk. Holding sensitive financial and personal information for small businesses is a considerable risk.
6. Legal. Confidential attachment 7 contains additional risk analysis.

REASON(S) FOR RECOMMENDATION(S):

Council on 2019 April 01 directed Administration to develop criteria for a Small Business Sustainment Grant. This report articulates the conceptual framework for a Small Business Resiliency Grant program, along with draft Terms of Reference.

In consideration of the issues and risk identified, and of the potential financial benefits estimated, should this conceptual framework be satisfactory to the Priorities and Finance Committee and Council, Administration can then take this framework, together with any further direction, and finalize the program for implementation.

ATTACHMENT(S)

1. Attachment 1 – Summary of City of Calgary and partner support program / initiatives
2. Attachment 2 – Draft Terms of Reference / Draft Application Form
3. Attachment 3 – Jurisdictional scan summary
4. Attachment 4 – HCA stakeholder engagement summary
5. Attachment 5 – Summary of economic conditions
6. Attachment 6 – 2019 Cost Estimate Summary
7. Attachment 7 – Legal Opinion and Risk Analysis (Confidential)