

## Financial Assistance for Economic Loss due to Major Construction - Draft Policy

### RECOMMENDATION

That the March 23, 2022, Integrated Infrastructure Services report IIS00397, be received for information.

### Report Purpose

#### Information Only

Financial Assistance for Economic Loss during Major Construction as outlined in Attachment 1 is provided as a draft policy.

### Previous Council/Committee Action

At the February 8, 2021, City Council meeting the following motion passed:

That Administration prepare a draft financial assistance policy based on the City of Montréal's Financial Assistance Policy Summary, as described in the February 1, 2021, Office of the City Manager report CR\_7806, and return to Executive Committee.

### Executive Summary

- Following a discussion at Executive Committee on February 1, 2021, and at City Council on February 8, 2021, it was requested that a draft financial assistance during major construction policy be prepared based on the City of Montréal's program. The draft policy is included in Attachment 1 and an accompanying draft procedure is included in Attachment 2 to this report.
- In order to offer a similarly intended program in Edmonton, a grant program would need to be established in order to provide financial assistance to establishments experiencing a loss due to major construction.
- Based on an environmental scan completed, the program that exists in Montréal is unique with only one other Canadian municipality being identified as having a similar program and that program is also in the province of Québec.
- The environmental scan also identified that where similar programs exist in other jurisdictions in North America, many are very limited in scope, oftentimes limited to LRT projects.
- Implementing a grant program similar to that offered in Montréal comes with some significant risks in terms of the ability to provide appropriate oversight and governance, such

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as the verification and validation of financial information gathered to support the issuance of a grant payment.

- If implemented, costs associated with a grant program will vary depending on the scope of the program (type of major works included) and identified major work areas. It is estimated that the costs of the program could be \$225,000 per 100 businesses operating in an eligible area. Administrative costs are also estimated to be up to \$200,000 per year. This does not include any additional costs associated with added levels of oversight that the City may choose to implement.
- A financial assistance program, such as that offered in Montréal, does not work to mitigate or assist businesses prior to realizing financial losses. As such, it is uncertain whether the program would be effective or timely in responding to losses that may occur during construction.

## **REPORT**

### **Background**

Following a discussion at Executive Committee on February 1, 2021, and at City Council on February 8, 2021 (OCM CR\_7806 City of Montréal's Financial Assistance Policy Summary), it was requested that a draft policy be prepared based on the City of Montréal's program. The draft policy is included in Attachment 1. As part of the 2018-2022 Economic Development Strategy, the Urban Agglomeration Council of Montréal ("Montréal") implemented a \$25 million subsidy program for businesses that have suffered economic loss due to major construction in designated areas.

The program in Montréal was launched in January 2019 and was retroactive to 2016 for some types of construction. The program will continue until the funds are exhausted or by a date set by ordinance. At the time of this report, the program in Montréal is in effect with no known end date. A summary of the City of Montréal program is provided in Attachment 3.

### **Environmental Scan**

An environmental scan was completed. The environmental scan identified jurisdictions that had some form of compensation program that provided support to businesses impacted by major construction projects. Through the environmental scan, 17 municipalities were surveyed and nine were found to provide some form of financial assistance. Only two of the nine municipalities are Canadian and both are in Québec. Montréal's program is unique in Canada in terms of the financial assistance provided. Such financial assistance programs are not prevalent across municipalities broadly. Of the programs identified, half focused on LRT projects only but varied widely in both funding available for the programs as well as the assistance offered to businesses.

### **Draft Policy**

The draft policy is included in Attachment 1, with an accompanying draft procedure included in Attachment 2. The draft policy responds to the intended outcome of providing support to businesses impacted by major construction. If approved, the policy will allow for

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development of a grant program to compensate businesses similar to that put in place by the City of Montréal.

If implemented, a grant program would aim to reduce financial impacts on business owners due to capital construction projects by providing financial assistance up to a maximum dollar value to be determined on an annual basis. The draft policy would provide Administration the ability to identify major projects falling under the program as well as identify eligible businesses. It is anticipated that the eligibility criteria will include at minimum, a proximity zone (identified based on geography and impact to access), nature of the business, and the type, magnitude and extent of financial loss that will be compensated.

While the draft policy provides the guidance for a possible program, the draft procedure includes draft details around eligibility of businesses, ineligibility of businesses, program requirements, financial assistance available to businesses as well as program oversight and governance.

### **Analysis of the Financial Assistance Program**

If implemented, a financial assistance program can offer the following advantages for businesses and the City:

- A grant program may provide support to small businesses who potentially experience negative impacts because of major construction projects that can, at times, limit access during construction.
- An assistance program would address concerns of some businesses in areas affected by major construction.

Disadvantages of such a program have also been identified and should be considered:

- Financial support compensates businesses for losses already realized; support is provided after the loss has already occurred and does not prevent or mitigate losses from occurring. At best, this form of assistance would assist additional future losses, but again only after losses have already been realized and as such may not provide timely support. Non-financial support could have a longer-term impact and benefit for businesses.
- The program assumes that any financial loss above an established threshold is attributable entirely to the construction. Based strictly on financial submissions, Administration is unable to distinguish between financial impacts of construction and other external impacts. Other factors such as changing market conditions, increasing costs or inefficient business models could be contributing factors. To provide an example, during COVID-19 had such a program existed it would have been impossible to differentiate between business decline that resulted because of the pandemic versus any impacts resulting from construction.
- Where an organization does not have audited financial statements, comparability of data from one year to the next is difficult to assess. It is the comparability of financial results over time that would serve as the basis for loss calculations and for assistance.

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- Assistance would be based on financial information submitted and sworn to by businesses. However, without audit or review, information may be subject to error or misrepresentation.
- Businesses who work to mitigate the losses do not receive a benefit from such a program. Also, those who effectively work to mitigate their losses will effectively be asked to fund those who realize losses through increased taxes that could result to support this program.
- The current pandemic makes it more difficult to differentiate losses due to construction from losses due to the pandemic. It also makes it difficult to compare financial statements from the years that were impacted by the pandemic and the years following the pandemic.

Based on this analysis, Administration does not recommend proceeding with a financial assistance program.

### **Alternatives to a Financial Assistance Program**

Currently the City of Edmonton takes a number of actions to support businesses during construction. These measures include engagement during project planning as well as providing advance notice to businesses regarding the construction. In addition to this, during construction, every effort is made to maintain access to businesses, including providing clear signage. More specifically, construction bulletins are prepared and distributed to businesses during construction to provide advance notice of any traffic disruptions or changes to access. Construction is typically staged to ensure access to businesses is maintained or an alternative access is provided. Construction of accesses is also typically scheduled in consultation with property owner and/or tenants to ensure access disruptions are mitigated as much as possible. Additional wayfinding signage is provided to direct customers to businesses in a construction zone. As part of partnering and stakeholder management discussions with contractors, contractors are also encouraged to support businesses areas of major construction.

As alternatives to a financial assistance policy similar to that in Montréal, if there was will to provide additional support, the following are some alternatives:

- Flat rate or tiered support program – provided to support businesses in undertaking efforts to maintain business such as increased advertising and marketing or offset increased costs such as costs of delivery services. This type of assistance could be similar to the Edmonton Economic Recovery Grant City Stream, administered under Policy C623B, which allowed for a maximum \$1,000 grant to assist businesses in responding to economic conditions.
- Working with business organizations and associations, which could include Business Improvement Areas, to identify the best ways to keep businesses in areas of major construction as vibrant as possible during the periods of construction. With additional City funding, this could include:

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- Non-financial support such as training in strategy and business planning, marketing, product or market diversification and building e-commerce capacity. This could be delivered in partnership with Business Improvement Areas if additional funding from the City was provided for this purpose.
- Additional targeted support, provided by the City, and delivered through the Business Improvement Areas where major construction projects impact businesses in their boundaries. This could include “open for business” marketing and promotion, enhanced wayfinding, pop-up events or temporary activations of vacant or staging sites to increase patron traffic.

### **Budget/Financial Implications**

A financial assistance program would operate as a grant program and result in operating expenditures for the City. As an operating expense the program would be funded through a tax-levy (or other one-time funding) or through the reallocation of existing budgets.

The actual financial impacts of a financial assistance program are dependent on several factors, including:

- Scope of the assistance program in terms of the number of projects determined to be major construction;
- Number of businesses determined to be impacted by major construction;
- Number of businesses eligible for assistance;
- Actual losses realized by businesses;
- Program maximums and loss thresholds established.

Based on the program in the City of Montréal, results to date indicate that within a defined area of major construction, approximately 15 per cent of businesses experience an eligible loss. For businesses experiencing an eligible loss, the average assistance provided to eligible businesses was approximately \$15,000. Applying that experience, if a project impacts 100 businesses, one could extrapolate that the financial impact of the program would be \$225,000 per year. Recognizing that Montréal and Edmonton are different metropolitan areas and different markets, the experience could deviate from that experience in Montréal.

In addition to the direct costs of the program, the program will require additional administrative resources. Depending on the interest in the program and based on the nature of the financial audit requirements Administration estimates that one to two FTEs and a budget of approximately \$200,000 may be required. Administrative costs to administer the program would be incremental to the operating budget or would represent an opportunity cost if resources are reprioritized from elsewhere in the corporation. Additional costs associated with governance and oversight of the program, such as audit or review or applications and the associated financial statements, may also be incurred and would be in addition to the cost of staff resources.

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## COMMUNITY INSIGHT

As a relationship based city, Administration listens and learns from the community in many ways: research, meetings with stakeholders (residents, businesses, organizations, etc), through partnerships, social media listening, public engagement, online petitions, 311 inquiries and other forms of community conversation and connections.

Formal consultations have not been completed as this could create an expectation that a financial assistance policy be implemented.

## LEGAL IMPLICATIONS

In order to implement financial assistance during major construction similar to that in Montréal, the program would need to be offered through a grant program. A grant program offers a tool to compensate impacted businesses where there is otherwise no legal obligation to do so. The *Municipal Government Act* specifically limits the City's liability with respect to roads, public places and public works. These liability protections seek to balance the public interest of large infrastructure projects with individual interests. To offer such a grant program, the City would be providing compensation where there is no legal obligation to do so and in circumstances the liability protections currently provided to municipalities in Alberta avoid. Although there is no prohibition against creating such a grant program, it would create a new precedent and expectations that are not currently required by law.

## GBA+

Grants are provided by institutions either by competition or using a formula to determine both the funding and the recipients. A formula-based or flat rate grant program with applicable maximums helps ensure high levels of social equity as all parties participating in the program have equal access to the program and the resources available. Application of financial formulae or applying flat rates to a grant program ensures the assessment of applications is objective and avoids subjective considerations from influencing decisions. Given any program would be applicable in a geographically impacted zone, equitable application of the program to eligible impacted businesses will be maintained.

Although access would be available to those within the area of major construction work, the accessibility of the program for some marginalized groups may be unequal. Marginalized groups may not have access to technology required to access information about the program, some may not be fluent in English, or may be so busy working to maintain their business that they don't have time to apply for available grants. Also, as the program requires the reporting of financial information and the categorization of information in ways not necessarily required by the business itself, this may pose a further barrier for some making applications.

In order to ensure the program is accessible as possible, if implemented, measures would need to be taken to address possible barriers identified. Such measures could include using various communication tools to advertise the program, simplifying the application process as much as possible while ensuring the safeguarding of City assets, providing training for

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businesses in the community and ensuring staff are available to assist potential applicants with questions.

### **ATTACHMENTS**

1. Draft Policy - Financial Loss During Major Construction Projects
2. Draft Procedure - Financial Loss During Major Construction Projects
3. City of Montréal - Financial Assistance Program for Establishments in an Area Undergoing Major Work