

Legislative Costing Note

Publication date: 2020-12-16

Short title: Canada Emergency Rent Subsidy and Lockdown Support up to June 2021

Description: Providing rent assistance to businesses.

The rent assistance will be provided as direct transfers to businesses with revenue declines, covering the period from 27 September 2020 to June 2021. The subsidy rate for March 2021 is assumed to also apply for the April to June 2021 periods. Consistent with the magnitude of the Department of Finance's estimates, it is assumed that for April to June of 2021, revenues will be compared to a reasonably constant baseline unaffected by COVID-19.

Rent assistance is calculated as a percentage of eligible expenses which is greater for businesses with greater revenue declines, as shown below.

Revenue Decline	Base Subsidy Rate
70% and over	65%
50% to 69%	$40\% + (\% \text{revenue drop} - 50\%) \times 1.25$
1% to 49%	$\% \text{revenue drop} \times 0.8$

An additional 25% subsidy is available to businesses that are forced to temporarily close certain locations or have their business activities significantly restricted by a direct mandatory public health order.

Eligible expenses include commercial rent, property taxes, property insurance, and interest on commercial mortgages (subject to conditions), less any subleasing revenues. Expenses for each qualifying period would be capped at \$75,000 per month per location with an overall cap of \$300,000 per month shared among affiliated entities.

The program is not cost-shared with provinces or territories.

Operating line(s): Other transfer payments

Data sources:	<u>Variable</u>	<u>Source</u>
	Eligible expenditures	Custom tabulation based on 2017 corporate, trust, and personal income tax filings
	GDP projections by industry	PBO Economic Model (as of Oct 2020)
	GDP by industry	Statistics Canada, Table: 36-10-0434-01 Gross domestic product (GDP) at basic prices, by industry, monthly (up to September 2020)

Retail sales by industry	Statistics Canada, Table: 20-10-0008-01 Retail trade sales by province and territory (up to September 2020)
Wholesale sales by industry	Statistics Canada, Table: 20-10-0074-01 Wholesale trade (up to September 2020)
Manufacturing sales by industry	Statistics Canada, Table: 16-10-0047-01 Manufacturers' sales, inventories, orders and inventory to sales ratios, by industry (up to September 2020)
Retail, wholesale, and manufacturing sales distribution	Custom tabulation based on retail, wholesale, and manufacturing sales surveys.
Air Transport revenues	Statistics Canada, Table: 23-10-0079-01 Operating and financial statistics for major Canadian airlines, monthly (up to September 2020)
Commercial property insurance premiums	Insurance Bureau of Canada, 2020 Facts
Trends in non-residential real estate revenues	Statistics Canada, Table 21-10-0221-01 Real estate rental and leasing and property management, summary statistics (2018)

Estimation and projection method:

Overall, the distribution of revenue declines by industry was estimated using survey data on sales and the PBO economic model. Eligible expenditures were estimated based on income tax data. Businesses eligible for lockdown support were identified based on public health measures and revenue declines. Finally, the revenue decline distribution, eligible expenditures, and subsidy rates were used to calculate subsidies for each industry.

Distribution of revenue declines

For subsectors where monthly sales or revenue data are available (specifically retail, wholesale, manufacturing and air transport), a linear model was fit to the relationship between each industry groups' revenue shocks¹ and the corresponding subsector GDP shocks in the PBO economic model. Using the fitted relationship, future revenue changes relative to September for each industry group were projected based on changes in the GDP shocks in the broader sector. Using the revenue and GDP data for these industry groups from April to September of 2020, the general relation between revenue and GDP shocks arising from COVID-19 was established.

For industries without monthly sales or revenue data, an industry group GDP projection was created by indexing the September GDP shock for each industry group to projected changes in the sector GDP shocks relative to September. The relation between revenue and GDP shocks as a result of COVID was then applied to convert these GDP shocks to revenue shocks.

¹ "Shock" refers to the difference between each month and the same month in the prior year.

A custom tabulation of the distribution of April to June revenue losses in retail, wholesale, and manufacturing industry groups was used to estimate the distribution of revenue losses for all industries.

Calculation of eligible expenditures

Using income tax data, eligible business expenditures were calculated for each industry group across corporations, trusts and individuals. This calculation included all reported non-residential real estate rental expenses, eligible interest on mortgages, property taxes, occupancy costs, condominium fees, and commercial property insurance expenses, minus real estate rental revenues. Detailed expenses were imputed for businesses without detailed expense reporting, informed by the income tax data.

Commercial property insurance expenses were imputed by allocating total commercial property insurance premiums in proportion to amortized real estate asset values of corporations.

After these pre-cap eligible expenses were calculated, a cap of \$75,000/month multiplied by the number of locations was applied at the business level, and a cap of \$300,000/month was applied at the ultimate parent level.

The eligible expenditures were inflated from 2017 to 2020 based on revenue trends among non-residential lessors of real estate.

Identification of businesses eligible for lockdown support

Businesses eligible for lockdown support were identified by two characteristics: first, they suffered a revenue loss of at least 50%; and second, they are in an industry subject to restrictions by a public health order in at least one region of one province at the start of November 2020.

Sources of Uncertainty:

The revenue shocks used for this estimate are based on sales data, which does not capture revenues from other sources. Despite a good fit, the linear model of the relationships between revenue and GDP shocks may not fully capture some dynamics such as pent-up demand. This cost estimate relies on the GDP projection in the PBO's October economic model and is affected by the sources of uncertainty inherent in that model, including the assumptions regarding the impacts of COVID-19. The revenue shock distribution understates the variability which occurs in a particular month due to aggregation.

The reliability of expenses reported in income tax filings is unclear due to a lack of other data sources, against which reported expenses can be validated. The impact of the cap across affiliated entities may be understated because this estimate does not account for affiliations between businesses which do not share an ultimate parent. The impact of the cap per location may be understated because this estimate does not account for variation in eligible expenses by business location.

Cost of proposed measure

\$ millions	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Total cost	2,584	1,356	-	-	-	-

Supplementary information

	Description	Operating line	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Cost	Gross rent subsidies	Other transfer payments	2,987	1,567	-	-	-	-
Cost recovery	Corporate Income Tax recovery	Corporate Income Tax	402	211	-	-	-	-
Total cost after recovery			2,584	1,356	-	-	-	-

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost