

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON APRIL 14, 2020
FROM:	ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	PROPERTY TAX DEFERRAL OPTIONS

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, Civic Administration **BE DIRECTED** to set final billings for the 2020 taxation year based on Option 1 as outlined in this report with the following due dates:

- a) For property tax installments: August 31st, 2020, October 31st, 2020, and December 15th, 2020.
- b) For those property owners on preauthorized payment: August 31st, 2020, September 30th, 2020, October 31st, 2020, November 30th, 2020, and December 15th, 2020.

BACKGROUND

On March 25th, 2020, in response to the COVID-19 pandemic, Municipal Council approved a number of items in response to residents' concerns with respect to their ability to meet financial obligations as result of the recent economic and health concerns brought on by the pandemic. One of the directions was:

“d) the Civic Administration **BE DIRECTED** to report back to the appropriate Standing Committee on the potential impacts, costs and the next steps with respect to further options that may be available to assist taxpayers, including the deferral of the June 30th tax installment.”

At this time, Council will be looking to set Tax Policy for 2020, which is an opportune time to discuss the timing of final billings for property taxes. Currently there are 157,492 property tax accounts, of which 94,851 are billed, 35,427 are on preauthorized payment, and 27,214 are on mortgage payments. Typically, for final property tax billings, property owners are to pay the City in three (3) installments (billed) at the end of June, August, and October. If the property owner elected to be on the preauthorized payment (PAP), rather than paying in three (3) installments, the property owner is able to pay over five (5) installments at the end of the month, beginning in June and ending in October. Property owners who pay their taxes with their mortgage payments remit their share of taxes to their mortgage company based on their monthly mortgage payment. The mortgage company then remits payment of the taxes to the City on their behalf, in accordance with the installment deadlines.

EXPERIENCE AND DEVELOPMENTS

As part of the emergent motion approved by Municipal Council on March 25th, Civic Administration was directed to waive interest and penalties for unpaid Interim 2020 Property Tax Installments that came due March 31, 2020, for a period of 60 days. Civic Administration has acted on this and observed that some property owners, where possible, elected to adjust their payments. Although the direction did not apply to payments already setup through pre-authorized payments (PAP), based on existing options available to property owners, some property owners elected to cancel their payments and switch to an alternate payment method.

Since March 25th, in recognition of COVID-19, Civic Administration has noted that other municipalities had or were in the process of implementing similar property tax deferral programs for interim billings. Also on March 27th, 2020, Civic Administration received a letter from the Ontario Minister of Finance, dated March 25, 2020, highlighting a number of property tax initiatives that were announced in Ontario's Action Plan: Responding to COVID-19, namely:

- The deferral of municipal remittances to school boards for the upcoming two quarters (June 30th, and September 30th) by up to 90 days;
 - Payment 2 usually due on June 30 is now due September 30, 2020.
 - Payment 3 usually due on September 30 is now due December 15, 2020.
 - Payment 4 remains due on December 15, 2020.
- The planned property tax reassessment for 2021 will be postponed.

OPTIONS MOVING FORWARD

Given the challenges that property owners may face as a result of COVID-19, the following options have been identified for consideration, which are applicable to all property owners.

The basis for all of these options is ensuring that final property tax billings are completed before the end of December 2020. As the municipal portion of each installment is at least \$130 million, not proceeding with the final billing prior to the end of December 2020 would result in the City experiencing a significant budget deficit and cash flow shortage. The Municipal Act requires that deficits must be funded at year end or recovered in the next budget.

Option 1 – Delay final installments by 60 days.

What does this mean?

- Preauthorized payments would continue to be paid at the end of the month (except December) beginning in August and ending on December 15, 2020, resulting in the final installment being spread over five (5) payments
- For regular payments, installments would be pushed back to the end of month in August, and October, with the final payment being due December 15th.

Pros of this option

- Cleanest approach to implement
- Consistent with current practice, but due dates pushed back 60 days.
- Maintains spread of PAPs over 5 periods.

Cons of this option

- Regular payment date for final payment is at the middle of December, rather than end of month.

Option 2 – Delay final installments by 90 days

What does this mean?

- PAP would continue to be paid at the end of the month (except December) beginning in September and ending on December 15, resulting in the final installment being spread over four (4) payments
- For regular payments, installments would be pushed back to the end of month in September, and November, with the final payment being due December 15th.

Pros of this option

- Longer deferral of property tax payment
- Consistent with school board deferral.

Cons of this option

- The City may be required to borrow from reserve funds to sustain its liquidity until property tax payments resume in September (see Financial Impact section for more details)
- PAP program will now be spread over four (4) payments instead of five (5) payments, meaning each payment will be larger.
- Compressed payment schedule for taxpayers, as the November and December installments would be due 2 weeks apart from each other possibly creating hardship.
- Regular payment date for final payment is at the middle of December, rather than end of month.

Option 3 – Delay commencement of final installments by 90 days, however last payment now being made in November

What does this mean?

- Preauthorized payments would continue to be paid at the end of the month beginning in September and ending in November, resulting in the final installment being spread over three (3) payments
- For regular payments, installments would be pushed back to the end of month in September, October, and November.

Pros of this option

- Longer deferral of property tax payment
- Consistent with school board deferral.

Cons of this option

- The City may be required to borrow from reserve funds to sustain its liquidity until property tax payments resume in September (see Financial Impact section for more details).
- PAP program will now be spread over three (3) payments instead of five (5) payments, resulting in much larger payment amounts possibly creating hardship.
- Compressed payment schedule, as each installment would be due 1 month apart from each other, rather than the normal 2 month schedule.

Other Considerations – Not involving final installments

Option 4 – Delay remaining two interim preauthorized payments by 60 days

What does this mean?

- Delay the April PAP payment to June, and delay the May PAP payment to July. (assumes final billing has been deferred by at least 60 days)

Pros

- Would delay the remaining payment of interim PAP payments automatically by 60 days.
- May prevent property owners from having to cancel their PAP payments, as this would automatically be delayed.

Cons

- Creates an inequity between property tax payers who have already paid their taxes on March 31st, i.e. regular payments and mortgage payments.
- Written notice provision at least 10 calendar days before each and any change is required by law to property owners on the PAP program.

Option 5 – Stop remaining interim PAP (two payments) and defer to final PAP calculation for final billings

What does this mean?

- Remaining payments for April 30th, and May 29th will be cancelled and deferred (added) to the final PAP calculation.

Pros

- Will delay the remaining payment of property taxes for those on PAP to final billings.

Cons

- Creates an inequity between property tax payers who have already paid their taxes on March 31st, i.e. regular payments, and mortgage payers.
- Written notice provision at least 10 calendar days before each and any change is required by law to property owners on the PAP program.
- Payments deferred will be added on to final billings, making the final billings even larger.
- People on PAP with fixed incomes may wish to continue paying through their regular withdrawals.

Option 6 – Stop one of the April or May PAP payments and defer that payment to the final PAP calculation for final billings

What does this mean?

- The PAP payment for April 30th will be cancelled and added to the final PAP calculation, however the May 29th PAP will still be processed.

Pros

- Will ensure equity amongst property tax payers. All property tax payers would have theoretically paid 40% of property taxes, prior to final installment.

Cons

- Payment deferred will be added on to final billings, increasing the amount of final billings.
- May increase or create confusion with property owners on PAP. (Selection of the May PAP payment for deferral to the final billing may reduce possible confusion associated with stopping in April and then continuing a payment in May.)
- People on PAP with fixed incomes may wish to continue paying through their regular withdrawals.

FINANCIAL IMPACT

The most significant financial impact associated with the property tax deferral measures outlined in this report is on the City's cash liquidity, specifically by delaying cash inflows that would normally be received in the months of June and July. The City continues to incur the majority of expenses (with some exceptions), however it is also incurring additional costs to respond to the pandemic, as well as the loss of revenues, particularly user fees due to the closure of amenities and the cancellation of programming.

Civic Administration is actively monitoring the Corporation's cash flow on a daily basis and modelling various scenarios to assess the impact of COVID-19 on the City's cash resources. Based on the recommended Option 1 proposed in this report and assuming a gradual recovery of "normal" City operations by the end of June, it is anticipated that the City will have sufficient cash resources to sustain operations until property tax payments resume in August. It should be noted, however, that any further relief measures are likely to require temporary borrowing from the City's reserve funds in order to provide the necessary cash resources to sustain operations.

A further report outlining the projected financial impact of COVID-19 on the Corporation will be presented to the Strategic Priorities and Policy Committee on April 28th. This report will outline the various areas experiencing financial impacts associated with the pandemic, as well as other potential relief options that could be considered to further support the community.

SUMMARY

COVID-2019 is having worldwide impacts as seen in volatile financial markets and the overall economy. Liquidity is becoming a concern for many individuals and businesses. One tool that a municipality could use to ease the strain caused by this emergency is to defer property tax payments to provide time for other levels of government who have more tools at their disposal to support programs for businesses and citizens that are impacted by the pandemic. In weighing deferral options, the municipality needs to be mindful of its own cash flow as core essential services being provided are expected to be maintained.

Deferring the final billings for property tax payments by 60 days as outlined in Option 1 of this report, provides some relief, while at the same time maintains an amortization of five (5) payments for those property owners on preauthorized payments, rather than reducing that payment schedule down to four (4) or even three (3) payments. Property tax deferral is only one potential relief option for a municipality. A report to the Strategic Priorities and Policy later in April will also identify other tools that Municipal Council could consider to provide relief in the context of the City’s anticipated financial impacts.

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