

The Regional Municipality of York

Council
Finance and Administration
April 2, 2020

Report of the Commissioner of Finance

Partnering with Local Municipalities to Support Residents and Businesses Impacted by COVID-19

1. Recommendations

1. Council approve the waiving of interest on any portion of tax levy instalments not remitted to the Region as a result of a local municipality's Coronavirus (COVID-19) tax relief program for a period up to 90 days.
2. Council approve retaining the 2020 water and wastewater rates at their 2019 levels and that staff report back on the financial implications of this.
3. The Regional Clerk circulate this report to the local municipalities, the local Chambers of Commerce/Boards of Trade and the Building Industry and Land Development Association – York Chapter (BILD).

2. Summary

This report provides an overview of the economic impact of COVID-19, the financial relief considered by the local municipalities and the associated financial impact. It also recommends the waiving of the interest charges on any portion of late remittance of tax levy by local municipalities as a result of their support to residents and businesses during the pandemic. It also recommends deferring the implementation of the planned 2020 water and wastewater increases.

Key Points:

- Between March 17th and March 23rd Ontario, along with local municipalities and regions including York Region, declared state of emergency in response to the COVID-19 pandemic.
- Both Provincial and Federal governments have announced a number of measures to help stabilize the economy as Canadian workers and businesses are impacted by lay-offs and mandatory closures.

- Many Ontario municipalities and local municipalities are offering different forms of financial relief for its residents and businesses.
- Staff recommend supporting local municipalities by waiving interest charges on any portion of tax levy payments not remitted for the 2020 taxation year as a result of their COVID-19 financial relief programs for a period up to 90 days. Staff also recommend deferring the implementation of the planned increases to the 2020 water and wastewater rates charged to local municipalities.
- Should the pandemic situation continue over the longer term, other measures could be considered by Council to provide relief including extending the deferral period.

3. Background

York Region's economy is expected to have lower-than-expected economic growth as a result of the COVID-19 pandemic

The magnitude of the impact to York Region is not yet known but the extent of the social distancing measures and the economic shut-down are unprecedented. The Conference Board of Canada has projected two scenarios: a baseline in which social distancing will end in 6 weeks, and an alternate forecast where it will end in 24 weeks (by end of August). Depending upon which scenario plays out the impact to York Region, Ontario and Canada will be very different. Currently Ontario's forecast real GDP growth for 2020 will be effectively zero¹ (down from the forecast of 1.6% in the 2019 provincial budget) while for Canada it is expected to 0.30%². Sectors such as tourism, accommodation and food, entertainment and recreation, oil patch and manufacturing will suffer sharp declines.

The impact to York Region will be determined by factors such as:

- The effect of the steep drop in consumer spending due to job losses and quarantine.
- The effect of the interest rate decline on the housing market – while borrowing rates are lower, consumers are also faced with a lower investment return on their savings.
- Consumer confidence plummeted in March 2020 due to COVID-19 fears.³ Consumer confidence partially measures a household's view on the short-term employment outlook and the likelihood to make a major purchase such as a house or a car.

¹ Ontario's Action Plan: Responding to COVID-19, March 2020 Economic and Fiscal Update, March 26 2020

² Conference Board of Canada, COVID-19 and its impact on the Canadian and global economies, March 23, 2020

³ Conference Board of Canada, Canadian Consumer Confidence Index, March 2020

It is expected, however, that as virus-related disruptions ease, Ontario will rebound in 2021 and York Region will likely follow this trend. Staff will continue to monitor the economic impacts on York Region especially with respect to industries related to COVID crisis.

The pandemic is expected to have a significant impact on York Region businesses across sectors, to different degrees

The COVID-19 pandemic and measures to contain its spread are having an impact on York Region businesses across all sectors. This is not only due to the temporary policies instituted by governments, but a general reduction in consumer demand.

The industries most impacted by temporary government policies, such as mandated closures and travel bans, include transportation, accommodation, food, retail, and entertainment, which make up approximately 24% of businesses and 23% of non-broader public sector jobs in York Region in 2019 (Table 1). For the purpose of this analysis, non-public sector jobs are jobs in sectors other than government, hospitals, and public schools.

These were also the same industries that were hardest hit during the 2003 Severe Acute Respiratory Syndrome (SARS) epidemic. In the wake of the SARS epidemic, the GDP attributable to the tourism sector dropped by 5% in between the first and second quarter of 2003, with air transportation experiencing greater decline and longer recovery compared to accommodation and food services.

Small and medium sized (i.e., under 100 employees) businesses are expected to experience a harder hit from COVID-19 due to challenges in liquidity and securing loans. Small and medium sized businesses make up the backbone of the Region’s economy, accounting for 97% of all businesses and 60% of non-broader public sector jobs. Small and medium businesses in the Transportation, Accommodation, Food, Retail and Entertainment sectors employ approximately 16% of non-broader public sector jobs in York Region (Table 1).

Table 1
Share of Businesses and Jobs in the Transportation, Accommodation and food services, Retail trade and Entertainment sectors*

	% of Businesses	% of Jobs**
Small	20.5	7.2
Medium	3.3	8.6
Large	0.6	7.3
Total	24.4	23.1

Source: Treasury Office using 2019 York Region Employment Survey data

* For the purpose of this analysis, the Level 1 NACIS classification is used. The two digit codes of the industries shown on table 1 include: 44 Retail trade – common; 48 Transportation; 71 Arts, entertainment and recreation; 72 Accommodation and food services

**These figures include paid jobs only, regardless of tenure and permanency

Note: These figures only include non-broader public sector places of employment and jobs. Numbers may not sum due to rounding.

COVID-19, which already has a broader global impact when compared to SARS, will likely have a lasting impact on these industries. Particularly, a weakened global supply chain and consumer demand will have a negative impact on the manufacturing industry (particularly automotive). The retail industry may be harder hit this time due to the prevalence of e-commerce. These industries account for 18% of businesses and 19% of non-broader public sector jobs in York Region in 2019.

Senior levels of government have announced relief programs that are targeted at the most vulnerable businesses and residents

As noted in the April 1, 2020 memo to Council, entitled “Provincial Fiscal Update and Federal/Provincial COVID-19 Response Plans”, senior levels of government have announced relief programs that are targeted at the most vulnerable businesses and residents.

Since March 18, 2020, the federal government has announced a series of relief aid and stimulus, including:

- \$52.4 billion in direct assistance for eligible small and medium businesses
- \$55 billion to help meet liquidity needs and stabilize the economy, which includes deferral of income tax payments and waiving of interest
- \$30 billion in cash flow and liquidity assistance for businesses, which includes deferral in Goods and Services Tax/Harmonized Sales Tax (GST/HST) remittances and customs duty payments

The government has also announced over \$500 billion in credit and liquidity support through financial Crown corporations, Bank of Canada, Export Development Canada, and Business Development Bank of Canada, OSFI, CMHC and commercial lenders to stabilize funding.

On March 25, the Province announced the Ontario Action Plan for fighting Covid-19 as part of their Economic and Fiscal Update. The \$17 billion funding package offers various supports to healthcare (\$3.3 billion), people and jobs (\$3.7 billion), and cash flow support for businesses (\$10 billion).

Of this funding package, \$200 million social services relief fund was purposed to assist municipalities and social service providers in areas such as homeless shelters, food banks, emergency services, charities and non-profits.

The Province is also allowing municipalities to delay their remittance of property taxes for school boards by 90 days

The Province announced, as part of the *March 2020 Economic and Fiscal Update*, a 90-day deferral of the June 30 and September 30 quarterly municipal remittances of education property tax receipts. However, the education tax payment due March 31, 2020 will remain unchanged. To ensure this deferral does not have a financial impact on school boards, the Province will adjust their payments to school boards to offset the deferral.

While the Region is responsible for determining tax policy, local municipalities are responsible for property tax billing and collection

The Region sets the tax ratios and determines some tax policies that apply to all nine local municipalities. However, it is the local municipalities that are responsible for tax administration, including billing and collection of the property taxes by setting the instalment dates as they see fit. While the Region sets the dates by which all local municipalities have to remit the Regional portion of property tax payment to the Region, local municipalities have different tax instalment schedules for their tax payers to meet their various cashflow needs.

Since municipalities set the due dates and assess penalties on late payments, it is ultimately the municipalities' decision to offer taxpayers flexibility in their payment dates. The Region however, can ease the burden on municipalities that decide to offer flexibility to its tax payers by providing flexibility in their Regional instalments.

Most of York Region's local municipalities have already announced or are considering financial relief and other support programs

In response to COVID-19, local municipalities in the Region have announced or are considering various financial relief programs to support their businesses and residents.

The most common measures local municipalities have offered are extending payment deadlines and waiving late payment penalties, as shown in Attachment 1, Table 1.

Preliminary analysis indicates that local municipalities should be able to afford the proposed relief programs in the next quarter. However, the adverse economic impact of the measures to combat COVID 19 may impact the locals' ability to collect revenue from all other sources in completely unexpected ways. Moreover, prolonged and sharp decreases in revenue would put pressure on local municipalities' ability to manage their cash.

Other Ontario municipalities are considering financial relief programs

Other Ontario municipalities have announced, or are considering tax deferral relief and/or waiving penalty and interest tax and water/wastewater payment. As shown on Attachment 1, Table 2, most upper-tier municipalities are considering a range of financial relief measures primarily driven by decisions made at the local level.

Section 106 of the Municipal Act, 2001 restricts municipalities to provide targeted, application-based financial relief to for-profit enterprises

Currently, section 106 of the *Municipal Act, 2001*, (Act) generally prohibits municipalities from providing targeted financial assistance or ‘bonusing’ to industrial or commercial enterprises. As a result, municipalities would not be permitted to provide a targeted application- based total or partial exemption from any levy, charge or fee, or provide loans under section 107 of the Act.⁴ Despite the restrictions under section 106 of the Act, municipalities have flexibility with tax remittance requirements

The Act does provide that municipalities have discretion as it relates to the tax levy remittance dates and interest charged when in default.

The Act provides upper-tier municipalities the flexibility to set the tax instalment dates by which local municipalities remit the Regional portion of tax levy for both interim and final tax levies. The Act prescribes an annual interest payment of 15 per cent on the amount in default, unless the upper tier sets a lower rate as they deem appropriate.

4. Analysis

Council can waive interest charges to local municipalities on tax payments owed to the Region but have been delayed as a result of a tax relief program established due to COVID-19

As the COVID-19 pandemic continues to evolve, local municipalities and other neighbouring municipalities have started to offer various financial relief programs.

In the short term, tax relief programs offered by local municipalities (see Attachment 1, Table 1) consist mainly of deferring of tax instalments and/or waiving of penalties and interest charges for a period of one to three months. In order to support the various local options being considered to assist residents and businesses, the Region could consider providing local municipalities with some financial flexibility.

Council has currently approved an interim tax levy by-law that sets the amounts payable by local municipalities to the Region on or before April 30, 2020 and June 30, 2020. For final tax levy, the instalment dates are typically September 30 and December 15.

Typically, the Region interest would be payable, at statutory rates, on any portion of tax instalments not remitted to the Region by the due dates. As an immediate measure, it is

⁴ Note: This does not however restrict the ability of the Region to provide the broader commercial business class with water rate reductions or interest waivers on late tax payments.

recommended that interest on tax levy instalments for 2020 from the local municipalities be waived for up to 90 days on any portion not remitted as a result of a local tax relief program related to COVID-10. However, local municipalities would be expected to remit to the Region any portion of property taxes they have collected on behalf of the Region prior to the due dates.

Staff recommend deferring the water and wastewater user rate increase that was scheduled to take effect on April 1st

In 2015, Council approved a User Rate Study that included six years of rate increases, including a 9 per cent increase that was scheduled take effect on April 1, 2020. A bylaw to enact the April 1st, 2020 increase is tracking to Council at the end of April.

Several local Councils have approved the deferral of their planned 2020 water and wastewater rate increase, and others are waiting for a decision from the Region before deciding on their own course of action. To align with local action, and to provide fiscal relief that could be passed on to residents and businesses, staff recommend that the Region defer the scheduled 9 per cent increase.

Staff would report back to Council to provide detailed implications of deferring the planned rate increase. Preliminary analysis suggests that the rate deferral would result in lost revenue of about \$25 million. It could also jeopardize the planned timeline for achieving full cost recovery. The 2015 User Rate Study called for a 2.9 per cent increase in 2021, the final increase in the study period, at which point the Region was expected to have achieved full cost recovery.

Staff can include options for achieving or delaying full cost recovery as part of a report back to Council.

Should the economic impact associated with COVID-19 escalate or continue for a longer period, staff could report back with other options

Should the economic impact associated with COVID-19 escalate or continue for a longer period, the Region may wish to consider other options to support local municipalities that want to offer targeted reliefs.

5. Financial

The 2020 interim tax levy being requisitioned from local municipalities is \$567.3 million and will provide the Region with sufficient revenues to fund its operations.

If implemented and fully utilized, the waiving of interest charges for a 90-day period for each tax instalment would cost the Region approximately \$1.5 million in interest (Table 2). If all tax instalments were delayed during the year, the cost would be \$6 million. However, It is

expected that the actual cost to the Region should be much lower, as the local municipalities are expected to remit any taxes that are collected to the Region.

Table 2
Cost Associated with 90 day Instalment Delay (\$M)

Property Tax Class	Each Interim Instalment Amount (April 30 & June 30)	Potential Cost to Region at 2.20%*
Residential	234.84	1.27
Non-Residential	47.74	0.26
Others	1.07	0.01
Total	283.65	1.54

*Calculation is based on 90 days on each instalment

Preliminary analysis suggests that deferring the scheduled water and wastewater rate increase of 9 per cent would result in lost revenue of about \$25 million in 2020. It could also jeopardize the planned timeline for achieving full cost recovery, which was expected to be in 2021.

6. Local Impact

Waiving tax instalment interest charges for up to 90 days would assist with various property tax relief programs currently being offered by local municipalities.

7. Conclusion

It is recommended that interest charges be waived on any portion of the 2020 tax levy instalment payment owed to the Region that has been delayed as a result of a local municipality's COVID-19 tax relief program for a period of not more than 90 days. It is also recommended that the planned 2020 water and wastewater rate increases be deferred.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer, at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.

Recommended by:

Laura Mirabella, FCPA, FCA

Commissioner of Finance and Regional Treasurer

Approved for Submission:

Bruce Macgregor

Chief Administrative Officer

April 1, 2020

Attachment (1)

10683283