

The Regional Municipality of York

Committee of the Whole
Finance and Administration
April 16, 2020

Report of the Commissioner of Finance

Waiving Interest on Property Tax Instalments in Response to COVID-19

1. Recommendations

1. Council approve waiving interest on any portion of property tax instalments, for the 2020 taxation year, not remitted to the Region as a direct result of a local municipality's Coronavirus (COVID-19) tax relief program, for a period of 90 days following the applicable Regional tax instalment due date.
2. 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 discusses two options for waiving interest charges on any portion of a late remittance of property tax instalments, for the 2020 taxation year, by local municipalities, as a direct result of their support to residents and businesses during the pandemic.

Key Points:

- Under either option, it is expected the local municipalities would continue to remit any portion of Regional taxes that have been collected on their normal due dates
- The options presented assume local municipalities provide their taxpayers with relief for several months
- Staff recommend Option 1 - waiving of interest on any portion of property tax instalments, for the 2020 taxation year, not remitted to the Region as a direct result of a local municipality's Coronavirus (COVID-19) tax relief program for a period of 90 days, following the applicable Regional tax instalment due date
- Should the pandemic situation continue over a longer term, staff could identify additional measures for Council consideration

3. Background

Staff were directed to bring back more information regarding property tax interest charge waiving options to Council

On April 2, 2020, a report entitled “Partnering with Local Municipalities to Support Residents and Businesses Impacted by COVID-19” was brought forward to Council. The report provided an overview of the economic impact of COVID-19, the financial relief programs considered by the local municipalities, and recommended relief measures relating to tax instalments and water and wastewater rate increases. While Clause 2 of the report, being “Council approve retaining the 2020 water and wastewater rates at their 2019 levels and that staff report back on the financial implications of this” was approved, the other two clauses relating to the waiving of interest on tax levy instalments were deferred to the April 16, 2020 Committee of the Whole meeting.

The Region is responsible for determining tax policy, while 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 due 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 taxpayers to meet their various cash flow needs.

Since municipalities set the due dates and assess penalties on late payments, it is ultimately the local 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 taxpayers by providing flexibility in remitting their Regional property tax 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 York 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.

Other Ontario municipalities have also announced or are considering financial relief programs

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

While municipalities are restricted in providing direct financial assistance to targeted business segments, municipalities have flexibility to set tax instalment dates and the amount of interest charged when in default

Section 106 of the Municipal Act, 2001, (Act) generally prohibits municipalities from providing financial assistance or 'bonusing' to industrial or commercial enterprises. Despite the restrictions under section 106 of the Act, 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.

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

As part of its March 2020 Economic and Fiscal Update, the Province announced 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 is adjusting their payments to school boards to offset the deferral.

4. Analysis

Council could waive interest charges to local municipalities on tax payments owed to the Region that have been delayed as a result of COVID-19 tax relief

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. To support the various local options being implemented to assist residents and businesses, Council could consider providing local municipalities with some financial flexibility with respect to their tax remittances to the Region.

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

Interest would normally be payable by a local municipality, at statutory rate of 15 % per year, on any portion of the property tax instalment not remitted to the Region, on or before the due dates.

However, as an immediate measure, interest on outstanding tax levy instalments from the local municipalities, for the 2020 taxation year only, could be waived on any portion not remitted by the due date, as a result of a local tax relief program related to COVID-19. Local municipalities would still be expected to remit any portion of the property taxes they have collected on behalf of the Region, on the normal due dates.

Two options for the waiving of interest charges were considered

Option 1: Waiving of interest on any portion of the four tax levy instalments in 2020 not remitted to the Region, as a direct result of a local municipality's COVID-19 tax relief program for 90 days following the normal tax instalment dates.

Under this option, it is still expected the local municipalities would continue to remit any taxes collected on behalf of the Region.

Table 1

Option 1 – Interest Waiving on Four Tax Instalments for 90 days Property Tax Instalment Dates and Final Date for Proposed Interest Waiver

	Instalment Dates	Proposed 90-day Interest Waiver Period
Interim	April 30, 2020	July 29, 2020
Interim	June 30, 2020	September 28, 2020
Final	September 30, 2020*	December 29, 2020
Final	December 15, 2020*	March 15, 2021

*Estimated dates based on historic tax instalment dates. Final tax instalments for 2020 have not been approved by Council yet.

The remittance of a subsequent instalment would first be applied to the outstanding balance from the previous instalment. So long as subsequent installment payments are sufficient to clear the outstanding balance from the previous due date, local municipalities could have until March 15, 2021 to be fully paid up interest free. The key benefit of Option 1 is it would ensure the Region would have sufficient property tax revenues available to fund operations without having to incur significant, either internal or external, financing costs. While the Region has sufficient cash and short term securities to manage any delay of receiving the equivalent of up to one full tax instalment for three months, on a rolling basis, the costs associated with funding the delay including interest costs will still have to be repaid through future property tax revenues.

Option 2: Waiving of interest on any portion of tax levy instalments not remitted to the Region as a direct result of a local municipality's COVID-19 tax relief program until December 31, 2020.

Under this option, interest charges would be waived on any portion of the four tax instalments until December 31, 2020. Similar to Option 1, it is also expected the local municipalities would continue to remit any taxes collected on behalf of the Region.

While this blanket option could allow local municipalities to provide significant flexibility to taxpayers, most of the Region's area municipalities have chosen to defer payments or waive interest for shorter periods of time. An interest waiving period of this length may have the unintended consequence of discouraging taxpayers who are capable of paying from doing so until the final due date. As the outstanding balance of unpaid property taxes increases and extends beyond 90 days, both local municipalities and the Region could face significant liquidity risks which would require significant short-term external borrowing or inter-reserve borrowing to finance operations. Additionally, as outstanding balances increase, it may become increasingly difficult for local municipalities to obtain ultimate payment of those outstanding balances and remit same to the Region.

Staff recommend Option 1 - Waiving interest for each tax instalment for a period of 90 days

Staff recommend Option 1, to provide local municipalities the flexibility needed with their Regional property tax instalments. Because the timing between due dates for Regional tax instalments is less than 90 days, and by applying the new remittance to the outstanding balance of the previous instalment, it could provide an effective interest free period until March 15, 2021, which is beyond the end of the year. It would also ensure the maximum financial exposure would be limited to the equivalent amount of one tax instalment which would be within the Region's current financial means.

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

Should the economic impact associated with COVID-19 escalate or continue for a longer period, staff could identify other measures the Region could take to mitigate those impacts and report back to Council.

It should be noted, to provide application-based relief to targeted tax payers, the Region could request the Province to amend or suspend Section 106 of the Municipal Act.

5. Financial

The Region will requisition \$1.189 billion from local municipalities in 2020 over four instalment payments to fund its operations.

Under Option 1, if implemented and fully utilized by local municipalities, the waiving of interest charges for a 90-day period for each tax instalment would result in the waiver of

approximately \$10.5 million in interest (Table 2). If the full amount of each of the four tax instalments was not received until 90 days after each due date, the total interest waiver could be \$42 million. However, it is expected the actual amount of interest ultimately waived would be much lower, as the local municipalities are expected to remit any taxes collected to the Region.

Table 2
Option 1
Maximum Value of a 90 day Interest Waiver (\$M)

Property Tax Class	Each Tax Levy Instalment Amount	Potential Interest Waived
Residential	234.84	8.69
Non-Residential	47.74	1.77
Others	1.07	0.04
Total	283.65	10.5

*Calculation is based on 15 % statutory rate on each 2020 Interim Instalments over 90 days

Under Option 2, if all tax instalments remained unpaid until December 31, 2020, the total interest waiver could be \$64 million (Table 3). Similar to Option 1, it is expected the actual waiver would be much lower, as the local municipalities are expected to remit any taxes collected to the Region.

Table 3
Maximum Value of Waiving Interest until December 31, 2020 (\$M)

Regional Tax Levy	April Instalment	June Instalment	September Instalment	December Instalment	Total
Residential	23.64	17.76	9.69	1.69	52.78
Non-Residential	4.81	3.61	1.95	0.34	10.70
Others	0.11	0.08	0.04	0.01	0.24
Total	28.56	21.45	11.68	2.03	63.71

The costs associated with either Option 1 or Option 2 will vary depending upon the amount and the duration of total interests being waived by the local municipalities. However, delays

beyond 90 days, or outstanding balances greater than the value of one installment, would require the need to acquire additional, either internal or external, financing which would need to be repaid along with interest at a future date.

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 Option 1 - waiving of interest on any portion of property tax instalments, for the 2020 taxation year, not remitted to the Region as a direct result of a local municipality's Coronavirus (COVID-19) tax relief program, for a period of 90 days following the applicable Regional tax instalment due date, be adopted.

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 6, 2020
Attachment (1)
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