



# The Corporation of the Town of Milton

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Report To: Council

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From: Glen Cowan, Chief Financial Officer / Treasurer

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Date: March 30, 2020

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Report No: CORS-020-20

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Subject: Property Tax Assistance in Response to COVID-19

**Recommendation:** 1. THAT the following fees and penalties be waived until June 30, 2020 in recognition of the impacts of COVID-19:

- a. Penalty/Interest as described in Section 5 of By-Law 096-2019 (2020 Pre-Authorized Tax Payment Program By-law);
- b. Penalty/Interest as described in Section 5 of By-law 119-2019 (2020 Interim Tax Levy By-law);
- c. Overdue Tax Notice Fee as presented on Schedule H of By-law 071-2019 (User Fee By-law);
- d. Cheque Pull/Re-file Fee as presented on Schedule H of By-law 071-2019 (User Fee By-law) for cases related to the collection of property taxes;
- e. Dishonoured Payment Fee as presented in Schedule N to By-law 071-2019 (User Fee By-law) for cases related to the collection of property taxes.

## EXECUTIVE SUMMARY

- Property taxes form a key revenue source for government services, and the Town of Milton is tasked with annually collecting through installments property tax revenue for itself, the Region of Halton as well as the School Boards.
- COVID-19 has financially impacted the economy, and various forms of relief and programs have been introduced by the Federal and Provincial Governments in order to support individuals and businesses.
- A property tax relief program that waives penalties and fees related to property taxes will provide further flexibility to those affected while still providing the necessary funding for the continuation of important municipal services.
- The Region of Halton and the Province have deferred the due date by which the Town is required to remit their portions of the second installment of property taxes.
- An unfavourable budget variance in 2020 of \$336,300 is estimated as a result of the recommended program. This amount consists largely of the foregone fees and penalties that were budgeted for based on the historical volume of activity.



Council will have the opportunity to further assess tax collection in 2020 as a part of the approval of the final tax levy by-law and installments later in Q2.

## REPORT

### Background

COVID-19 and the resulting actions that have been required in order to reduce the spread of the infection (examples: travel limitations, border closures, etc.) have had a negative impact on the global, national and local economy. Following the declaration of a state of emergency on March 17, the Province of Ontario ordered the closure of all non-essential businesses effective as of the end of day on March 24. As a result, a number of Milton businesses will need to close and residents will continue to be financially impacted. This report has been prepared in order to provide assistance to Milton taxpayers with consideration of the programs initiated by other levels of government as well as the funding requirements of the Town in order to service the needs of the community.

### Discussion

#### Property Tax Collection

The Town administers property tax collection in accordance with Town Policy 111 (Financial Management - Taxation & Assessment Base Management). For most property owners, property taxes are billed twice a year with four installment due dates. Interim taxes are billed in January, equal 50% of prior year taxes, and are payable at the end of February and April. Final taxes are billed in June, represent the balance of taxes owing for the current year, and are payable at the end of June and September.

The Town also offers pre-authorized payment programs, including a monthly installment plan that begins in November and continues to October of the applicable year.

The Town has approximately 39,500 billable tax accounts; 38,300 residential and 1,200 non-residential (commercial, industrial and multi-residential). Approximately 18.7% of accounts are on the monthly pre-authorized payment plan and 6.3% on the pre-authorized Installment plan (PTP).

In total, the Town bills about \$208.3 million in taxes each year (of which \$69.1 million is the Town portion). The Town has billed approximately \$101.9 million so far this year with due dates as follows:



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	Nov 2019*	Dec 2019*	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Total
Monthly PTP	\$3.1M	\$3.1M	\$3.1M	\$3.1M	\$3.1M	\$3.1M	\$3.1M	\$21.7M
Installments**				\$40.1M		\$40.1M		\$80.2M
<b>Total</b>	<b>\$3.1M</b>	<b>\$3.1M</b>	<b>\$3.1M</b>	<b>\$43.2M</b>	<b>\$3.1M</b>	<b>\$43.2M</b>	<b>\$3.1M</b>	<b>\$101.9M</b>

\* November & December 2019 PTP Billings are applied to 2020 Property Taxes

\*\* Installments include regular, pre-authorized due date plan and mortgage remittances

The amounts indicated above include amounts billed by the Town and collected on behalf of the Region and School Boards, with remittances as follows:

	Jan	Feb	March	April	May	June	Total
Region		\$17.7M		\$17.7M			\$35.4M
School Boards			\$15.8M			\$16.2M	\$32.0M
<b>Total</b>		<b>\$17.7M</b>	<b>\$15.8M</b>	<b>\$17.7M</b>		<b>\$16.2M</b>	<b>\$67.4M</b>

The Region's payment schedule is established by Regional by-law, and normally coincides with the last business day of the four (4) installment months (Feb, Apr, Jun, Sep). The School Board payment dates and amounts are prescribed by the Province in the Education Act (Mar, Jun, Sep, Dec). Interest is applicable if the Town is late in making these payments.

Taxpayers have a number of ways to remit payment including by mail, cash or cheque at the Town Hall Cashiers or drop box, at financial institutions (both in person and electronically), online, as well as having their Mortgage company remit on their behalf. Additionally, for properties enrolled in a PTP plan, monies are withdrawn from the taxpayer's bank account. The distribution of how monies are received is as follows:

Payment Method	% of Taxes
Online electronic banking (includes credit card)	36.8
PTP payment withdrawal	26.5
Cheque - mailed in or dropped off	20.7
Mortgage company	12.7
Cash or Debit (in person at Cashiers)	3.2
Other - Telepay	0.1

To date, staff have collected \$49.2 million of the interim taxes billed. This represents the regular February installment, along with the November 2019 through February 28, 2020 PTP withdrawals.



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The remaining amount due between now and end of May is \$52.9 million which consists of the April regular installment, the March, April and May PTP withdrawals and any outstanding amounts from previous billings to date.

With the exception of making payment at Cashiers due to the Town Hall closure, all payment avenues continue to be available to ratepayers.

## Summary of the Town's Fees and Penalty

In order to offset the costs to the Town that result from delayed payment, the Town's policy and by-laws incorporate the following collection tools:

Description	Approving By-law	Amount	Detail
Penalty/Interest	By-law 096-2019 By-law 119-2019	1.25%	Applied on first day of default & each calendar month thereafter
Overdue Tax Notice Fee	By-law 071-2019	\$5.00	Overdue notices are issued in January, March, May, July, August, October, November and December
Cheque Pull/Re-file Fee	By-law 071-2019	\$20.00	Applies to retrieval and reprocessing of post-dated cheque or PTP withdrawal date revisions
Dishonoured Payment Fee	By-law 071-2019	\$50.00	Applies to insufficient funds, stop payments, account closures for cheques or PTP returns

Legislation requires that penalty and interest be applied in the same manner and at the same time for all properties. If penalty and interest were to be waived, it would have to be waived on all tax arrears.

## Proposed Relief Program

It is recommended that the aforementioned penalties and fees be waived to June 30, 2020. As such, the following outlines the impacts and associated costs to the Town.

- 1. Waive penalty/interest charges during the months of April, May and June 2020 relating to currently outstanding taxes.**

There is currently approximately \$8.8 million owing from previous property tax billing. This amount relates to due dates that occurred prior to the COVID-19 outbreak, however this relief is being recommended as the economic impacts of the pandemic may introduce new challenges for individuals in arrears. Lost penalty and interest revenue for the 90 day period would be at most approximately \$330,000 ( $\$8.8 \text{ million} \times 1.25\% = \$110,000 \text{ per month}$ ). From a budgetary



perspective, the variance would be less as some of the outstanding amounts would have been paid during the 90 day period. Assuming each month 60% of the outstanding amount was paid (based on historical arrears patterns), the budgetary impact for variance purposes would be **\$171,600**.

**2. Provide for a two month grace period where no penalty or interest is levied against the April 30<sup>th</sup> property tax installment**

The April 30<sup>th</sup> tax installment represents \$43.2 million of tax collection. On average, approximately 30% of ratepayers generally fail to pay this installment on time and would have incurred penalty/interest charges on May 1<sup>st</sup> totaling roughly \$162,000 ( $\$43.2\text{M} \times 30\% \times 1.25\% = \$162,000$ ).

As not all household and businesses are equally affected financially by COVID-19, it is hoped that a number of ratepayers will still make the April installment payment on time. As the Town has no recent experience with such a program, there is no readily available data upon which to estimate the extent to which property tax revenue will be delayed. By way of example, if non-payment of the April installment increased from the 30% historical rate up to 75%, the value of the waived penalty and interest would total \$405,000 ( $\$43.2\text{M} \times 75\% \times 1.25\% = \$405,000$ ). This higher amount would not create a budget variance, however, as the 2020 Budget didn't contemplate a higher rate of arrears.

The 2020 budget variance related to waiving the May 1<sup>st</sup> penalty and interest totals approximately \$162,000. Assuming that 80% of the outstanding balance on May 1<sup>st</sup> is paid before the June penalty date (based on the February 2020 installment experience), there would also be a budget variance in June of approximately \$32,400. As such the total budget variance expected in 2020 for this relief totals **\$194,400**.

**3. Waive the Town's Dishonoured Payment and Cheque Pull/Re-file user fees as it relates to property taxes until May 31, 2020**

Where the ratepayer's physical cheque or automatic withdrawal through the pre-authorized tax payment program is not honoured by their financial institution, the Town will forego levying the \$50 fee.

In addition, the Town has already received and pre-processed many post-dated cheques for the April 30<sup>th</sup> tax installment. In cases where the ratepayer requests that the Town not process said post-dated cheque, staff will direct the ratepayer to place a stop payment on the item through their financial institution. In these cases the Town fee for the returned Stop Payment notification will not be charged to May 31, 2020. Finally, in any case where the cheque pull/re-file user fee may be applicable in relation to property tax collection, including with respect to changes



to the timing of property owners PTP payments at the owner's request, the related \$20 fee will also be waived until May 1<sup>st</sup>.

Based on prior years' experience, the 2020 Budget includes approximately \$10,000 in revenue related to these fees. This amount includes dishonoured payments in areas other than property taxation. For the purposes of this report, **\$1,500** is assumed to represent an amount related to property tax collection for the period April to June. This figure represents the budget variance that can be expected from the waiving of the fee, noting that similar to the interest/penalty above the actual amount waived may be higher.

#### 4. Waive the Town's Overdue Notice user fee to May 31, 2020

The Town's user fee bylaw authorizes staff to charge \$5 per overdue notice issued. Should the grace period be enacted, staff will not generate overdue notices to residents or businesses and forego the Overdue Notice fee. Estimated revenue of \$30,000 (6,000 x \$5) would be lost, however, postage expense due to non-issuance of the May overdue notice would result in approximately (\$6,000) of savings, for an overall net loss of **\$24,000**.

In addition to the variances resulting from the foregone fee revenue outlined above, there would also be financial impacts related to the foregone interest earnings that will result from a delay in the collection of property taxes. The estimated amounts are outlined further in the Financial Impact section of this report.

#### Regional and School Board Remittances

On March 25<sup>th</sup>, Regional Council approved a two month deferral for remittance of the April 30<sup>th</sup> levies from the local municipalities to the Region. This deferral is important as it creates relief on the Town's cash flow and the opportunity to generate income to partially offset the costs noted above. Based on the current rate of return available, every month of delay will translate to approximately \$19,000 in revenue for the Town (\$38,000 total for the two months).

On March 25<sup>th</sup>, the Province also announced through its 2020 Fiscal Update the deferral of the June due date for School Board remittances by 90 days. The benefit to the Town includes approximately \$17,000 per month in additional investment revenue (\$51,000 total for 3 months), as well as the aforementioned cash flow relief.

#### Other Alternatives Considered

A variety of options were considered in the development of this relief program. The following provides some commentary related to several of the alternatives that were considered but not recommended for the considerations provided:

### **1. Reduction in Property Tax Rates**

Property taxes form an essential funding source that is required to ensure that the Town is able to provide much needed services to the community on a sustainable basis. As noted in the Town's 2020 Budget document, the Town's local tax rate is currently 30% lower than the average of neighbouring municipalities. The existing municipal tax by-laws and policy already include consideration of financial hardship, through programs such as the low income seniors program (Section 319 of the *Municipal Act, 2001* ("the Act"), the Older Adults Property Tax Deferral Program (OATDP), and appeals for relief under Section 357 of *the Act*.

Financial supports to individuals and businesses are especially important in times of economic hardship, such as the challenges introduced through the COVID-19 pandemic. The Federal and Provincial Governments have both the mandate and financial resources to provide such programs, as has been evidenced through a number of announcements that have been made since the arrival of the virus (example - the Canadian Emergency Response Benefit).

As such, it is recommended that the Town focus its program on relief with respect timing, fees and penalties, but ensure that sufficient revenue continues to be collected to support the services that are currently provided to the public. There will be costs and financial impacts to the Town still as part of this relief program, but they will be managed through mitigation and the use of reserves where appropriate.

### **2. Deferral of the Due Date**

Rather than changing the April due date for the upcoming installment payment, the Town's program has left the date as planned and focused instead on relief for late payments. This is in part a reflection of the fact that billing has already occurred and a change at this stage would create both extra costs and confusion to property owners. It also considers that there will be property owners who remain financially capable of paying on time, which could provide cash flow to support the Town's operations.

It is important to note that through waiving of fees and penalties the end result from a property owner's perspective is essentially the same. Further, Town Council will have an opportunity to consider the timing of the final two installment payments through the final tax by-law later in the spring of 2020.

### **3. Relief for One Month Initially with Ability to Extend to Two Months**

The COVID-19 pandemic and resulting societal and economic impacts has been a rapidly evolving situation during the month of March with regular updates from all levels of government.

Consideration was given to initially approving only a one-month relief period, while providing the authority to make a decision in April to extend by an additional month based on updated information. Since that time, further clarity has been received with respect to the Regional and Provincial remittance timing, and other local municipalities in Halton are expected to provide a two month grace period. As such, the recommendations contained herein have been aligned with our municipal partners.

#### **4. Deferral of Property Tax Payments Beyond Two Months**

A scan of other municipal decisions with respect to relief reveals that a number of different time periods have been selected, ranging from one to five months, with several in the 60 to 90 day period.

As the implications associated with COVID-19 continue to evolve, a measured response that can be further assessed in the months ahead seems prudent. It encourages the generation of cash flow for the Town before the end of June, and provides the Town time to better estimate the full financial impacts expected in 2020. For property owners, it also provides clarity in advance for a period of three months from the date of Council approval.

#### **5. Status Quo**

As the Federal and Provincial governments have announced a number of measures and programs that extend beyond the existing financial and social assistance supports to individuals and businesses, and in consideration of the Town's need to financially support its services on a sustainable basis, the Town could choose to continue with its planned tax collection program for 2020. As the relief program that is recommended has attempted to find a balance between providing flexibility to property owners while ensuring continued cash flow to support the Town's operations, status quo has not been recommended.

#### Remaining installments in 2020

Although the April due date has not changed, the waiving of fees and penalties recommended in this report will allow for property owners to defer payment without additional cost until June 30<sup>th</sup>. When determining the due dates for the final two installments for the year, Council may elect to defer the timing by an equivalent two months (i.e. from June to August and September to November). Such a decision may in part be informed in part on whether the Region and School boards offer similar adjustments to the timing of the final remittances, since the Town is simply flowing through a majority of the tax levy collected. A report and by-law for final 2020 tax billing will be presented in Q2 2020.





**Financial Impact**

The financial impacts associated with the proposed relief program were outlined above and can be summarized as follows:

	Budget Variance Impact*			
	Surplus / (Deficit)			
	April	May	June	Total
Waive Penalty & Interest on Outstanding Taxes	(\$110,000)	(\$44,000)	(\$17,600)	(\$171,600)
Waive Penalty & Interest on April Installment	-	(\$162,000)	(\$32,400)	(\$194,400)
Waive Dishonoured Payment & Cheque Pull/Re-File Fees	(\$1,250)	(\$250)	-	(\$1,500)
Waive Overdue Notice Fees	-	(\$24,000)	-	(\$24,000)
Reduced Interest Earning due to delayed Payment by Property Owners**	(\$13,500)	(\$16,000)	(\$4,300)	(\$33,800)
Additional Interest Earnings due to Regional Deferral to June 30	-	\$19,000	\$19,000	\$38,000
Additional Interest Earnings due to Deferral of School Board Remittances***	-	\$17,000	\$34,000	\$51,000
<b>Total</b>	<b>(\$124,750)</b>	<b>(\$210,250)</b>	<b>(\$1,300)</b>	<b>(\$336,300)</b>

\* This table summarizes the budget variance expected in 2020 as a result of the program, and therefore the foregone revenue is limited to the amount anticipated based on historical trends. The actual value of the fees and penalties waived will exceed these amounts.

\*\* Based on rate of return for April 2020 and assuming 60% of outstanding balances and 80% of new balances are paid off each month

\*\*\*June figure reflects the additional interest earnings from both the months of June and July

The cash flow implications that are associated with the changes in timing have also been reviewed and the Town can accommodate the program as outlined herein. Town Council will have the opportunity to assess the remaining property tax installments for 2020 in Q2 through the final tax levy report and by-law.

COVID-19 and the related impacts on the economy, residents and businesses will result in a number of other financial considerations for the Town and its programs. The situation has been evolving on a daily basis, and staff continue to work through quantifying the financial implications and mitigation measures available. The negative financial impacts will include loss of rental and program revenue, costs associated with transitioning to a largely remote/mobile workforce, and staff related costs. The unfavourable variance that is associated with the property tax relief program will have to be accommodated along with the remainder of these financial impacts, and may include drawing from the balance



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of the Town's existing reserves. Further detail with respect to the overall financial position for 2020 will be shared with Council as the situation further develops and through the Town's variance reporting.

Respectfully submitted,

Glen Cowan  
Chief Financial Officer / Treasurer

For questions, please contact: Lesley Payton Manager, Tax and Assessment Phone: Ext. 2141

Attachments
None

CAO Approval  
Andrew M. Siltala  
Chief Administrative Officer