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Halifax, Nova Scotia
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Item No. 8.1.4
Halifax Regional Council
April 14, 2020

TO: Mayor Savage and Members of Halifax Regional Council

SUBMITTED BY: Original Signed by

Jacques Dubé, Chief Administrative Office

DATE: April 2, 2020

SUBJECT: **Property Tax Deferral and Financial Relief Measures in Response to COVID-19**

ORIGIN

The COVID-19 pandemic has created an unprecedented environment of economic uncertainty that has directly and immediately impacted residents and businesses in HRM. It is important that all levels of government mobilize to provide meaningful relief to residents and businesses negatively impacted by the virus, understanding that efforts around containment will have lasting economic impacts.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter clause 60(1)(a) and subsections 59(3) , 123 (1), as follows::

59 (3) The Council may exercise by by-law any of the duties and powers that it may exercise by resolution or policy.

60 (1) The Council may make policies
(a) setting the interest rate to be charged on overdue taxes, area rates, water charges, sewer charges and any other charges or sums owing to the Municipality;

123 (1) The Council may determine
(a) the due date for taxes;
(b) that taxes are payable in one sum or by instalments.

RECOMMENDATION

It is recommended that Halifax Regional Council adopt the amendments to:Administrative Order 14, Respecting the Application of Interest Charges on Outstanding Accounts, and Administrative Order 18, the Revenue Collections Policy Administrative Order, as set out in Attachment 3 of this report.

BACKGROUND

On April 2, 2020 Regional Council confirmed their commitment to assisting HRM customers experiencing financial difficulties due to the COVID-19 pandemic by giving notice of motion to adopt amendments to Administrative Orders 14 and 18, as follows:

> **TAKE NOTICE** at a future meeting of Halifax Regional Council to be held on April 14, 2020 I intend to move amendments to Administrative Order 14, Respecting the Application of Interest Charges on Outstanding Accounts, Administrative Order 18, the Revenue Collections Policy Administrative Order, and any other applicable policies, the purpose of which is to extend the due date and the date interest accrues for the payment of residential and commercial property taxes for the first tax bill for the 2020/2021 fiscal until June 1, 2020 due to covid-19.

In response to this notice of motion, staff have drafted the necessary amendments to make the changes for Council's consideration.

DISCUSSION

HRM recognizes that COVID-19 is an unprecedented event that has created economic insecurity for many residents and businesses in HRM. It is recognized that relief will need to come in a number of phases and orders of government. The initiatives detailed below are short term initiatives. Staff recognizes that there will have to be longer term measures adopted to help ease some of the financial challenges businesses and individuals will be facing after the pandemic has been declared over. This approach will also give businesses and individuals time to access other Federal and Provincial COVID19 programs, so anything that HRM implements is targeted to assist those most in need.

Staff have been working with the Nova Scotia Federation of Municipalities and the Nova Scotia Association of Municipal Administrators (NSFM/AMA) to develop a province wide tax deferral program with support from the provincial government. One of the challenges with establishing a provincial wide program is the fact that municiplaites have different tax bill due dates and some only send one tax bill as opposed to an interim tax bill. As part of the proposal to the Province a review was conducted on see what measures municipalities were taking. Of the 25 municiplaities that responded only 6 were adjusting their tax due date, the majority of municipalities (including CBRM) are talking the same approach as HRM with a 30 day deferral, the Municipality of Kings is moving their tax date by 2 months and the Municiplaity of Lunenburg has moved their tax bill due by 3 months. On Thursday March 26, 2020 the Presidents of NSFM and AMA sent a joint letter to Premier of Nova Scotia and the Ministers of Business, Finance and Municipal Affairs and Housing (see Attachment 1).

As of the time of writing this staff report, NSFM/AMA have been informed that the Department of Municipal Affairs and Housing have been designated as the lead for the proposal. There have been meetings with Provincial staff and the Minister of Municipal Affairs and Housing and both groups are looking at options to alleviate the financial pressure municipalities will be facing. It is anticipated that HRM staff will have a recommendation on tax deferral for Regional Council prior to June 1st.

Immediate Initiatives:

As a way to provide immediate relief to both residential and business customers, staff recommends the following measures, which are discussed in further detail below:

1. Deferral of the interim bill due date from April 30, 2020 to June 1, 2020;
2. The suspension of Non-Sufficient Funds (NSF) fees; and
3. The reduction of the interest rate charged on arrears from 15% per annum to 10% per annum.

<u>Relief Measure #1: Defer the tax bill due date from April 30, 2020 to June 1, 2020 (amend Administrative Order (AO) 18)</u>
Delaying the tax bill due date provides immediate, short term relief to all customers in need (residential, resource and commercial clients).

People currently have the option to pay their tax bills through the pre-authorized plan (PAP). There are two options under the PAP: customers can be set up on a regular (monthly or bi-weekly) payment schedule, For these customers HRM will continue to debit the regularly scheduled amounts, unless the customer wishes to defer their next regularly scheduled PAP payment. Customers wishing to have a regular PAP payment suspended can contact HRM's Revenue office via 311, or cashmgmt@halifax.ca. The rationale is that PAP customers with a regular payment in place will not be facing a large interim tax bill because they have spread their payments over many months into smaller, more manageable payments.

The other customers under the plan are set up to pay their interim bill fully on the due date via PAP, HRM will automatically defer the payment to June 1. The rationale for this decision is that a bill is paid only on due date will be the full interim bill, which may be difficult for customers struggling financially. Customer who wish to pay their due date PAP on April 30 may contact HRM's Revenue office via 311, or cashmgmt@halifax.ca to advise the PAP can be processed April 30. Customers who can afford to pay their taxes on April 30 are encouraged to do so.

<u>Relief Measure #2: Temporarily waive Non-Sufficient Fund (NSF) fees (amend AO18)</u>
Schedule 2 of Administrative Order 18 (Revenue Collections Policy) sets the penalty for Non-Sufficient Funds (NSF) payments at $40 for each dishonored payment. Given the sudden income shock resulting from COVID-19, it is recommended this fee be temporarily suspended, effective **April 14, 2020 (date Council adopts the amendments)**. Staff will re-evaluate when the fee would be re-established once there is certainty about the economic impacts of COVID. NSF revenue for HRM was $19,000 in 2019-20.

<u>Relief Measure #3: Reduce interest rate on late payments (amend AO 14: Interest Charges on Outstanding Accounts)</u>
HRM's current interest rate on outstanding accounts is 15% per annum, as per Administrative Order 14. This is in line with the rates charged by other jurisdictions on overdue taxes, a jurisdictional scan across Canada produced an average rate of 15% per annum.

One reason for the 15% per annum rate is to encourage timely payment from customers. If the rate is set too low, it encourages customers (residential as well as commercial) to delay payment to the Municipality as they deploy their funds elsewhere. If all customers did this the Municipality would not take in sufficient revenue to continually meet our obligations. Conversely, a high penalty interest rate hurts customers who are financially vulnerable and who fall behind on their payments.

To curb undesirable late payment behaviour while alleviating the interest burden on vulnerable customers, HRM currently uses a dual interest rate structure:

1. The general late payment interest rate is set at 15% per annum per AO14 and applied against all overdue accounts
2. Low income customers who qualify for the HRM deferral program are able to defer their taxes, which accumulate interest at a rate of prime minus 2%. Prime is 2.45% as of March 31, 2020 so deferral customers are accruing interest on their deferred taxes at a rate of 0.45% per annum.

The existing deferral program is not structured to provide emergency relief, nor is it available to commercial taxpayers or residential taxpayers that do not qualify as low income . Staff continue to investigate options to extend this program to offer temporary relief. As well, staff continue to investigate options to assist impacted commercial customers.
The amendment to change the fixed rate to 10**%** per annum would take effect June 2, 2020. Effective on that date, all overdue accounts at HRM would begin to be charged this updated rate.

For the 2020/2021 fiscal year, the amendment will automatically extend the date interest starts to accrue beyond June 2, 2020, if a tax deferral program is created by the Provincial or Federal Governments in response to COVID-19, as long as the property owner qualifies for the program.

Accounts that were in arrears prior to April 30 would continue to be charged 15% per annum until June 2, 2020, after which the rate on all arrears would be lowered to the new rate of 10% per annum.

The measures outlined above are intended to provide immediate, short term relief to customers. HRM staff understand that the income shock to customers in heavily impacted industries may be severe enough to make eventual repayment difficult even with an extended due date. HRM staff are committed to investigating longer term solutions to help vulnerable customers. Any longer-term solutions will be brought to Council at a later date.

Cross Jurisdictional Scan and Structural Limitation Considerations for COVID Relief Options

HRM has been closely watching other jurisdictional COVID-19 response relief programs and has also been monitoring feedback from impacted industry groups and citizens around potential relief alternatives. The CFO sits on the FCM, CFO COVID-19 Working Group. The forum is used to discuss the finacail impacts cities across the country are facing regarding the panmedic. Virtually every jurisdiction is seeking provincial and/or federal assistance to fund a tax deferral program. As of this date there have been no programs established. The FCM has contracted with Enid Slack to draft Tax Deferral Program Guidelines to assist with the establishment of a program (see Attachement 4). Below are some relief options offered in like sized cities to HRM. . It should be acknowledged that an accurate comparison is difficult due to varying legislative authority among jurisdictions.

Jurisdiction	Original Due Date	Deferred Due Date	Reduced Arrears Interest Rate?	NSF Fees Waived?	Other
Ottawa	March 19,2020	April 15, 2020	No	No	Process for residents and businesses experiencing hardship to apply to defer until October.
Winnipeg	June 30, 2020	Sept 30, 2020	No	Yes	N/A
Saskatoon	June 30, 2020	Sept 30, 2020	No	No	N/A
Edmonton	July 1, 2020	Aug 31, 2020	No	No	N/A
Quebec City	May 4, 2020	Aug 4, 2020	No	No	N/A

HRM values all feedback received and feels it is important to provide context to explain where legislative or structural limitations exist that prohibit HRM from providing a particular form of relief. Below are noted several relief scenarios and the constraints that prohibit operationalising those scenarios.

Relief Contemplated	Limitations Preventing Implementation
Forgive taxes for impacted businesses.	Provincial legislation prohibits HRM from granting tax concessations or exemptions to commercial clients.
Forgive taxes for impacted residential customers.	HRM currently administers a deferral and exemption program for low income residential customers. The current program is not structured to provide emergency relief to customers who suddenly experience a sudden loss of income.

Defer the interim tax bill due date indefinitely.	HRM relies on property tax revenue to fund the delivery of municipal services. Deferring the due date any further may jeopardize HRM's ability to continue to provide services. Other jurisdictions may have the ability to issue debt to give them access to cash to provide liquidity, which may permit them to provide an extended property tax deferral period. HRM does not have the ability to raise funds in the market, legislatively all HRM borrowing must be performed through the Province of Nova Scotia (Municipal Finance Corporation) or Government of Canada and is subject to specific conditions. As well, other jurisdictions may have other revenue sources to provide liquidity to them that make them less dependent on property tax than HRM is.
Lower commercial assessment values.	HRM do not have the legislative authority to set or change assessment values. That authority resides with Property Valuation Services Corporation (PVSC).
Provide a commercial deferral program.	HRM's ability to provide a tax exemption for commercial taxes is limited to non-profit/registered charities.

HRM has a responsibility to design a relief program that recognizes both the immediate and long term financial constraints on citizens and businesses, while ensuing the Municipality's ability to collect sufficient revenue to continue to meet its obligations is not jeopardized. Staff continue to investigate alternatives to provide much needed relief to customers, while working within our current legislative restrictions.

FINANCIAL IMPLICATIONS

It is estimated that delaying the interim tax bill due date from April 30 to June 1 will reduce investment income by approximately $100,000 which assumes 60% of customers take advantage of the deferral. There will be customers whose situation allows them to pay on the April 30 due date.

Lowering the interest rate from 15% to 10% will reduce interest revenues from $5M to $3M annually.

Eliminating the NSF fees will lower revenue by $19,000 annually.

The total impact of these immediate measures is $350K to June 1, 2020 and will be $2.119M annually.
In addition to the direct financial implications resulting from the tax deferral, HRM revenue is being reduced by the following estimated amounts due to the impact of COVID-19:

	Revenue Stream Impacted	**Estimated Monthly Revenue Loss**
1	Transit fare suspension	$3,000,000
2	Parks and Recreation programing suspended (assumed all spring and summer programing stopped	$1,000,000
3	Parking fees suspended	$ 250,000
4	Investment revenue not earned on funds	$ 4,250
	Total estimated monthly impact	$4,254,250

RISK CONSIDERATION

As noted in the Discussion section, the biggest risk to HRM is insufficient liquidity if tax payments are not collected. HRM relies heavily on the revenue generated by property taxes.

The extent to which HRM can rely on potential funding from other levels of government is unknown at this time. HRM requires funds to be able to continue to provide essential municipal services, including police and fire services.

COMMUNITY ENGAGEMENT

N/A

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

1. Council could choose not to defer the interim bill due date or establish a different tax bill due date and interest rate accrual date. This is not recommended, as many residents and businesses are facing an immediate financial hardship due to loss of employment and business income. Deferring the interim bill due date will provide an immediate form of relief to impacted residents and customers, while still ensuring HRM has sufficient resources to be able to deliver essential services. If Council wants to change the due date and the date interest accrues to a date other than June 1, 2020, the motion would be amended to read as follows:

   That Halifax Regional Council adopt the amendments to Administrative Order 14, *Respecting the Application of Interest Charges on Outstanding Accounts*, and Administrative Order 18, the *Revenue Collections Policy Administrative Ord*er, as set out in Attachment 3 of this report., with the following amendments:

   a) changing the date in clause e of section 1 of Attachment 3 from “June 2, 2020” to [insert date]; and

   b) changing the date in clause a of section 2 of Attachment 3 from “June 1, 2020” to [insert date].

2. Council could choose to not waive NSF fees. This is not recommended as many customers are facing financial hardship and waiving the NSF fee is a solution HRM can offer to help alleviate stress on customers.
3. Council could choose to keep the interest rate at 15% per annum. Although a 15% rate is comparable to that charged in other jurisdictions under typical circumstances, given the current economic environment a high penalty interest rate hurts customers who are financially vulnerable and will be trying to recover from this sudden economic shock.
4. Council could choose to lower the interest rate further than the recommended 10%. This is not recommended because if the rate is set too low, natural customer behaviour will be to delay payment to the municipality as they deploy their funds elsewhere. If all customers adopted this behaviour, the municipality would not take in sufficient revenue to continually meet obligations.

ATTACHMENTS

Attachment 1: NSFM and AMA letter to Premier and Minister
Attachment 2: Showing Proposed Changes to Amendments Administrative Orders 14, and 18
Attachment 3: Amending Administrative Order
Attachment 4: FCM Designing Property Tax Deferrals

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: RenéeTowns, Manager of Revenue and Treasurer 902-293-7983

ATTACHMENT 1

NOVA SCOTIA FEDERATION OF MUNICIPALITIES

amans
ASSOCIATION OF MUNICIPAL ADMINISTRATORS NOVA SCOTIA

March 26, 2020

The Honourable Stephen McNeil
Premier, Province of Nova Scotia
P.O. Box 726, Halifax, NS B3J 1X5

Delivered via E-mail

Dear Premier McNeil:

RE: TAX DEFERRAL

These are some of the most trying times Nova Scotia businesses have ever faced. It is times like these that all levels of government must work together to ensure the Nova Scotia economy can sustain itself through this unprecedented crisis. The Province's rapid response to invest $161 million to address cash flow and access to credit for small and medium-sized businesses was a much-appreciated boost for short-term challenges. Now, as Nova Scotia nears the third week battling the COVID-19 pandemic, we are looking to longer term solutions to ensure businesses remain viable.

Already there is an expectation by the business community that there will be municipal support in the form of property tax deferrals. This presents many challenges; municipal liquidity is dependent upon prompt payment of property taxes. No municipality within Nova Scotia, not even Halifax Regional Municipality, has the financial capacity to defer property tax collection for a period longer than ninety days. The capacity of many municipalities is substantially less than that. Municipalities have limited authority; however, the Province has the ability to secure a line of credit to help bridge any financial gaps municipalities may have due to tax deferrals.

The Nova Scotia Federation of Municipalities (NSFM) and the Association of Municipal Administrators (AMANS) want to work with the Province to develop a provincially-led business solution. Our objective is to make sure as many businesses as possible remain viable when this national emergency is over. That is when we will need them to contribute to the Nova Scotia economy anew. It is imperative that there is a mechanism now to ensure municipal revenues continue to flow so we can continue to deliver essential services to businesses and residents.

…/cont'd

To ensure all businesses are provided with the same level of support in every community across the Province, a consistent approach will be critical. This can be achieved through a criteria-based program that offers targeted support for the business community. Individual criteria will result in inequity throughout the province and place undue pressure on municipal elected officials. Since time is of the essence, a provincially-led solution will be faster and more effective than a piecemeal approach. We expect that criteria could align with other provincial and federal programs, but all the fine details – along with a repayment plan and schedule – will obviously need to be developed.

NSFM and AMANS are requesting a virtual meeting to discuss the development of a province-wide tax deferral program at your soonest availability. With the Province's critical support, we should be able to develop a program that ensures the future viability of our vulnerable businesses and municipalities during this unprecedented crisis.

Sincerely,
ORIGINAL SIGNED

Mayor Pam Mood
President, Nova Scotia Federation of Municipalities

ORIGNAL SIGNED

Mike Dolter, MBA, CPA, CMA
President, Association of Municipal Administrators, Nova Scotia

CC: The Honourable Chuck Porter, M.L.A., Minister of Municipal Affairs and Housing
The Honourable Karen Lynn Casey, M.L.A., Minister of Finance and Treasury Board
The Honourable Geoff MacLellan, M.L.A., Minister for the Department of Business

ATTACHMENT 2
(Showing proposed changes to Administrative Orders 14 and 18)

ADMINISTRATIVE ORDER #14
RESPECTING THE APPLICATION OF INTEREST CHARGES ON OUTSTANDING ACCOUNTS

Application:

Subject to ~~**Clause**~~ Section 2 hereof, the following interest rates shall apply:

1. (a) Subject to clause (aa), s**S**imple Daily Interest, at the rate of 1.25% monthly (15% annually) will be charged on outstanding amounts owing to the Halifax Regional Municipality.

   (aa) Effective June 2, 2020, simple daily interest at the rate of 0.833 monthly (10% annually) will be charged on outstanding amounts owing to the Halifax Regional Municipality.

   (b) Interest at the rate noted above shall be charged on outstanding accounts that remain unpaid after the latest of:

      (i) the due date noted on the invoice, bill, or charge summary dates on the document~~.~~; or

      (ii) the due date that set by Council under 4.2.2(b) of Administrative Order 18, the *Revenue Collections Policy Administrative Order*; or

      (iii) for the 2020-2021 fiscal year, the expiry date of any tax deferral program established due to COVID-19, providing the owner qualified for such program.

HALIFAX REGIONAL MUNICIPALITY
ADMINISTRATIVE ORDER NUMBER 18
RESPECTING REVENUE COLLECTIONS POLICY

4.2.1 Lienable Charges-General Revenues

(a) Due dates on these charges are usually Net 30 days except local improvement charges which can be paid over many years depending on the nature and financial burden of the work to the resident and the particular by law which created them.

4.2.2 Lienable Charges-Real Property Taxes

(a) Residential and commercial property taxes are billed twice annually with two due dates, one on April 30th and one on October 31st (or the last working day of the month in question). Residents receive their tax bills approximately six weeks prior to the due date.

(b) Notwithstanding 4.2.1(a) and 4.2.2(a), the first due date for residential, commercial, and resource property taxes for the 2020/2021 fiscal year, shall be June 1st, 2020.

6.0 SCHEDULES:

Schedules attached hereto form part of this Administration Order and are intended for guidance and information purposes.

Schedule 1 Tax Sale Administration Fees

Schedule 2 Penalty Fees

Schedule 3 Credit Card Usages

7.0 SCHEDULE 2

(a) For the 2020-2021 fiscal year, the fees under Schedule 2 shall not be charged until the later of the:

(i) due date set by Council under 4.2.2(b); or

(ii) expiry date of any tax deferral program established due to COVID-19, providing the owner qualified for such program.

ATTACHMENT 3
(Amending Administrative Order)

HALIFAX REGIONAL MUNICIPALITY

ADMINISTRATIVE ORDERS 14,
RESPECTING THE APPLICATION OF INTEREST CHARGES ON OUTSTANDING ACCOUNTS

ADMINISTRATIVE ORDER 18,
REVENUE COLLECTIONS POLICY ADMINISTRATIVE ORDER

BE IT RESOLVED as an Administrative Order that Administrative Order 14, *Respecting the Application of Interest Charges on Outstanding Accounts*, and Administrative Order 18*,* the *Revenue Collections Policy Administrative Ord*er, are further amended as follows:

1. Section 1 of Administrative Order 14, *Respecting the Application of Interest Charges on Outstanding Accounts*, is further amended by:

(a) striking out the word “Clause” after the word “to” and before the number “2”;

(b) adding the word “Section” after the word “to” and before the number “2”;

(c) de-capitalizing the word “Simple” at the beginning of section;

(d) adding the words and comma “Subject to clause (aa),” at the beginning of clause (a);

(e) adding clause (aa) after clause (a) and before clause (b) as follows:

(aa) Effective June 2, 2020, simple daily interest at the rate of 0.833 monthly (10% annually) will be charged on outstanding amounts owing to the Halifax Regional Municipality.

(f) adding the words and colon “the latest of:” after the word “after” and before the words “the due date” in clause (b);

(g) striking out the period at the end of clause (b);

(h) adding a semi-colon and the word “; or” at the end of the of clause (b); and

(i) numbering the words, commas, and newly added semi-colon and words “the due date noted on the invoice, bill, or charge summary dates on the documents; or” as subclause (i) of clause (b);

(j) adding subclauses (ii) and (iii) of clause (b) after the newly numbered subclause (i) of clause (b) and before section 2 as follows:

(ii) the due date that set by Council under 4.2.2(b) of Administrative Order 18, the *Revenue Collections Policy Administrative Order*; or

(iii) for the 2020-2021 fiscal year, the expiry date of any tax deferral program established due to COVID-19, providing the owner qualified for such program.

2. Administrative Order 18, *the Revenue Collections Policy Administrative Order,* is further amended by:

(a) adding clause (b) of section 4.2.2 after clause 4.2.2.2(a) and before subsection 4.2.3 as follows:

(b) Notwithstanding 4.2.1(a) and 4.2.2(a), the first due date for residential, commercial, and resource property taxes for the 2020/2021 fiscal year, shall be June 1st, 2020.

(b) adding section 7 after section 6 as follows:

7.0 SCHEDULE 2

(a) For the 2020-2021 fiscal year, the fees under Schedule 2 shall not be charged until the later of the:

(i) due date set by Council under 4.2.2(b); or

(ii) expiry date of any tax deferral program due to COVID-19, providing the owner qualified for such program.

Done and passed in Council this day of , 2020.

Mayor

Municipal Clerk

ATTACHMENT 4

Designing Property Tax Deferrals

Prepared by Enid Slack and Tomas Hachard
Institute on Municipal Finance and Governance
Munk School of Global Affairs and Public Policy
University of Toronto

March 27, 2020

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Introduction

Property tax deferrals permit taxpayers to defer some or all of property taxes for a specified period of time, with the objective of relieving an immediate financial burden on eligible taxpayers. Deferrals can be applied to both residential and non-residential properties. The design will define the amounts deferred, and whether the deferral applies to all properties or targets specific recipients. In all cases, recipients will still be responsible for payment of their property taxes according to the terms of the deferral.

Deferral programs are typically of a short-term nature (i.e. within a single municipal fiscal year) but can be extended over multiple fiscal years. Long-term deferrals (e.g. Property Tax Deferment Program currently in place in British Columbia – see Appendix) may require a backstop from other orders of government.

Below are ten questions municipalities should consider when designing property tax deferral programs and highlights some considerations and implications.

Overall, there are some key considerations to take into account:

- Targeted approaches are desirable in principle but they are often difficult to design and/or enforce effectively. Targeting relief to tenants by requiring landlords to pass on the benefits of the deferral, for example, may be difficult to enforce.
- It is important to consider the effects of deferral programs on municipal revenues, especially because municipalities are required to balance their operating budgets. In particular, it is important to understand the implications when deferral programs cross over into the next fiscal year.
- Given both points above, coordination with provincial/territorial governments is advisable, both to determine whether similar relief could be provided more effectively through a provincial/territorial program and to ensure that necessary support is in place to help municipalities who face a budgetary shortfall.

1. Which property classes should be eligible for a property tax deferral?

- There are two main options to consider:
  - Residential
  - Non-residential (commercial and/or industrial)

Currently, many provinces/territories and municipalities have property tax deferral programs for residential properties owned by seniors (see Appendix). It is less common to see programs directed at non-residential properties.

2. If the deferral is applied to non-residential properties, who should be eligible for benefits?

- The deferral could be applied to all properties in the non-residential class or it could be targeted to small businesses, for example.
- If a deferral is targeted to small businesses, it will be necessary to determine what is a small business. Suggestions for making this assessment include:
    - Assessed value, in which case only properties under a certain value access the deferral.
    - Size of property, in which case only smaller properties access to the deferral.
    - Number of employees.
- No targeted approach will be perfect. Targeting based on size of property and number of employees could allow small properties owned by larger corporations (for example, bank branches) to access benefits. Targeting based on assessed value requires determining the value of a small versus a medium or large business. Doing so can be difficult and setting one cut-off point can mean relatively similar businesses end up with different access to benefits.
- It is also important to note that more targeted approaches often come with higher administrative costs and complexities, including, for instance, determining the number of employees in a business.

3. What mechanisms can be used to ensure that the benefits of property tax deferrals are passed on to tenants?

- Property tax deferrals benefit property owners, who in some cases may be leasing their property to a tenant (residential or commercial).
- In some cases, commercial leases pass on the cost of the property tax to tenants (through what are sometimes known as triple-net leases). Deferrals could potentially be targeted to businesses operating under these leases. Under this scenario, however, owner-occupied small businesses, such as mom-and-pop stores, could be excluded. It would also be necessary to determine which businesses operate with a triple-net lease, which can be administratively challenging.
- In the majority of cases where tenants do not directly pay the property tax bill, options for ensuring that deferrals get passed on to the tenant include:
    - Provincial/territorial legislation requiring landlords to pass any deferral down to their tenants. Under Ontario's Residential Tenancies Act, landlords that receive a more than 2.49 percent reduction in their property tax bills are required to reduce rent by a proportionate amount.
    - An application could make the deferral accessible only to owner-occupiers or landlords who will pass the deferral on to their tenants
- In all cases, enforcement will be very challenging, given the large number of landlords in any jurisdiction. It is likely for this reason that municipalities and provinces/territories have

implemented deferrals so far have "encouraged" or "urged" landlords to pass the deferrals on to tenants.
- Given enforcement issues, municipalities could consider methods other than property tax deferrals that might benefit renters more directly, such as direct short-term loans to renters, possibly in partnership with local rent banks (FCM is reviewing these considerations as part of potential recommendations to the federal government on COVID-19).

4. Should property tax deferrals be applied universally or targeted to low-income taxpayers?

- On average, higher-income individuals tend to live in more expensive homes, but that is not the case for some, such as seniors on fixed incomes.
- As a result, some existing residential property tax deferral programs are targeted to low-income seniors through an application process. If municipalities have these programs in place, they could potentially increase the deferral amount or time period to existing beneficiaries.
- Municipalities could set up new deferral programs that require proof of income. However, it is important to note that there would be administrative costs and potential delays in approving deferrals.
- More generally, municipalities should consider whether the property tax is the most appropriate tool to provide relief to low-income residents, or whether provincial/territorial/federal programs administered through the income tax are more effective and efficient.

5. Which payments should be deferred?

- Property taxes are only one payment that residents make to their municipality. Municipalities may wish to also defer utility payments, waste management fees, and other user fees. Of course, the more payments that are deferred, the greater the cost to the municipality.

6. How much of the taxes/payments should be deferred?

- Municipalities can choose to defer 100 percent of a property tax bill or only a portion.
- Some existing residential property tax deferral programs apply only to property tax *increases*.
- Some property tax deferral programs also set a cap for the cumulative amount of deferred and outstanding taxes so that it does not go above a certain percentage of the property's assessed value.
- In making a decision about how much of a property tax bill to defer, municipalities will need to consider their capacity to weather a short-term loss of revenue (see questions 7 and 10).

7. How long should taxes/payments be deferred?

- Many municipalities are deferring property taxes in response to COVID-19 for about two months.
- Municipalities may determine that longer-term relief is needed, including extending deferrals to 6 months or more.
- Some municipalities may find it easier to extend the deferral period if they reduce the percentage of the property tax that gets deferred (see question 6).
- If the deferral period extends beyond the current fiscal year, municipalities will need to assess the effect on their operating budgets, particularly in light of legislation that prohibits operating deficits (see question 10).
- Support from the provincial and/or federal government would likely be needed to fund a long-term deferral mechanism, particularly where the amount being deferred is large and could impact services (see Question 10).

8. Should interest and late fees be waived?

- Municipalities will need to decide whether interest or late fees will be charged on any deferred property tax.
- Charging interest or late fees could deter applications from residents and business owners who could otherwise still afford to make payments. However, it would also mean successful applicants would incur a cost for accessing the benefit.

9. What procedure should be followed to access the property tax deferral?

- There are two broad options: applications or broad-based relief
- Applications allow for more targeted approaches, as discussed in question two. They can take up significant staff resources and prove onerous for applicants, however.
- Broad-based relief means applying a deferral based on pre-existing categories (for example, property classes) or data (for example, assessed value). This option limits the ability to target relief to those who need it most but it allows for relief to be implemented faster.
- Generally speaking, municipalities may want to consider broad-based relief for immediate, short-term deferral programs and application-based relief for longer-term deferrals.
- Municipalities will need to consider possible internal challenges for processing deferrals, such as limitations in their IT systems.

10. Who should pay for the deferral?

- As with many existing deferral programs, the property owner is ultimately responsible for all deferred taxes, generally through a lien placed on the property.
- Although it is anticipated that the property taxes will be paid at some time in the future, there will be some cost to municipalities in the short run as they will have to borrow the money or dig into

reserves. Municipalities may also lose anticipated interest that may be earned on property tax revenues before they are spent during the fiscal year, in the case of in-year deferrals. The extent to which a municipality will be affected will vary depending, for instance, on the municipality's level of reserves.

- In cases where provinces/territories levy a property tax (often an education property tax), it may be most efficient for the provincial/territorial government to first offer deferrals on that portion of the property tax.
- If municipalities implement deferral programs, it is important to consider the ultimate effect on their revenues, and the implications of shortfalls in their operating budgets.
- Municipalities are generally permitted to borrow money within a fiscal year to cover expenses until property tax revenues are collected. If deferrals remain within a fiscal year, municipalities could use this borrowing capacity to address cash flow issues, although specific borrowing limits set by provinces/territories might need to be revised.
- If budgetary shortfalls are the result of deferral programs crossing over into the next fiscal year or occur for any other reason, some options to offset them include:
    - Transfers from provincial/territorial governments to cover any shortfalls that result from these programs.
    - Commitment from the federal government to backstop some losses, potentially by assisting provincial/territorial governments, rather than transferring funds directly to municipal governments (FCM is reviewing these considerations as part of potential recommendations to the federal government on COVID-19).
    - Temporary permission to run operating deficits at the municipal level. This would require legislative changes, likely to budgetary requirements and municipal debt restrictions. In any event, it may not be advisable from a municipal fiscal sustainability perspective.

Appendix – Examples of Deferral Programs

Compiled by the Federation of Canadian Municipalities. Please consult websites for eligibility criteria and details. Information accurate as of March 26, 2020.

Provincial/Territorial

British Columbia

A long-term deferment program with two streams targeted to individuals and families with children. The province pays the municipality for an amount equivalent to the deferred residential or farm property taxes, with a lien placed on the property until all deferred taxes and associated interest and fees are fully repaid.

New Brunswick

Voluntary program providing property tax relief to residents aged 65 or older during the taxation year. Allows eligible residents to apply for deferral of the payment of the annual increase in property taxes on their principal residence.

Saskatchewan

Program providing property tax relief to residents aged 65 or older during the taxation year in the form of a repayable loan for the education property taxes on their home.

Municipal

Edmonton, AB

Vancouver, BC

Montreal, QC

Lévis, QC

Paradise, NL