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## **Financial Relief Program Staff Report to Council**

Report Number: 2020-28

Department(s): Financial Services

Author(s): Mike Mayes, Director of Financial Services/Treasurer

Meeting Date: April 27, 2020

### **Recommendations**

1. That the report entitled Financial Relief Program dated April 27, 2020 be received; and;
2. That penalty and interest charges on property tax accounts be waived until January 1<sup>st</sup> 2021; and;
3. That overdue water and wastewater amounts be transferred to the appropriate property tax accounts; and;
4. The 2020 water and wastewater rate increases be reversed effective May 1 to recognize the deferral of scheduled cost increases from the Regional Municipality of York; and;
5. That 2020 Stormwater charges be deferred to November, 2020, and;
6. That other fees and charges, as detailed in this report, be waived to support and/or align with the above measures, and;
7. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

### **Executive Summary**

The Town of Newmarket intends to provide financial relief to its residents and local businesses. This will be accomplished by waiving specific fees and passing on savings

from other levels of government. The Financial Relief Program reflects a revenue loss for the Town in the \$810,000 to \$930,000 range.

## **Purpose**

The purpose of this report is to respond to direction from the Emergency Council meeting held on March 18, 2020. The direction was “to devise an appropriate tax deferral plan within the next thirty to sixty days in coordination, to the extent possible, with the Regional Municipality of York and other local municipalities.”

## **Background**

These are unprecedented times. The COVID-19 crisis is challenging our residents and local businesses financially. The Town of Newmarket recognizes that some taxpayers are experiencing difficulty in making payments.

The Town took immediate action at an Emergency Council meeting on March 18, 2020. At this meeting, as an interim step, Council waived the application of tax penalties and interest that would otherwise be charged on April 1<sup>st</sup>, 2020.

Delegated authority was used to extend this to May 1<sup>st</sup>, 2020. Effectively, this allowed taxpayers to defer their March and April tax installment payments.

Direction was also given to come back with a more robust plan, taking into consideration what other levels of government and our neighbouring municipalities are doing.

### **The installment dates for Education Property Taxes were extended by 90 days**

In addition to its many other programs that assist individuals and businesses, the Province of Ontario is assisting municipalities but allowing them a longer timeline to remit Education Property Taxes. This addresses the possibility of slower payments from taxpayers and is an efficient means of providing some relief to municipalities.

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 Taxes. This does not include the first installment due March 31, nor the final one on December 15.

The Education share of Newmarket’s property taxes is 19% for residential properties and 28% overall (due to a higher share on industrial and commercial properties).

### **Regional Council has deferred the water rate increase and is still considering options for property taxes**

On April 2, 2020 Regional Council decided to defer the 9% water and wastewater increases previously scheduled to come into effect on charges to local municipalities as of April 1, 2020. This represents a savings to the Town of about \$1.5 million.

As discussed at the April 2 Regional Council and April 16 Regional Committee of the Whole meetings, the Region of York is considering three options for providing relief through tax installment payments:

1. Waiving of interest on any portion of the four tax levy installments in 2020 (April 30, June 30, September 30 and December 15) 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.
2. Waiving of interest on any portion of tax levy installments not remitted to the Region as a direct result of a local municipality's COVID-19 tax relief program until December 31, 2020.
3. Defer all four installment dates by 90 days – similar to the Province's commitment.

A decision will be made at Regional Council on April 30, 2020.

The Region's share of Town of Newmarket's property taxes is 41% for residential properties and 37% overall.

### **Newmarket is part of the trend of municipalities providing financial relief**

Attached is Schedule 1 from the Region's summary of financial relief programs considered by local municipalities. Our proposed program matches or exceeds that of our comparators.

## **Discussion**

The proposed financial relief program is not limited to a property tax deferral: it a multi-pronged approach involving a wide span of Town services, and is coordinated with the programs being offered by other levels of government. The objective is to be effective, efficient and fair.

### **Property Tax penalty and interest charges to be waived until January 1<sup>st</sup> 2021**

Normally, on the first day of the month penalty and interest charges are applied to the outstanding balance at the end of the previous month. For example, the outstanding tax account balances on March 31 would be charged penalty and interest rates on April 1.

Currently a waiver is in place for April and May. The recommendation is to extend this waiver to the end of December, 2020. As a result, there would be no penalty and interest charges until January 1, 2021, based on the outstanding December 31, 2020 balances.

The benefits that the Town is receiving from the Region and Province on tax installment payments will be fully transferred to taxpayers through this measure.

Waiving these charges could be seen as a “soft” deferral of the payment dates. A deferral was considered, but the waiver is a better option for the following reasons:

1. It targets those in need. For instance, it provides relief to those with taxes already in arrears.
2. It will probably have a lesser impact on the Town’s cashflow and liquidity. We are estimating that about 25% of property tax payments will be deferred under this approach. Deferring the tax due dates could see uptake to at least 50%. This is due to the fact that 18% of tax payments are from banks collecting with mortgage payments – they would take advantage of this change as might other taxpayers who may not be in need. (Note: The banks may not pass on the benefit to their customers).
3. Flexibility – the charges can be completely or partially waived. This allows phasing during the recovery phase. Deferrals are all or nothing.
4. Waivers allow coordination for relief for water payments (details below). Deferrals would not.
5. Waivers are much easier to administer – a virtual flip of a switch.

The loss in property tax penalty and interest revenue is approximately \$85,000 per month - \$765,000 for 9 months.

### **Transfer overdue water and wastewater amounts property tax accounts**

Our agreement with Newmarket-Tay Power gives them the responsibility for managing our water and wastewater accounts. As such, the Town does not benefit from late payment charges and will not lose any revenue if they are waived. The issue is that other than changing time-of-day electricity rates, NT Power has no plan or authority to give ratepayers further relief. They cannot segregate water and electricity balances for interest calculations.

To provide relief, the Town can work with the utility to expedite the transfer of overdue water and wastewater balances to the appropriate property tax accounts. This is allowed under the *Municipal Act* as these are considered to be “municipal” charges - electricity charges are not. Doing so would allow these accounts to gain the same relief as property tax accounts – waiving interest charges until January 1, 2021.

The process would be developed in consultation with NT Power.

There is no direct loss of revenue from this measure. There would be more administration time required.

### **Reverse 2020 water & wastewater rate increases May 1<sup>st</sup> to recognize lower costs**

The Region is not increasing water and wastewater rates to the lower tier municipalities for 2020. A 9% increase was scheduled for April 1<sup>st</sup>. These costs make up over 60% of our annual water and wastewater budgets. As noted above, the cost savings would be approximately \$1.5 million in 2020. The town will pass these savings on directly to Newmarket ratepayers’.

The Town implemented its increases (a blended average of 4.92%) on January 1<sup>st</sup>, 2020. If this rate increase was to be rolled back effective May 1, the revenue reduction would be approximately \$1.5 million - equal to the cost savings from the Region.

Some municipalities have decided to have no rate increase in 2020. This is not recommended. The Region only accounts for 60% of water and wastewater costs. If we do not have the required increases for our 40%, we would not be maintaining a fiscal balance in these rate-supported budgets and would need to draw on reserves.

### **2020 Stormwater charges will be deferred to November**

Report 2020-04, Stormwater Billing 2020 – Options, recommended that the stormwater charges should be put on the utility bills with water and wastewater. Details in that report outlined that the bills would be issued in the fall of 2020 but no specific date was set.

Total stormwater billing for 2020 will be \$2.1 million. Deferring the billing to November will neither impede the program nor have a significant impact on cashflow.

### **Other fees and charges will be waived in coordination with the above measures**

- NSF fees to the end of June

Although there was communication of the changes adopted by Council on March 18, 2020, the public had and still has some confusion. There were post-dated cheques and Pre-Authorized Payments (PAP) that did not and will not clear as they were being processed before residents had time to react. As a compassionate measure, it is recommended that these individuals not be charged NSF fees. A three month grace period, to the end of June, 2020 would allow sufficient time for matters to be sorted out.

- Administration fees for putting water and wastewater charges on property tax accounts

Normally there is a 16% administration fee charged for adding items to the tax accounts. This should be waived for transferring water and wastewater balances, while the penalty and interest waiver is in effect.

- Waiver of finance charges on other overdue accounts

In addition to property taxes, the Town also invoices and has accounts receivable for other activities such as development agreements, leases, sponsorships and other Town businesses. These tend to be accounts with local businesses. To be consistent with the treatment for tax and water and wastewater accounts, the finance charges on these accounts should be waived on a similar basis to that of property taxes.

Based on our budget expectations, the total revenue loss would be approximately \$5,000.

## **The recommended measures are efficient, fair and will be effective**

- The recommendations are efficient

Most of the measures are virtually throwing a switch – turning off penalty and interest calculations, or are not doing something – sending out late payment notices and invoices.

Transferring water and wastewater balances to tax accounts will require some administrative effort, but should be manageable with the existing staffing complement.

- The recommendations are fair

The measures apply to everyone. There is no application or other barrier impeding anyone from receiving the financial relief.

To make this widespread approach more efficient, a strong communications plan will encourage focusing these financial resources on those in need.

- The recommendations are effective

The limited revenue tools available to the Town restrict the financial relief that it can provide to (mostly) property owners, with some exceptions. Legislation also restricts us. For instance, Section 106 of the *Municipal Act* prohibits “providing targeted financial assistance or ‘bonusing’ to industrial or commercial enterprises”.

However, the Town’s financial relief program enhances a comprehensive suite of initiatives within a multi-tier approach. Non-property owners receive relief from the programs from other levels of government – Regional, Provincial and Federal. In addition, the Town has plans in place to support the community as a whole and particularly the most vulnerable through various programs and partnerships. The business community is also being strongly supported through the creation of the Business Assistance Concierge (BAC) program and an overall Economic Resiliency Action Plan.

## **Conclusion**

In coordination with other levels of government, the proposed financial relief program will provide efficient, fair and effective assistance to those in need for the short to mid-term. As the situation continues and needs evolve, these measures can be reviewed in the context of available resources. Consideration will need to be given to the 2021 budget and recovery phase.

## **Business Plan and Strategic Plan Linkages**

This report links to Newmarket’s strategic pillars of Long Term Financial Sustainability and Economic Leadership & Job Creation by maintaining a strong, healthy local economy.

## Consultation

As directed by Council, this program has been developed “in coordination . . . with the Regional Municipality of York and other local municipalities.” There have been meetings with local Area Treasurers to share ideas and develop unified approaches.

The CAO and Mayor have reviewed this program under their delegated authority.

Corporate Communications has provided input on messaging and the development of a communications plan,

## Communication Plan

The communications plan will have two key components:

1. Clear communication of what is being provided for those in need
2. Encouraging those who can pay to continue to do so

Messaging to those who can pay will revolve around:

- Limited resources need to focus on those in need
- We must continue to invest in the delivery of essential services
- Unpaid accounts will be overdue – they need to be paid and could potentially impact credit ratings for mortgage renewals or house sales

## Human Resource Considerations

Not applicable.

## Budget Impact

### Budget Impact

**The Financial Relief Program reflects a revenue loss for the Town in the \$810,000 to \$930,000 range.**

This consists of 3 components:

### **1. Waived fees and charges will result in a direct revenue loss of \$770,000**

As noted in the Discussion section above:

- \$765,000 in waived property tax penalty and interest revenue
- \$5,000 in other waived fees and charges

There are other revenues being affected by the COVID-19 crisis, lockdown and economic reaction, but these are not being considered in this report.

## **2. Indirect investment income losses of up to \$300,000 will result**

Deferred water and tax payments will reduce the Town's cashflow. Lower bank balances will result in less investment income and possibly overdraft interest.

Currently the Town earns approximately 1% interest on its bank balances. Investments can earn more. The bank charges 1.7% on overdraft balances.

The challenge is estimating the uptake on these measures. Collections for the March tax installment date were down 17% and PAP cancellations are moving towards 2%. It is estimated that approximately 2/3rds of taxpayers will still pay on time.

The same assumptions have been applied to ratepayers for water and wastewater.

An overdraft situation could occur in December and the loss in investment income is projected to be up to \$300,000.

## **3. Actions by the Region and the Province will reduce the investment income loss by \$140,000 to \$260,000**

The Provincial deferral of Education Property Taxes is essentially deferral of the June 30 installment payment to December 31. This would save \$100,000.

The Region is looking at three options with different savings:

1. Waiving interest on uncollected Regional taxes for 90 days for all 2020 installments – savings of \$40,000
2. Waiving interest on uncollected Regional taxes until December 31, 2020 – savings of \$90,000
3. Defer all four installment dates by 90 days – savings of \$160,000

## **Attachments**

None.

## **Approval**

Mike Mayes, CPA, CGA, DPA, Director, Financial Services/Treasurer

Esther Armchuk, Commissioner, Corporate Services

Jag Sharma, Chief Administrative Officer

## **Contact**



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