



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Mayor and Members Committee of the Whole
COMMITTEE DATE:	April 8, 2020
SUBJECT/REPORT NO:	Property Tax Assistance and Other Measures (FCS20038) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Tom Hewitson (905) 546-2424 Ext. 4159 Maria Di Santo (905) 546-2424 Ext. 5254
SUBMITTED BY:	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That penalty and interest charges be waived as follows:
 - (i) Related to the April 30, 2020 property tax instalment, for a period of 60 days;
 - (ii) Related to the June 30, 2020 property tax instalment, for a period of 30 days;
- (b) That penalty and interest charges related to prior property tax arrears not be waived;
- (c) That the City's Non-Sufficient Fund (NSF) Administrative Fee for the processing of returned payments be waived until July 31, 2020 for all property tax related payments (both cheques and pre-authorized payments) and general accounts receivable payments;
- (d) That, until July 31, 2020, the required two weeks' written notice for a taxpayer to cancel their pre-authorized payment plan be reduced to seven business days' notice prior to the next scheduled withdrawal to further accommodate taxpayers;

- (e) That, until July 31, 2020, taxpayers in good standing that wish to cancel their pre-authorized payment plan not be subject to penalty and interest charges;
- (f) That any new payment arrangements entered into with Alectra Utilities between April 8, 2020 and July 31, 2020 to address outstanding commercial or industrial water and wastewater / storm arrears not be subject to interest;
- (g) That the City's Administrative fee for transferring any other balances of fees and charges or other amounts, in addition to water and wastewater / storm arrears to the tax roll, be waived until July 31, 2020;
- (h) That penalty and interest related to any other balances of fees, charges or other amounts, in addition to water and wastewater / storm arrears transferred to the tax roll, be waived until July 31, 2020.
- (i) That the General Manager of Finance and Corporate Services, or designate, and the City Solicitor be authorized to execute any updates to agreements and by-laws to enact the recommendations above;
- (j) That "Property Tax Assistance and Other Measures" be removed from the Outstanding Business List.

EXECUTIVE SUMMARY

Council, at its meeting on March 20, 2020, passed the following motion:

"That staff be directed to review the feasibility of waiving the penalties on property tax instalments for property owners who may default on their April 30, 2020 property tax instalment and report back to General Issues Committee."

Staff report "The Property Tax Assistance and Other Measures" (FCS20038) outlines a number of financial measures to assist City of Hamilton property taxpayers, ratepayers and customers dealing with the possible financial hardship caused by the current COVID-19 pandemic. These measures balance the need to provide immediate relief, while still encouraging those that are able to make payments to do so, in order to ensure the City's cash flow is minimally impacted.

Property Taxpayers

The City issues an Interim tax bill in February based on 50% of the previous years' property taxes. The first instalment due date was February 28, 2020 (approximately 25% of previous years' property taxes). The second instalment due date is April 30, 2020 (the remaining 25%). Taxpayers not making payment by the due date incur penalty and interest charges as follows:

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- Penalty of 1.25% of the missed instalment is charged on the first day of default
- Interest (1.25% per month / 15% per annum) is charged the first of each calendar month thereafter to all taxes past due, until the taxes are paid.

There are approximately 83,000 taxpayers paying property taxes by instalment due date and not via the City's pre-authorized payment plans or via their mortgage company. Staff is recommending that penalties and interest related to the late payment of the April 30th instalment be waived for a period of 60 days, in order to ensure that any taxpayer that cannot pay the April 30th instalment, will not experience additional financial burden. Interest on prior arrears will continue to be charged.

Final property tax bills are issued in June with normal instalment due dates of June 30th and September 30th (subject to approval of the final tax levy by-laws). Staff is recommending that these instalment due dates remain unchanged. However, given that the 60-day waiver period on the aforementioned April 30th instalment ends June 30th, a 30-day waiver period of penalty would then apply to the June 30th instalment date as well.

Effectively, this would provide those experiencing financial difficulties with an extra 60 days to pay the April 30th instalment and an extra 30 days to pay the June 30th instalment, without incurring related penalty and interest charges. Currently, staff is not recommending any measures related to the September 30th instalment date. However, staff will continue to monitor events.

There are approximately 64,000 taxpayers enrolled in one of the City's pre-authorized payment plans. The payment dates vary depending on the plan. Staff is not recommending any changes to these plans. These plans are voluntary and can be cancelled at any time provided a two weeks' written notice is received in advance of the next scheduled withdrawal date. Staff is temporarily reducing this notification period to seven business days to give taxpayers every opportunity to stop their pre-authorized payment, should their financial situation change. This adjustment to the required notice period will continue until July 31, 2020.

Should a pre-authorized withdrawal be returned due to insufficient funds, a second attempt is automatically initiated within seven to 10 business days after the first attempt is returned. If the second attempt is also returned due to insufficient funds, the City then normally charges an administrative fee (\$35.30 + HST) to process the returned payment. Staff is recommending that the Non-Sufficient Fund (NSF) administrative fee be waived until July 31, 2020. The taxpayer may also be subject to fees from their financial institution which the City has no control over. It is expected that these financial institutions may also be reviewing their fees as a result of the pandemic.

Some taxpayers provide post-dated cheques that align with the City's instalment dates. These cheques will be processed as normal. However, taxpayers can contact the City to have their cheque pulled and not processed. Similar to the required notice to cancel pre-authorized payments, staff is recommending that the required two weeks' notice be reduced temporarily to seven business days until July 31, 2020. The recommended waiving of the City's administrative fee for processing returned payments up until July 31, 2020, would also apply for any cheque payment that is returned.

Finally, there are approximately 33,000 taxpayers that pay through their mortgage company, whereby the financial institution remits the property tax payments by the instalment due dates. The City has no status in these arrangements to provide assistance. The financial institutions are encouraged to work with their clients to provide options and assistance where required. The 60-day waiving of penalty and interest charges on the April 30th instalment, as well as the 30-day waiving of penalty charges on the June 30th instalment will be extended to Mortgage companies remitting property tax payments on behalf of their clients.

Ratepayers (Water / Wastewater / Storm)

Alectra is the billing agent for our Ratepayers. Alectra bills monthly and has their own collection policies for overdue accounts. However, the City does have some policies related to overdue ratepayer accounts. Once the water / wastewater arrears reach 60 days, Alectra transfers these amounts to the City. The City receives a weekly file of all water arrears to add to the tax roll. An administrative fee is charged to transfer these balances to the tax roll (\$35.30). When added to the tax roll, the water arrears are treated like taxes and as such are subject to the same penalty and interest charges as property taxes.

Staff is recommending that commencing with Alectra's file for the week ending March 20th, the City waive the administrative fee and any related penalty and interest charges until July 31, 2020. Water arrears transferred to the tax roll for the week ending March 13th and prior will continue to be subject to the administrative fee and accrue penalty and interest if not paid. Normal communications advising ratepayers of the amount transferred to the tax roll will continue.

The City also provides Alectra with the authority to enter into payment arrangements for arrears. For residential customers, these arrangements are generally interest free. For non-residential accounts, the payment arrangements include interest charges at 15% (per annum). Staff is recommending that the City authorize that for any new agreements entered into between April 8, 2020 and July 31, 2020, Alectra waive interest charges. Existing arrangements will continue to have interest applied.

Alectra also applies their own fees and charges related to overdue Rate accounts up until the transfer to the property tax roll. The City cannot dictate these fees or provide any waiver. However, staff has engaged Alectra with the intent that temporary assistance may be considered.

The converged electric and water / wastewater invoice within Alectra's billing system does present a constraint in that late payment charges for water / wastewater accounts cannot be waived independently of doing the same with overdue electric accounts or vice versa.

Note that the City does not use water service shut off as a collection method. Therefore, all customers will continue to receive service regardless of their billing account status.

Other Items Transferred to the Tax Roll

The City has a number of fees and charges that, if not paid within the prescribed time period and collection processes, are transferred to the tax roll. These primarily include the aforementioned water arrears transferred to the tax roll. Other transfers include unpaid property standards, licensing and Provincial Offenses Act fines. As explained within the Ratepayer section, staff is recommending that these balances transferred to the tax roll up until July 31, 2020, not be charged penalty and interest or the administrative fee to add to the tax roll.

Financial Impact

The proposed property tax assistance and other measures are designed to provide temporary relief to taxpayers and customers facing hardship during the COVID-19 pandemic. It is extremely difficult, at this time, to estimate the take up of the assistance measures. With respect to the property tax levy instalments, the measures do not reduce the amount the City will ultimately receive. However, cash flow may be temporarily impacted.

Waiving penalties and interest as outlined in the recommendations will result in a negative impact to revenues. This impact has been estimated based on normal revenue flows against the 2020 Budget. If significant uptake occurs that results in waiving of penalty and interest, the amount waived above the City's normal revenue is not a negative impact to the budget, but an opportunity loss.

Staff estimates focus on the impact that these measures may have on the 2020 Budget variance. Again, the take up is entirely unknown, as such staff is providing a range. The estimate also assumes that these measures will not need to be extended. Staff would have to come back at a later date to report on further extension of these measures.

The estimated negative financial impact of the recommendations ranges from \$500,000 to \$1,000,000. There are three components to the revenue loss. First, the loss of the penalty and interest revenue. The high level of the range assumes that all of the normal penalty revenue that would normally occur May 1st and July 1st will be lost (about \$570,000). It should be noted that this estimate assumes foregone penalty and interest in a normal period. Given the uncertainty surrounding the duration of this crisis, the number of properties that may be in arrears would likely be greater than in a normal period, therefore the foregone penalty and interest revenue would be greater than those referenced above. The low end of the range (\$290,000) assumes that about 50% of those that would incur a penalty on the April 30th and June 30th due dates will still miss payment (and, therefore, be subject to interest) after the waiver ends (July 1st and August 1st, respectively).

Second, within both the high and low range is also about \$160,000 due to the waiving of the Non-Sufficient Fund administrative fees and administrative fees for adding charges to the tax roll to July 31, 2020.

The third component is lost investment revenue due to the cash flow delay. The high end assumes about 50% of taxpayers that pay by instalment defers the full waiver period. This would result in an estimated investment revenue loss of about \$270,000. The low end assumes about 10% of taxpayers defers. This would result in an estimated investment loss of about \$50,000.

The financial impacts of these measures are only one component of a very significant impact that the City will incur. Staff is developing tracking and projecting models to report an overall impact of the COVID-19 pandemic.

Other Taxation Process Notes

During this period where many taxpayers are experiencing economic hardship, Taxation staff will adopt measures within authorized scope to increase flexibility and minimize the burden that may be occurring. This includes deferring the normally scheduled May Tax Sale, the registration of liens and demonstrating flexibility with the current terms of individual extension agreements. With respect to extension agreements, staff will amend existing agreements, if required, to take into account any missed or lower monthly payments as initially agreed upon, up until July 31, 2020. This will ensure there is no default with the existing agreement and still be considered valid under the existing terms.

Alternatives for Consideration – Page 8

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: As indicated, adoption of the recommended assistance measures could result in a budget shortfall of between \$500,000 and \$1,000,000.

Staffing: Adoption of these measures may require additional Taxation staff time. However, additional staffing is not expected to be required at this time.

Legal: N/A

HISTORICAL BACKGROUND

Council, at its meeting on March 20, 2020, passed the following motion:

“That staff be directed to review the feasibility of waiving the penalties on property tax instalments for property owners who may default on their April 30, 2020 property tax instalment and report back to General Issues Committee.”

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

Staff has been corresponding with the Ontario Region and Single Tier Treasurers group. Most municipalities are adopting or considering measures similar to what has been recommended in Report FCS20038. Other or alternative measures being considered by other municipalities include fully delaying the tax instalment dates and developing a tax deferral hardship program, while a few are not currently planning any action.

Legal and Risk Management Services Division – Corporate Services Department

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The measures as outlined in the recommendations and Executive Summary are designed to give immediate and temporary relief to those taxpayers, ratepayers and customers experiencing hardship during this pandemic. Staff will continue to monitor the financial impact that the pandemic is having on taxpayers and report back to Council a status of these measures and any potential further measures that may be required.

ALTERNATIVES FOR CONSIDERATION

As indicated, the majority of municipalities surveyed are providing relief through similar measures (waiving penalties and interest on upcoming instalments). A few are waiving interest on outstanding prior arrears as well. For the City of Hamilton, this would result in an additional financial loss of over \$1 M per month. Providing interest relief on prior arrears is not recommended as they are not the result of the current COVID-19 pandemic.

Another alternative, as indicated by a few municipalities surveyed, is to not provide any relief. Some municipalities have also elected to temporarily suspend the automatic pre-authorized payment withdrawals. This option is not being recommended, as it assumes all taxpayers enrolled in pre-authorized payments are not able to meet their obligation and, in turn, would result in greater cash flow issues for the City. Instead, the City is providing greater flexibility to allow taxpayers the ability to cancel out of the pre-authorized payment plan, if required.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

None.

TH/MD/dw/dt