# Corporate Report
## City Council

St. Catharines

**Report from:** Financial Management Services, Billing

**Report Date:** October 13, 2023

**Meeting Date:** October 30, 2023

**Report Number:** FMS-113-2023

**File:** 10.57.99

**Subject:** Older Homeowner Tax Increase Deferral Program

**Strategic Pillar:**

This report aligns with the following St. Catharines Strategic Plan pillars: economic and social wellbeing.

# Recommendation

That Council approve a property tax increase deferral program for the City's tax increase of property tax for low-income older adult homeowners for implementation in 2024 as outlined in this report; and

That the City Solicitor be directed to prepare the necessary by-law(s).

# Summary

At the meeting of March 22, 2021, the Budget Standing Committee (BSC) directed staff to prepare a report on the possibility of an older adults' tax deferential deferral program to come back in Q1 of 2022.

At the March 29, 2023, BSC meeting a motion was approved:

> That staff report back on the concept of a Property Tax Increase Deferral Program for low-income seniors, as outlined in a 2021 BSC request.

Peter Frise from Municipal Tax Equity (MTE) Consultants Inc. presented on the Enhanced Senior Tax Deferral Program at the May 24, 2023, BSC meeting. The general scope and purpose of the presentation was to give committee members an understanding (high-level) as to the structure of an enhanced deferral program and to highlight some of the most critical considerations.

# Relationship to Strategic Plan

The Older Homeowner Tax Deferral Program would enhance the Social Well Being Pillar by supporting the City's commitment to enhancing the quality of life for seniors.

# Background

A mandatory tax relief program for low-income older adults and low-income homeowners with disabilities was introduced as part of the 1998 property tax reform under s. 319 of the *Municipal Act, 2001* (the Act). The eligibility criteria for this program were established by upper-tier municipalities and are administered by the local municipalities. The Niagara Region established the eligibility criteria which is reviewed as part of the annual tax policy report. The program allows for an interest-free deferral of all annual property tax increases for eligible low-income older adults and low-income homeowners with disabilities.

The mandatory tax deferral program allows low-income seniors and low-income persons with disabilities to defer their tax increase through an annual application process at the local municipalities. The amount of tax increase deferred under the current program (Section 319) is low relative to the annual taxes paid. The uptake of this program has been limited. Details of the existing tax deferral program can be found in Appendix 1.

# Report

Under Section 319 of the *Municipal Act, 2001,* all municipalities are required to maintain a program to provide financial relief from year-over-year tax increases for low-income seniors, and low-income persons with disabilities. This mandatory program only applies to the marginal amount a property's taxes increase from one year to the next and relief can be provided in the form or either a deferral or cancellation of all, or portion of the eligible increase. Staff has observed that in general, the low uptake of the current tax deferral program is not limited to the City of St. Catharines.

They City does receive a handful of applications every year.

To qualify:

- property taxes must increase by $200.00 dollars, and
- the deferral is the amount above the $200.00 threshold,
- along with a qualifying income of $28,005 per couple.

Most do not find it beneficial to defer a low amount. The one advantage of the legislated program is that deferred amounts attract no interest, making it a more cost-effective option if one were comparing deferred dollar to deferred dollar with a program under which interest is imposed.

The City of St. Catharines is currently exploring its options and opportunities regarding implementing an enhanced property tax increase deferral program for older homeowners with lower household incomes. The City has engaged Municipal Tax

Equity (MTE) Consultants Inc. to provide policy, program, and implementation design support in relation to this project.

The overarching concept is to allow older, lower-income homeowners to defer the increase in the City portion of their annual property tax bill from the year of application until such time as they sell or otherwise dispose of their home.

- Eligible homeowners would be those 65 years and older, whose household income falls below the City median. Applicants will also be required to meet several technical requirements related to residency, occupancy, and the status of their tax account.
- Once enrolled, participants will be automatically eligible to defer subsequent year's taxes.
- Deferred taxes will be subject to interest; however, this would be subsidized by the City resulting in the effective rate being substantially lower than that which applies to outstanding taxes generally.

The program design elements detailed in Appendix 2 have been developed within these general parameters.

The current program design contemplates that eligible homeowners will be able to defer their property tax increase on the City's portion of their annual property tax bill once they are enrolled in the program. All deferred taxes represent a debt to the City and carry a priority lien against the subject property. These deferred amounts will attract interest for as long as they remain outstanding, however, the interest rate under this program will be offset by a grant from the City which reduces the interest charges on the tax accounts in comparison to interest charges which apply to all other outstanding taxes.

## Residential Tenants

While residential tenants contribute to the cost of property taxes as part of their rent or may be solely responsible for those taxes in addition to their base rent, the City cannot extend this program to tenants or any party other than property owners. By its very nature, this program involves the accrual of tax arrears, which will represent a priority lien against the subject property. For the same essential reasons, a tenant cannot use a leased home as security for a bank loan, a tenant has no standing or authority to enter a program of this nature.

## Eligible Amounts – Defining City Taxes

The following table provides a breakdown of 2023 property taxes for each 100,000 of Current Value Assessment (CVA). As can be seen, the total taxes are made up of amounts levied by the Region, the City, and the Province, which sets education tax rates.

**2023 Tax Levy Per 100,000 of Residential Assessment**

| Description | Levy | Share of Levy |
|---|---:|---:|
| City General | $639 | 38.99% |
| Urban Service Levy | $7 | 0.43% |
| City Hospital Levy | $12 | 0.73% |
| Infrastructure Levy | $10 | 0.61% |
| City Total | **$668** | **40.76%** |
| Regional - General | $624 | 38.07% |
| Regional – Waste | $74 | 4.51% |
| Regional – Transit | $120 | 7.32% |
| Regional – Total | $818 | 49.91% |
| Education | $153 | 9.33% |
| **Grand Total** | **$1,639** | **100.00%** |

The foundational concept of the older homeowner tax increase deferral program was to allow eligible taxpayers to defer any increases to the City portion of their tax bill based on the year they enroll. If taxpayer were to enroll today, their annual deferral amount would be the amount by which each year's City taxes exceed their total 2023 City taxes.

## Rates and Form of Interest

Deferred amounts will attract interest, but at a rate much lower than the default 15% per year that applies to outstanding tax balances generally. Staff are recommending that the City implement a fixed interest rate of 5% for this program for a number of reasons;

- If interest rates were to increase significantly, a participant could find themselves facing carrying costs they had not contemplated with a variable rate.
- A fixed rate will allow taxpayers to make solid, informed decisions as to how this program might fit and benefit them. A fixed rate will ensure that what they plan for, and the benefits they expect will not change over time.
- A floating interest rate could give the program the outward appearance of a financing product, rather than a relief program, which is understood to be the core objective.
- Recent interest rate movements are a reminder how stressful, concerning and materially impactful rate changes can be for those who are carrying debt; staff suggest that this is something that should be avoided regarding a public assistance program.
- There will be significant administrative complications involved with adjusting for the difference between the default interest rate and the program rate. A floating program rate will intensify the administrative effort for staff and make it more complicated to understand for the taxpayer.

The 15% penalty and interest are replaced by a 5% interest charge to the applicant by a grant equivalent to the difference between 15% and 5%. This grant is provided by City under Section 107 of the Act. Section 107 allows municipalities to make grants as the council considers appropriate to any person, group, or body for any purpose that council considers to be in the interests of the municipality.

There are very few municipalities in Ontario that offer enhanced tax deferral programs. In 2016, Halton Region implemented their Full Older Adults Property Tax Deferral Program. The program is a Regional program with each local municipality having the option to participate in the program. Halton Region has a population of approximately 597,000 and the home of approximately 67,000 older adults aged 65 years and older. In 2021, a total of 52 households participated in the program Region-wide at a cost of $140,400. An annual budget of $50,000 is included in the annual tax levy budget to cover the cost of the tax increase deferral program. It should be noted, however, that because Halton's program is a Regional one, the Region itself must make real cash disbursements to the local municipalities to compensate them for lost interest revenue. In the City's case, as the sole recipient of interest on past due tax accounts and as such, the costs associated with offsetting interest amounts for participants will not result in any external expenditures. However, there is a cost to the municipality of providing the grant for lower interest to the older homeowner and therefore, requires the inclusion in the City's operating budget.

Eligibility for any of these programs is typically income tested based on the Notice of Assessment from the Canada Revenue Agency (CRA). Income would also include all government assistance including Old Age Security (OAS), Canada Pension Plan (CPP), Guaranteed Income Supplement (GIS) and Guaranteed Annual Income Supplement (GAINS). Staff are recommending using the Statistics Canada's Median Total Income for Households for St Catharines adjusted annually for the annual Consumer Price Index (CPI). The income threshold calculated in this manner for 2022, which would support an application in 2023 would be $81,000.

This program is being offered in addition to, and mutually exclusive of, the existing Regional property tax increase deferral discussed above for low-income older adults (s. 319 of the *Municipal Act, 2001*). For example, if an older adult is accepted for the tax deferral program, then the same person is not eligible for the City's tax deferral for the property tax increase for low-income older adults.

Residents will be encouraged to consult a financial advisor before applying for this tax increase deferral. In particular, participants will want to confirm any and all potential implications around their eligibility to claim property tax related income tax credits such as the Ontario Property Tax Credit and the Senior Homeowner's Property Tax Grant. They must also inform themselves as to how participation in the program might affect lending arrangements that are currently in place or obtained in the future.

# Financial Implications for Homeowner

The proposed program allows eligible homeowners to defer their property tax increase on the City's portion of their annual property tax bill. The illustrations below provide details on how this new program benefits the homeowner. Although the deferred / unpaid city taxes continue to attract penalty at 15%, they are receiving a grant from the City equal to 10% to offset the penalties charged which reduces the interest paid to 5%.

**Five Year Tax Deferral Illustration based on home with assessed value of $250,000.**
To illustrate how this program would function over time we have used the historical taxes for a sample property currently assessed at 250,000 and the hypothetical enrollment year of 2019.

| | **Taxes** | | | **Interest** | | | |
|---|---|---|---|---|---|---|---|
| **Tax Year** | **Total** | **City Portion** | **Eligible Increase for Deferral** | **Default Penalty @ 15%** | **Interest Offset @ 10%** | **Program Interest @ 5%** | **Payout Balance** (Tax and Interest) |
| 2018 | $3,245 | $1,428 | | | | | |
| 2019 | $3,386 | $1,502 | $74 | $6 | -$4 | $2 | $76 |
| 2020 | $3,580 | $1,586 | $158 | $25 | -$16 | $8 | $242 |
| 2021 | $3,639 | $1,615 | $187 | $51 | -$34 | $17 | $446 |
| 2022 | $3,735 | $1,663 | $235 | $83 | -$55 | $28 | $709 |
| 2023 | $4,097 | $1,668 | $240 | $119 | -$79 | $40 | $988 |
| Total | **$18,437** | **$8,034** | **$894** | **$283** | **-$189** | **$94** | **$988** |

Under this illustration, the homeowner deferred $894 in City taxes in a five-year period. The cost to the taxpayer would be $94, excluding any enrollment fees.

This amount would represent a priority lien against the home and would become due if the property were sold or otherwise changed ownership. In addition, the Interest Offset of $189 would be provided as a grant amount provided to the homeowner's tax account would require annual funding support through the city's tax levy.

# Municipal Funding of Deferrals

The proposed program provides for a deferral rather than the cancellation or rebate of tax. The full City taxes levied against participating properties will be collected.

The quantifiable relief being provided to the taxpayer is the reduced interest in comparison to what would apply if the same tax amounts were left unpaid outside this program. The interest offset amount is technically a cost to the City, but it is more of an opportunity loss than a hard cost. The City would however budget an estimated amount to cover the interest grants provided to those older adult homeowners participating in this program.

The primary function of penalty and interest provisions are to compel timely payment of tax levies; however, they also serve to offset the cashflow related expenses that result from delinquent accounts. In very simple terms, when taxes go unpaid the expenses that those taxes would have paid must be covered by borrowed money or funds drawn from reserves. Interest on the unpaid taxes offset the interest paid on loans, or not realized from funds that might otherwise be invested.

The utility and mechanics of this program are fairly straight forward; the increase in the City portion of taxes owed are deferred from the year program enrolment and accrue interest at a rate of 5% per year. From a municipal operational perspective, it is somewhat more complicated because interest cannot be imposed at a reduced rate in the first instance, nor can the difference simply be written-off.

The basic approach utilized is to allow taxes to go unpaid and attract the standard interest applicable to outstanding accounts and then reconcile the interest imposed for the year against what would have been imposed if the municipality charged only 5% rather than 15%. The City will leverage its authority to make grants to offset the taxpayer's accrued interest so that they are only responsible for paying the equivalent of 5%.

Affecting the reduced interest burden with an offset grant is necessary because municipalities are not permitted to simply write interest off once imposed, or to impose it at a rate other than that set in its by-laws. The outcome is the same for the taxpayer, but this approach is required in order for the program to fall into compliance with the *Municipal Act*, and to ensure a high level of transparency.

## Next Steps

Upon Council approval, the implementation of the program would require staff to finalize the program criteria and to develop application process and applicable by-laws. The program will be developed for the implementation in 2024 based on key principles pending Council's approval of the required funding. The tax deferral program would be reviewed annually and any changes to the program will be brought forward to Council for consideration as part of the Operating Budget process.

## Environmental Sustainability Implications

There are no environmental sustainability implications with this report.

## Operational Implications

There will be additional administrative efforts by staff to manage each of the properties which enter this tax deferral program. These efforts will be incorporated into existing roles and responsibilities of staff positions.

## Operating Budget Implications

The annual budget requirements of approximately $50,000 will be included in the 2024-2026 multi year tax levy to fund the interest grant amount for those enrolled in the program. This estimate is based on the experience of other municipalities with similar programs and will be reviewed annually and adjusted required reported through the annual budget process. An increase in the tax levy budget to fund this program based on 2023 tax rates and the median home has an annual impact of $0.71 or 0.04%.

With Council's creation and approval of Special Tax Mitigation Fund, the option now exists to have this new program supported by that fund and therefore not create an impact on the City's tax levy budget.

## Conclusion

The amount of tax increase deferred under the current program (Section 319) is small relative to the annual taxes paid, and the uptake of this program has been extremely limited. Therefore, the introduction of this enhanced tax increase deferral program for older adult homeowners would be more helpful for seniors in financial needs, especially with the increase in the income threshold.

## Notifications

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## Appendices

1. Current Low-Income Seniors Deferral Program
2. 2023 Low Income Senior Tax Deferral

# Existing Regional Program

## Low-Income Seniors and Low-Income Persons with Disabilities

If you are a senior over 65 years of age or a low-income person with a disability and own your principal residence in Niagara, you may be eligible for an annual deferral of either all or part of your property tax increases. Basic eligibility requirements are as follows:

Applicant

- 65 years of age or older and in receipt of the monthly Guaranteed Income Supplement provided under Part II of the Old Age Security Act (Canada)

  - or -

- Disabled and in receipt of on-going benefits under the Ontario Disability Support Program.

Ownership / Occupancy

- The applicant must own and occupy the property, within Niagara, as their principal residence for which the tax deferral is applied
- The applicant must have owned a residential property within Niagara for a period of one or more years preceding the application

Tax Account Standing

- Tax deferral applies to current taxes only and not tax arrears or outstanding taxes
- To maintain eligibility the property taxes must be current
- Eligibility for the deferral program is required for each taxation year
- A tax reduction from a successful assessment appeal may alter the amount of the tax deferral

Review the Application for Deferral of Property Taxes and criteria for application (By-law 96-2006) for more information about eligibility and tax deferral.

To determine your eligibility to receive a property tax deferral, contact the tax office of your local municipality. Applications for a tax year are to be submitted by February 28 of the following year.

# New Proposed Program:
# Older Homeowner Tax Increase Deferral Program

## General Information

The City of St. Catharines offers a tax increase deferral of the City's portion of property taxes to eligible older adult homeowners who require financial assistance. Under this program, the increase in the City's portion of property taxes from the year of enrolment is deferred for applicants who meet the enrollment and ongoing program requirements.

## Program Criteria

- This program only applies to taxable property in the residential class.
- All assessed owners must be listed as applicants on the deferral application.
- At least one assessed owner must be age 65 or older as of December 31 of the enrollment year, which is the first year for which eligible taxes will be deferred.
- No more than one assessed owner may be less than 65 years of age as of December 31 of the enrollment year.
- The subject property must be the principal and usual residence of all assessed owners with the exception of an owner living elsewhere for medical or long-term care.
- The property tax account related to the subject property must be current prior to enrollment, except for any amount eligible to be deferred in respect of the enrollment year.
- The total gross income for all assessed owners must be less or equal to the program threshold for the same year. These thresholds will be based on Statistics Canada's median household income for the City, adjusted annually by the annual Consumer Price Index (CPI). To illustrate, the threshold household income calculated in this manner for 2022 would be $81,000.
- Applications may be made by an assessed owner, their spouse, or a duly authorized representative, however, only an assessed owner can enter into the terms of enrollment.
- For properties with more than one registered owner, all owners must agree to the program terms of enrollment and acknowledge the impact and implications of a tax deferral.
- Where a property is made up of differently classified portions (e.g.) Residential / Farmland, etc.) only taxes levied against the residential portion are eligible for deferral.
- Property owned by a commercial or industrial enterprise or occupied wholly or primarily by tenant(s) are not eligible.
- Enrollment will not be granted if any assessed owner of a subject property has debt to the City in relation to any service, matter or charge that has come due and remains unpaid in whole or in part.

- All applicants must not be currently receiving property tax relief (rebate, deferral, or grant) through another program offered by the Region or the Municipality.

**Program Intake**

- A non-refundable enrolment fee of $50 will be payable to the Municipality with the initial application.
- The increase deferral begins when the application is approved and after the final tax billing for the year has been completed. There will be no refunds for taxes already paid.
- An approved application is the agreement between the applicant(s) and the municipality regarding the applicant(s)'s participation in the program.
- The deferred amounts will be the increase in the City portion of their annual tax bill in comparison to the City taxes the year prior to enrolment.
- Interest on the deferred amounts will be charged at the rate of 5% per annum. These costs will be charged to the tax account.
- Interest on the total deferred amount will begin to accrue immediately.
- If enrolled in a pre-authorized payment plan it will be cancelled
- In the event of full repayment, an applicant would be considered withdrawn from the program, in accordance with the by-law. If still eligible, the applicant can apply to be re-admitted to the program. A complete application, as well as the enrolment fee of $50, is required.
- When full repayment occurs, the applicant will receive a letter from the municipality confirming their withdrawal from the program.

**Deferral Term**

There is no limit to the length of time participants can remain in the program and eligible amounts will be automatically deferred each year until:
1) The property owner(s) direct the City to cease deferring taxes.

2) The total balance of deferred taxes and associated interest reaches an amount equivalent to 30% of the property's assessed value.

3) The non-deferred portion of the property's taxes fall into arrears; or

4) The subject property is sold, transferred or is otherwise subject to a change in ownership.

Under the circumstances 1) through 3), no additional amounts will be deferred, but the outstanding balance remains eligible for deferral and does not become payable immediately.
Deferred balances do not become due until the day the subject property is sold, transferred or is otherwise subject to a change in assessed ownership, however, participants are free to make payments against their deferred balance at any time.

**Past due payments**

A participant will become ineligible for further deferrals.

- Upon the third payment default within any two consecutive taxation years if any amount, including all or a portion of the third default remained outstanding for more than 30 days.
- Upon the fourth payment default within any two consecutive taxation years if no amount in respect of the first three defaults, including associated penalty remained outstanding for more than 30 days.
- If there is any outstanding, non-deferred amount as of December 31 of any taxation year.

**Initiating a Tax Sale on a Participant Property**
The tax increase deferral program will result in what will technically be long-term tax arrears, that if left unpaid outside this program, would trigger the tax sale process. The City will initiate a tax sale when the non-deferred taxes levied in the year a participant is precluded from deferring further amounts as the basis for the timing of tax sale registrations. Registration will begin in the third, rather than second year from this marker. Under this timing, a taxpayer that goes into a default position in 2023 could see a tax sale process initiated in January of 2025 if a portion of those 2023 taxes remained unpaid at that time.

It should be noted that this would simply be the initiation point, taxpayers continue to have remedial option after a property has been registered for tax sale.

**Note:**
Interested homeowners are encouraged to consult a financial advisor before applying for this tax increase deferral. In particular, taxpayers should not enroll until they are fully informed of all potential implications surrounding:

1) Their eligibility for, or the amount of property tax related income tax credits such as the Ontario Property Tax Credit and the Senior Homeowner’s Property Tax Grant; and
2) How participation in the program, and the placement of a priority lien on their home might impact lending arrangements that are currently in place or which they may wish to obtain in the future.

**How to Apply**

- Initial applications may be made at any time with the first eligible deferral being processed on the first final tax billing to come due once a homeowner has been approved and duly enrolled in the program.
- Applications must be made in writing or on-line by completing the application form and submitting it to the Tax Department at the City of St. Catharines
- Any taxes that are paid prior to the submission of the application will not be refunded.

- The municipality will respond to a completed application within 60 days.
- The applicant agrees to provide the necessary information to the municipality to demonstrate that eligibility requirements have been met. The applicant also signs a waiver providing the municipality access to personal information for the purpose of confirming eligibility.

Examples of which include:
1) Proof of age
2) Notice of Assessment prepared by Canada Revenue Agency (cannot be older than 2 years from the application date)
3) Applications must include signed authorization by the applicant(s) for the release to the Treasurer of the City of St. Catharines that may be required to verify the accuracy of the application.

**Repayment**

Partial payment towards deferred taxes is permitted at any time.

The deferred taxes shall become due and payable at the earliest of the following dates:

- When the applicant(s) no longer meet eligibility criteria such as income.
- When the property is sold or transferred.
- Upon the death of the applicant, unless the applicant is survived by a spouse who continues to qualify for deferral (The tax deferral cannot be transferred to the estate of deceased owner(s))