
Subject: Concessions to Local Area Municipalities regarding Taxes and Water Wastewater Billings

Report to: Regional Council

Report date: Thursday, April 23, 2020

Recommendations

1. That the May 13, 2020 Region general and special purposes levy amounts **BE REMITTED** by the Local Area Municipalities to the Niagara Region based on actual amounts collected by the Local Area Municipalities and that interest charges on these levy amounts **BE WAIVED** until June 30, 2020;
2. That the August 5, 2020 and October 14, 2020 instalments for Region general and special purposes levy **BE REMITTED** by the Local Area Municipalities to the Niagara Region based on actual amounts collected by the Local Area Municipalities and that interest charges on these levy amounts **BE WAIVED** for a period of 30 days;
3. That the April through November water and wastewater amounts billed monthly on the 15th of the month and due at the end of the month **BE REMITTED** to the Niagara Region based on actual amounts collected by the Local Area Municipalities;
4. That the difference in the amount billed by the Region and collected by the Local Area Municipalities for the water and wastewater requisitions **BE PAYABLE** before December 31, 2020;
5. That interest charges on the outstanding amount from the Local Area Municipalities for the water and wastewater requisition payments **BE WAIVED** for the year 2020;
6. That By-law 2019-94, By-law 2019-95 and By-law 2020-04 **BE AMENDED** to adjust interest charge provisions in consideration of the COVID-19 pandemic;
7. That any amounts due from the Niagara Region to the Local Area Municipalities **BE DEFERRED** until such time as the amount due to the Local Area Municipality exceed the amount receivable from that municipality; and

8. That any interest and penalty charged by the Local Area Municipalities to the Niagara Region **BE WAIVED** for the year 2020.

Key Facts

- The purpose of this report is to respond to the motions included in appendix 1 passed by Welland, St. Catharines, and Thorold Councils (representing approximately 39% of Niagara Region's levy) requesting payment relief from the Niagara Region in light of the COVID-19 pandemic.
- This report has been written based on significant consultations with a variety of stakeholders as outlined in the report. Staff have used this information to develop assumptions from which the recommendations have been made. This situation remains fluid and staff will update Council on a regular basis.
- Based on meetings with the local area treasurers we understand that due to the extended payment terms being offered to taxpayers they may experience cash flow challenges which require special consideration by the Region for tax and water and wastewater payments.
- Overall the amount due from the LAMs for general and special purposes tax levies and water and wastewater payments the period of April 1st to June 30th is approximately \$130 million; the amount due for the third and fourth quarter are approximately \$148 million and \$146 million, respectively.
- The province has provided for a deferral of the second and third education tax remittances of \$42 million each from June 30th to September 30th, and from September 30th to December 15th, respectively which has been incorporated in the cash flow analysis completed by staff.

Financial Considerations

Most municipalities are considering extended payment terms to offer financial relief to tax and rate payers through a combination of payment deferrals and/or the waiving of late fees and interest charges. The Niagara Region is considering the impact of these decisions impact on the LAMs' cash flow and consequently offering alternative payment arrangements to the LAMS.

Finance staff have been monitoring the Region's cash flow during this crisis and will continue to analyze the position to ensure there is sufficient liquidity to provide for ongoing operations. Staff are ensuring flexibility by holding funds in High Interest Savings Accounts (HISA) to maintain essential regional services and capital works.

The recommendations made in this report will reduce balances in the Region's bank accounts that contribute to the budgeted investment income of \$2.7 million. The reduction in our average cash balances resulting from these recommendations and the decline in interest rates due to the pandemic is estimated to reduce investment income budgeted by up to \$1.3 million depending on what is approved by Council and the level of collections by the LAMs. This amount is in addition to the \$9.3 million estimated cost of COVID-19 in CSD 30-2020 as the cash flow analysis was not yet available at the time of publishing that report.

Analysis

The Region establishes and approves their own tax levy, waste management budget each year. These amounts are collected from the local area municipalities in four installment dates in the year. The municipalities bill and collect this amount on behalf of the Region, as well as their own tax levy, from the property owners either through four installment dates established in their bylaws (not the same dates as the Region installment due dates see appendix 2), monthly pre-authorized payment plans, or payments made by mortgage companies.

The Region also establishes and approves their own water and wastewater budgets each year. This establishes the wholesale rate for these services which the municipalities incorporate into their budget to establish the periodic billing rates to property owners. While some municipalities may not bill each month, remittances to the Region are due at each month end.

We understand that the Local Area Municipalities are impacted by the following decisions in response to the COVID-19 pandemic:

- Waiving interest and penalties on property tax, water, and wastewater payments from residents, many through to June.
- Some municipalities that have approved their water and wastewater rates are considering deferring the rate increases until the second or third quarter of the year.
- Some municipalities have not yet approved their water and wastewater budgets and are considering modifications to address COVID-19.
- Most are continuing with their pre-approved payments plans from residents, however are waiving penalties or charges on non-sufficient funds or withdrawal from the program.

- Facilities have been closed to the public limiting options to pay in person, however payment accepted by mail; cash or cheque; at financial institutions, both in person and electronically.
- The Ontario Government deferral of education tax payments from municipalities (\$42 million each quarter) with June 30th deferred to September 30th and September 30th deferred to December 15th.

These items are putting additional strain on the LAMs as they try to meet the billing schedule of the Niagara Region, and could result in negative cash flows being experienced. In order to understand the cash flow implications to the Region, staff started with a forecast under the status quo requirements of the Regional general and special purposes tax levies and water and wastewater payments. Staff then incorporated into the analysis the impacts of the Local Area Municipality motions (option A). Based on the negative effect of the municipal requests on Regional cash flows and the ability to sustain of Regional services staff developed an alternative (option B), which the recommendations in this report are based on.

Option A

The three municipal council motions that have been presented request consideration of the following:

- Water and wastewater payments be deferred to June 30th
 - Niagara Region's by-law 2019-94 and 2019-95 for the water and wastewater rates provide that the amount due is billed on the 15th of the month and due at the end of the month.
 - The total amount in aggregate that is collected is approximately \$9.5 million per month.
 - Both by-laws include a provision for interest to be charged on amounts in default until the date of payment.
- 2020 Water and Wastewater rate increases be deferred to June 30th
 - The Niagara Region has approved a budget with an additional \$0.5 million a month. This amount has already been billed for January and February. The February amount that was due in March was paid in full by all municipalities except one.
 - Billing of the 2019 rate for March to June would result in a revenue shortfall of \$2 million. Deferring the increase for the remainder of the year would result in a total revenue shortfall of \$5 million.

- The above shortfall of \$2 million relates \$0.5 million to Water and \$1.5 million to Wastewater, increasing to \$1.2 million and \$3.8 million for Water and Wastewater, respectively, if extended to December.
 - Stabilization reserve balances are \$3.0 million for water and \$1.4 million for wastewater. Wastewater balances are insufficient to support the revenue loss, therefore alternative options would need to be considered, including budget amendment or use of capital reserves.
- The May 13th tax levy installment be deferred to June 30th
 - Niagara Region's By-law 2020-04 approves a scheduled payment in aggregate of \$100 million from the LAMs due May 13th.
 - The by-law did not include a provision of interest charges on late payments.

Other Assumptions

- Niagara Region detailed cash flow analysis and expenditure review assumes the following:
 - Operating costs for essential services, including Water, Wastewater, Seniors Services, etc. continue to be incorporated.
 - Incremental costs related to COVID-19 are being tracked and these have been offset by non-essential services and savings that have been identified in report CSD 30-2019.
 - Capital projects with budgets greater than \$1 million have been evaluated to assess if they are essential and if staff and/or industry capacity exists, and cash flow projections for the balance of the year have been updated accordingly.
 - The LAM requests noted above have been incorporated into cash flow projections.

Conclusions

- Niagara Region would not have adequate cash flows to support operations for the month of June. Recovery will occur on June 30th with the full remittance and remain positive for the balance of the year.
- St. Catharines requested deferral of tax payment for 90 days (May 13th to August 11th); if deferred \$27 million would remain uncollected until August.
- The reduced Water and Wastewater billing has been incorporated into this scenario, however it does not solve the budget shortfall which would require a budget amendment to the 2020 budget.

Option B

As a result of the cash shortfall of the above scenario, staff have considered alternatives which hopefully alleviate some of the strain on the Local Area Municipalities without the significant negative impact on the Region that may have an impact on continuity of essential services.

Tax Levy Assumptions

- Concessions by LAMs will result in continued, but reduced, collections. Therefore for modelling purposes, staff have conservatively assumed arrears of up to 50%, which would result in \$50 million in cash flow relief to the local area municipalities. The balance of the \$50 million would be remitted to the Region by June 30th being the date to which municipalities have deferred interest and penalties
- The final levy instalments of \$115 million each are scheduled for August 5th and October 14th, as included in by-law 2020-19. For modelling purposes staff have conservatively assumed arrears of up to 50%. Based on discussion with LAM Treasurers there may be continued difficulty in collection and/or ability to issue tax bills to residents. A deferral of each of these payments for 30 days has been included in the cash flow.

Water and Wastewater Assumptions

- Concessions by LAMs will result in continued, but reduced, collections. Therefore for modelling purposes, staff have conservatively assumed arrears of 25%, which would result in \$2.6 million in cash flow relief a month to the local area municipalities. The balance of the amount owing would be remitted to the Region no later than December 31st, 2020.

Other Assumptions

- All other assumptions for operating and capital expenditures are the same as in Option A.

Conclusions

- Niagara Region would have adequate cash flows to support operations for the month of June.
- The Region would not be required to pursue further cost cutting or cash mitigation measures related to essential services or the deferral of essential capital projects/

- Regional cash flow will be depleted again in August and October if tax instalments in their entirety are deferred 30 days, therefore, remittance based on LAM collection would still be required (minimum of 25% of instalment due would be required to sustain operations)
- No budget amendment would be required for Water or Wastewater.

The following details to support the above option are incorporated in the recommendations for greater clarity.

- LAMs will remit to the Niagara Region Taxes and Water/Wastewater amounts based on actual collection experience, (not the 50% and 25% modelled). However, if their collection is less than the 50% modelled the Region will experience further cash flow shortfalls.
- Staff recommend that the final instalments bylaw include an interest waiver of 30 days, however it is expected that LAMs able to bill residents will remit funds to the Region on the due dates based on their collection experience.
- Interest charges would be deferred for one month for tax payments and until the end of the year for water and wastewater payments; regional by-laws will be amended accordingly.
- The Region is routinely billed by the Local Area Municipalities for tax write-offs, water and wastewater for Regional facilities, cost shared capital projects, etc. In order to ensure that the Region cash flow is not further negatively impacted, we will offset these against the amounts receivable from the LAMs.

Regional staff cannot undertake a full analysis of LAMs individual cash flow impacts as we do not understand the impact of items such as facilities closures, lost event revenues, incremental costs due to COVID-19, etc. The concessions recommended in this report along with education payment deferral offered by the Ontario Government is expected to provide some level of cash flow relief to the Local Area Municipalities to align with their anticipated delay in tax collection from property owners.

Since the onset of the Provincial emergency declaration, Regional staff have been meeting weekly with the Ontario Regional and Single Tier Treasurers. Discussions have included:

- Opportunities for lower tier municipalities to provide relief to property owners. Many Ontario municipalities are offering the community options to defer payment of taxes and water/wastewater payments that are very similar to those of Niagara municipalities.

- Upper Tier Regional governments are being asked to consider impact the above concessions have on the ability to comply with established deadlines for remittances to the upper tier. Responses to the request have varied based on the upper tier cash flow analysis. Generally the constraints on the upper tier have been significant as well and most are asking for remittance from the lower tier based on the actual collections from the property owners in order to ensure no undue hardship to either party. This is similar to the Niagara recommendations.
- Impact of capital expenditure on cash flow. Many feel strongly that continued capital investment is necessary to keep the economy going however others are dealing with the reality of inadequate cash flow which requires significant reprioritization of capital works in particular in line with the Province's guidelines regarding essential vs non-essential services. This has been Niagara's position in the cash flow projection.
- Impact of lack of construction is having on development charges collected and ability to delivery anticipated growth related capital program. This will have impacts on future capital plans.
- Provincial lobbying for incremental funding for the unbudgeted cost of the pandemic. This includes assistance from Municipal Finance Officers Association (MFOA) to consolidate some asks as well as incorporating recommendations to share our financial implications reports with other levels of government, MP and MPPs. The types of impacts Niagara is experiencing with respect to costs and revenue losses are very consistent with those of other municipalities except the order of magnitude varies
- Lobbying of the Province with respect to latitude on other legislation not the least of which is the necessity to fund a deficit in next budget year. Many of Ontario municipalities are project very significant deficits and many do not have stabilization reserves to assist in funding the deficit. Use of other reserves such as capital reserves will only further the difficulty in recovery from the pandemic and adding to the next year's budget may impact community and businesses that are still in recovery from economic losses of the emergency. One consideration to be put to the Province is the ability to fund the deficit over a number of years in the future.
- Other items being discussed include workforce planning, work from home policies, short term borrowing etc.

Alternatives Reviewed

Staff **DO NOT RECOMMEND** option A for the conclusions noted above. Therefore option B is **RECOMMENDED**.

Relationship to Council Strategic Priorities

The recommendations in this report support Council's Strategic Priorities of Business and Economic Growth through the shared efforts with local area municipalities to retain vulnerable businesses in the Niagara Region, and Sustainable and Engaging Government through coordination with Local Area Municipalities with the goal of shared financial sustainability during this state of emergency.

Other Pertinent Reports

CSD 30-2020	COVID-19 Preliminary Overview of Financial Impacts
CSD 23-2020	2020 Property Tax Rates and Ratios

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Appendices

Appendix 1 Motions from Local Area Municipalities

Appendix 2 Property Tax Payment Due Dates