

Financial Relief for Taxpayers

RECOMMENDATION(S):

That Council:

1. Approve the cancellation of 50% of the portion of the property tax comprised of the penalties imposed under section 2(b) of Bylaw Number 8M2002 to be charged on 2020 October 1, and;
2. Approve that the requirement for a taxpayer who joins the Tax Instalment Payment Plan (TIPP) after January 1 of the current year to pay the total of missed instalments beginning from January 1 of the current year, under Section 7(5) of Bylaw Number 9M2002, be waived up to and including 2020 December 31.

HIGHLIGHTS

- Administration is recommending that the penalty for late payments to be charged 2020 October 1 be reduced from 7% to 3.5%. Administration's recommendations will reduce the financial burden on those taxpayers facing challenges in paying their 2020 property taxes, while retaining an incentive to encourage those taxpayers with the ability to pay, to do so. Furthermore, Recommendation 2 will provide Administration with additional flexibility to pursue collaborative payment solutions that recognize individual taxpayer circumstances.
- These proposed actions will ensure that relief options are available to those property owners who are facing financial challenges, while ensuring that all property owners are treated equitably, and that risk to The City of Calgary's ability to deliver services valued and expected by Calgarians is mitigated.
- It is important in this unprecedented time that supports are available to those property owners facing financial challenges resulting from the pandemic situation, while remaining cognizant of impacts on The City's liquidity.
- For those property owners with financing, non-payment of taxes could put them in technical default of their mortgage agreement. Incenting timely payment of taxes helps to mitigate this risk to property owners. While out of The City's direct control, Administration remains cognizant of this concern in its support of property owners.
- At the 2020 July 27 Combined Meeting of Council, Council directed Administration to report back to Council no later than 2020 September 14 with options to incent the early payment of property taxes and to allow the deferral of payment with reduced penalties.

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- Strategic Alignment to Council's Citizen Priorities: **A prosperous and well-run City**

DISCUSSION

The COVID-19 pandemic has had significant social, economic and financial impacts on Calgarians. During the pandemic, The City is offering a variety of municipal relief measures, including the suspension of the 2020 July 1 property tax late payment penalty of 7%. Council also directed the suspension, for 2020, of the requirement to pay a 2% administration fee on missed instalments for those taxpayers who join the Tax Instalment Payment Plan (TIPP).

The City's property tax Penalty Bylaw 8M2002 provides for the application of a further 7% penalty on the unpaid amount of the current year's property tax on 2020 October 1. In response to direction from Council to explore penalty relief options, and in recognition of the challenging local environment, Administration is proposing a reduction to the penalty to be applied 2020 October 1, and an additional temporary suspension of a provision of The City's TIPP Bylaw 9M2002. These two actions are anticipated to provide necessary financial relief, and further flexibility to Administration, to support Calgarians having difficulty paying their property tax.

Administration is recommending the reduction of the 2020 October 1 penalty from 7% to 3.5%. Administration believes that this will provide some relief to those property owners facing financial challenges while maintaining an incentive to pay for those property owners who are able to do so. A number of factors influenced the choice of this penalty rate:

- The City's short term borrowing costs range between 0.45% and 0.55%. The City's ability to borrow money will always be at a lower rate than an individual's. However, to provide an incentive to pay for those who are able, it is prudent for The City to not position itself as the lowest cost creditor by setting a penalty that is too low and does not incent timely payment. The deferral of tax payments by some taxpayers creates financial challenges for The City, the costs of which are ultimately borne by all taxpayers because the Corporation incurs higher debt costs and experiences lower investment returns.
- The City's historical four year average blended yield on investments is 2.47%. This is the rate of return foregone on property tax revenue that is deferred and not available for investment. Investment income contributes to The City's operating and capital budgets. Any shortfall in investment income will potentially have service impacts or require reallocation of other sources of funding to cover the shortfall.
- There are retail credit products potentially available to property owners that could provide financial support. The Bank of Canada Prime Rate is currently 2.45%. Several financial institutions are currently offering consumer credit products that are based on the prime rate plus a premium. For example, Administration found several examples of home equity lines of credit with an interest rate of prime plus

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1% (or lower) for a total interest rate to the consumer of 3.45%. Financial products such as these could potentially provide property owners with additional sources of funding.

- Administration has attempted to balance the interests of a number stakeholders including property owners, The City, and financial institutions by ensuring that property owners are able to fulfill their financial obligations and limit their risk to property ownership.
- Administration reviewed amendments to payment deadlines and penalties of peer municipalities across Alberta. A summary of those findings is included in Attachment 2.

Administration is also recommending an amendment to the TIPP Bylaw which will provide Administration with additional flexibility to work with property owners on payment solutions that address their unique situations. Several other scenarios were identified in Notice of Motion C2020-0885. A comparison of these scenarios is included in Attachment 3.

Previously, Council provided direction to suspend the 2% administration fee paid by a property owner joining the TIPP program after January 1 of the current year. The TIPP Bylaw contains a further provision that a taxpayer joining the program after January 1 of the current year is required to pay the total of missed instalments since January 1, prior to participating in the program. For example, a property owner with a \$2,400 tax bill who requests to join the program October 1 would be required to make an initial payment of \$1,800 under the current Bylaw. For some property owners, this could be prohibitive. Administration is recommending the temporary suspension of this provision of the Bylaw to allow additional flexibility when pursuing payment solutions with our customers.

While The City of Calgary has approximately 530,000 property tax accounts, every taxpayer's situation is unique. Administration works collaboratively with taxpayers to understand their circumstances to arrive at collaborative solutions that are mutually beneficial to the taxpayer and The City. Administration encourages any taxpayer facing challenges to contact The City to begin a solutions focused conversation. The two recommendations proposed in this report will provide taxpayers with additional supports, and will provide Administration with further flexibility to pursue meaningful solutions.

City financial considerations

Administration has evaluated cash flow implications due to receiving property tax payments up to six months later than expected and is able to manage these as part of the current work plans and forecasted timelines. However, the risk of further significant deferrals has significant potential financial implications which may result in additional costs to the taxpayer through higher debt costs and lost investment income incurred by The City.

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Administration continues to actively monitor property tax payments. As of the end of August, approximately 67% of residential property taxes and 40% of non-residential property taxes billed in a lump sum (i.e., not paid through TIPPP) have been collected.

The City budgets annually for an amount of property tax penalty revenue based on historical and anticipated payment patterns. The budget for property tax late payment penalties for 2020 is approximately \$10 million. Approximately \$2.5 million in property tax penalties has been recognized as of 2020 July 31. In 2019, the annual budget was approximately \$10 million and the penalties recognized to 2019 July 31 were approximately \$8.4 million.

The deferral of property taxes has caused a decrease in the assets available for investment. This has caused a decrease in investment income in 2020 of approximately \$1.5 million. Administration expects to be able to manage this as part of the current work plan, and will continue to monitor the variance.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed
- Stakeholder dialogue/relations were undertaken

Throughout the 2020 property tax billing season, members of the Taxation Service have communicated with a large number of property owners on a wide variety of property tax related issues. The Council direction, and subsequent Administration recommendations, contained within this report align with the tone and content of concerns and requests received from a subset of property owners. No additional public engagement was necessary to confirm this direction. However, should these recommendations be approved, a strategy exists to communicate these changes with Calgarians by leveraging existing planned communication campaigns. Furthermore, existing messaging reminding property owners of the September 30 payment due date has been made more generic through the removal of references to a specific penalty amount due to the uncertainty that exists pending approval of these recommendations.

IMPLICATIONS

Social

Remaining responsive to the needs of citizens through these unprecedented times is a critical social consideration.

Environmental

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There are no environmental implications anticipated to be associated with implementing these recommendations.

Economic

Enabling indirect financial support to Calgarians who are facing challenges in the current economic environment will further facilitate their continued participation in the local economy.

Service and Financial Implications

The Taxation Service can accommodate the implementation of these recommendations using existing resources and with existing budgets.

Administration has evaluated cash flow implications due to receiving property tax payments up to six months later than expected and is able to manage these as part of the current work plans and forecasted timelines. However, the risk of further deferrals has potential financial implications which may result in additional costs to the taxpayer through higher debt costs, lost investment income and lower property tax late payment penalty revenue.

Tax-supported funding

RISK

There is potential financial risk to the Corporation of extended property tax payment deferrals. This translates into potential risk to all taxpayers through higher debt costs and reduced investment income if the Corporation experiences prolonged cash flow impairment due to non-payment. In addition, the increased risk of non-payment could result in an increased number of properties going into the legislated tax recovery process in future years.

ATTACHMENT(S)

1. Attachment 1 – Previous Council Direction, Background
2. Attachment 2 – Comparison of payment deadlines and penalties in other Alberta municipalities
3. Attachment 3 – Comparison of Relief Scenarios

Department Circulation

**Chief Financial Officer's Report to
 Combined Meeting of Council
 2020 September 14**

**ISC: UNRESTRICTED
 C2020-0890
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General Manager (Name)	Department	Approve/Consult/Inform (Pick-one)
Carla Male, CFO	Chief Financial Officer's Department	Approve
		Choose an item.
		Choose an item.
		Choose an item.