Municipality of the District of Argyle	Item: 2020-21 Taxes and Interest – COVID 19 impact Date: April 13, 2020

VISION

We see Argyle as home to a healthy and thriving rural population. Our municipality promotes and supports economic and social opportunities for the region and engages in the active expression of our unique Acadian heritage. We are a place of choice for rural living and are widely recognized for our warm hospitality and joie de vivre. Surrounded by fresh air and cool ocean breezes, we work and play in the great outdoors. People choose to live in Argyle because of our commitment to each other, to our community and to our neighbors. Argyle is a place we are proud to call home.

Background:

The Covid19 global pandemic has had a significant impact on the global economy. The Municipality is not immune to these impacts, with the temporary, or potentially permanent, closure of businesses, temporary layoffs and basically, a community shut down. The Municipality is anticipating a potential cash issue for our own organization. While property taxes represent about 1.7% of the median family income, it is still a bill that some of our residents struggle to pay in a timely fashion. With the onset of COVID related economic shutdown, this will surely slow payments to us.

The Municipality also operates in a business fashion, we require collection of our taxes to continue offering essential services, such as policing, solid waste and wastewater collection, REMO, fire fighting services and the list goes on.

The Province is working with AMANS/NSFM to establish a response to the potential tax deferral situation. In short, the concept would be that those directly impacted by COVID could apply and obtain a delay of tax payment. That delay could be up to 6 months, and a repayment schedule would be established over 24 months. This plan only delays tax payments, it is not tax forgiveness, so the applicant would be playing catchup for 24 months or more.

As part of an NSFM request, Argyle was asked to provide information on how many residents and businesses would potentially apply for a tax deferral if one existed. Assumptions varied, but in the end the average calculation was in the 30-35% range of businesses and residents. Our figure came out to $2,319,000. That represents about 70% of all our available reserves (not including capital as we cannot use capital reserves for this purpose). If we borrow from reserves, the cost of borrowing will be 2%, or $46,380 in year one. The cost of borrowing from the Municipal Finance Corporation would be higher, with the interest rate unknown, and the ability to borrow unknown. The cost of borrowing from a bank would be even higher, again rate not confirmed.

Our issue is time; some of our businesses and residents need more time to pay, and we need to reduce our cash outflow or increase our cash inflow to weather the storm. Our goal is to find a way to reduce the burden on residents and businesses without significantly impacting our ability to operate our own business. The following analysis addresses our options to aid our residents on the taxation and interest front in this troubled time. Options on expenditure reduction and deferral will be addressed under separate request for decision.

The four options to be considered to aid our taxpayers and residents are:

Delay the issuance of tax bills – currently done in early June.
Extend the deadline for payment without interest.
Reduce interest rate on late payment of property taxes.
Do nothing

MGA considerations:

Power to make policies
49 (1) The council may make policies

(a) setting the interest rate to be charged on overdue taxes, area rates, water charges, sewer charges and any other charges or sums owing to the municipality.

Furthermore, the decision on billing timing and due date belongs to individual municipal units.

Analysis of options:

Before getting into the analysis, the CAO used the following as facts supporting the assessment

1. Both residents and businesses have been impacted by COVID-19, and many of them have applied for and received Provincial and Federal assistance to partially assist them.
2. Not all businesses and residents qualify for Provincial or Federal COVID assistance, so the tax deferral program in development may not aid all those in need.
3. Many financial institutions, including credit card issuers, have delayed payments; in some cases, the interest rate has been reduced.
4. Many taxpayers have not been impacted by COVID; those delivering essential services, or those on fixed income as examples. In some cases, the cost of living has decreased, thereby increasing an ability to pay their property taxes. Any tax deferral should not allow for all businesses and residents to delay paying.
5. About $1,000,000 in taxation revenues is paid through a mortgage payment (via financial institution). The bank collects a monthly fee from the resident, and the bank then pays the taxes on behalf of the resident. In most cases, the money has already been substantially collected by the banks and they pay us on the deadline date.
6. The full impact of COVID-19 is unknown.

Delay of issuance of tax bills

Based on our set of facts, this option is the least effective or desirable. It simply delays the inevitability of a bill. I would suggest that issuing the tax bills as soon as possible would be more effective, as our businesses and residents would have more time to consider payment options for this expense. Furthermore, we do not know the impact of COVID-19; issuing the tax bill as early as possible gives us information we need as early as possible. We have a great deal of responsible taxpayers that wish to pay ASAP if they can.

Extend deadline for payment without interest

This option is more desirable than the first. It buys the taxpayer more time to pay without interest. In addition. submitting bills early would result in us knowing collection patterns in advance. Our current deadline for payment before interest is July 31 each year. An extension could be for a month or two. The challenge with extending a deadline is as follows: It allows all taxpayers to delay payment, even if they don't require a delay. Businesses in particular would take advantage of this and would choose to pay other bills instead of ours. This runs contrary to our need for cash and our desire to target assistance. The impact of this cash delay is unknown, but not good.

Secondly, it delays payments from our financial institutions, who have already collected taxes on behalf of their clients. Every month you extend a deadline is a month you won't have $1,000,000 in the bank to pay municipal bills. At best, you would lose $1,667 monthly in lost interest, at worst, you won't have enough cash to pay vendors quickly, and will have to borrow to make it work at a higher cost. Where this is completely avoidable, I would not advise this.

Finally, there will likely be some form of provincially led deferral program, which will capture the cash flow difficulties of those directly impacted by COVID, so a deadline extension is duplication of the approach being proposed by NSFM /AMANS.

Reduce interest rate down from 16%

Traditionally, our interest rate has been 16%. It is at that high percentage for a reason, we want to discourage taxpayers to pay us last. It is consistent with the rates set across the Province, as we analysed this 2 years ago during budget work. We require collection of taxes in order to deliver the services we deliver. Typically, at the end of the year, we have collected over 94% of the entire levy, and most of those collections occur before August 31 of each year. We already know that this year will be different and could be significantly different.

Financial data **-** Last year, interest on taxes in arrears was $75,480, and we budgeted much lower at $61,000. Average over 4 years is closer to $64,000. The interest on taxes was higher last year due partially to the fact that we had tax rate increases, and area rate increases (so there was more tax levied).

Using the average figure of $64,000, that means for every percentage of interest you reduce, you will reduce revenues by $4,000 annually. This calculation assumes the exact same rate of payment as in previous years. If taxpayers take longer to pay, the new percentage will be applied on their account for a longer period, therefore reducing this interest loss.

For residents that choose to pay their taxes on time, it has no impact on them. They won't pay any interest. For those who do not qualify for a tax deferral under this 'potential' provincial plan, they will be forced to pay 16% on overdue taxes. In this environment where interest rates are collapsing on most borrowing, this is expensive and could cause undue burden on residents/businesses that are tapped out on borrowing limits.

Do nothing

This is a viable option, as there is likely to be a tax deferral option available to our taxpayers that will be developed for all municipalities. The advantage of do nothing is that we would not lose interest revenues due to decreased interest on overdue taxes. We would, under all scenarios, lose investment income on our reserves, or have a cost of borrowing to ensure we have enough cash to operate. This option provides no assistance to taxpayers who won't qualify for tax deferral but nevertheless impacted by COVID, so while it is, in the CAO's view, a better option than delaying tax billing or extending deadlines, it does not meet the objectives and facts set out in the beginning of this assessment.

CAO's Recommendation:

Of the four options available, I would recommend a decrease in the interest rate on overdue taxes, while retaining the traditional billing and deadline timelines. In the analysis I indicate that each percentage point would result in a loss of income of approx. $4,000.

I would recommend we set the rate at 10%, down from 16%, for a planned decrease in this income of $24,000, and that the amount is recovered from prior year operating surpluses.

Suggested motion:

Move that the interest rate be set at 10% for the 2020-21 taxation year to reduce the cost to taxpayers and that the due date remain at July 31 for the 2020 taxation year.