



Report to: Special Council Meeting

Meeting Date: March 27, 2020

---

**SUBJECT:** COVID-19 – Financial Update  
**PREPARED BY:** Mark Visser, Senior Manager, Financial Strategy & Investments  
Shane Manson, Senior Manager, Revenue & Property Tax  
Sandra Skelcher, Senior Manager, Financial Planning & Reporting

---

**RECOMMENDATION:**

- 1) That the report titled “COVID-19 - Financial Update” be received; and,
- 2) That the City Treasurer be directed to monitor the economic climate and report back to Council as required with further information related to COVID-19, including any decisions by other levels of government and related financial implications for the Corporation, residents and business owners in the City of Markham; and
- 3) That Staff be authorized and directed to do all things necessary to give effect to this resolution.

**PURPOSE:**

The purpose of this report is to provide information on the following:

1. Primary Operating Budget
2. Waterworks Operating Budget
3. Cash Flow Considerations
4. Property Tax
5. Stormwater Fee
6. Financial Assistance Options for Residents and Businesses
7. Next Steps

**Executive Summary**

The current COVID-19 pandemic is causing financial hardship for many residents and businesses owners. On Friday March 27<sup>th</sup>, staff will present options for Council’s consideration to assist property owners during this difficult time.

- i. Waive late payment charges (*penalty & interest*)
- ii. Defer tax instalment dates (*final tax bill*)
- iii. Defer the collection of the 2020 stormwater fees
- iv. Defer 2020 Water Rate Increase (*City of Markham*)

i. Waiving Late Payment Charges

Staff are investigating options of waiving Penalty and Interest for a period of time. Legislation requires that penalty and interest be applied in the same manner and at the same time for all properties. If penalty and interest were to be waived, it would have to be waived on all tax arrears and would result in lost revenue to the municipality.

Residents and businesses will be encouraged to continue making payments if possible to ensure local government services can be sustained.

ii. Deferring Tax Instalment Dates

Staff are investigating the option of deferring tax bill instalments to assist residents and business owners during this time.

The final tax bill instalments are as follows:

- Residential Properties July 5<sup>th</sup> and August 5<sup>th</sup>
- Non-Residential: October 5<sup>th</sup> and November 5<sup>th</sup>

iii. Deferral of 2020 Stormwater Fees

Staff are investigating the option of deferring the inclusion of the 2020 stormwater which is applied to the final tax bill for each property in the City of Markham:

- Residential Fee: \$50 per residential property
- Non-Residential Stormwater Fee: \$28 per \$100K of Current Value Assessment (CVA)

iv. Deferral of 2020 Water Rate Increase

Staff are investigating the option of deferring the 2020 water rate increase for all residents and business owners. This rate increase of 7.8% was scheduled to take effect April 1<sup>st</sup>, 2020.

**BACKGROUND:**

The impact of the COVID-19 pandemic is being felt across the country with widespread closure of businesses, a state of emergency declared by the Province of Ontario. The Federal Government has already provided information on economic and financial support for Canadians and Businesses including:

- The extension of the income tax filing due date for individuals and deferral of payments of qualifying income tax amounts owing;
- A temporary wage subsidy program over the next three months for qualifying small businesses faced with revenue losses and to prevent employee layoffs;
- Enhancements to the Goods and Services Tax credit and the Canada Child Benefit; and
- An Emergency Care Benefit for employees that not to qualify for Employment Insurance benefits

**More details and information on Federal Assistance Programs available at:**

<https://www.canada.ca/en/departement-finance/news/2020/03/canadas-covid-19-economic-response-plan-support-for-canadians-and-businesses.html> )

**Provincial Government**

On March 25, 2020, the provincial government announced that it is deferring the next two (2) quarterly property tax remittances payments by 90 days. The remittance which would have been due on June 30<sup>th</sup> is now September 30<sup>th</sup> and the remittance which would have been due September 30<sup>th</sup> is now December 30<sup>th</sup>. This will provide municipalities with the flexibility to, in turn, provide property tax deferrals of over \$1.8 billion to Ontario residents and businesses.

The government also announced that the property tax reassessment that was scheduled to be conducted in 2020 for the 2021 tax year will be postponed. This will provide stability for Ontario's property taxpayers and municipalities, and will enable municipal governments to focus their attention on critical public health initiatives and other efforts to manage the local response to the COVID-19 outbreak.

**More details and information on the March 25<sup>th</sup> available at:**

<https://budget.ontario.ca/2020/marchupdate/pdf/2020-marchupdate.pdf>

In addition, the Provincial Government had previously announced legislation to protect workers forced to stay home due to the COVID-19 pandemic.

**City of Markham**

The impact of COVID-19 pandemic demonstrates the critical role played by the City in leadership, communication and community awareness, containment and remediation efforts to flatten the curve on the COVID-19 virus. Among other internal health and safety control measures taken by the City, the decision was made to close all recreation, library and culture venues effective March 13 to April 5, 2020. All other City facilities were closed to the public on March 18, 2020. Extension of the closures will be announced by the City the week of March 30<sup>th</sup>.

**DISCUSSION:**

The COVID-19 pandemic has created significant financial hardship for Markham residents, local businesses and financial pressures for the City. The 2020 Interim Tax Bills were issued prior to the COVID-19 outbreak and Staff are in the midst of reviewing various options which will provide financial relief to residents and business owners during this time of uncertainty.

**1. Primary Operating Budget**

Each year, Council members and City Staff, engage in a rigorous review of business plans and financial requirements for the following year. The final needs are determined and are presented in the form of a balanced budget.

In December 2019, Council approved all City budgets for 2020. The approval included a balanced, primary operating budget of \$240.96M. The following table provides a high level summary of the major budget components.

<b>2020 Operating Budget</b>		
<b>\$Millions</b>		
<b>Revenue</b>	<b>\$ 240.96</b>	<b>A</b>
Expenses		
Personnel	141.65	
Non-personnel	99.31	
<b>Total Expenses</b>	<b>\$ 240.96</b>	<b>B</b>
Surplus / (Deficit)	<b>\$ -</b>	<b>C = A - B</b>

The City's main source of revenue (approximately 69%) is received from property taxation. The second highest revenue source is from user fees and rentals (13%), which includes such services as recreation, culture and library programs, camps, fitness memberships and facility room rentals. Interest earned from investments provides an additional 10% of the City's revenue stream. The revenue sources are summarized as follows:

<b>2020 Operating Budget</b>		
<b>\$Millions</b>		
<b>Revenue</b>	<b>\$ 240.96</b>	<b>A</b>
Expenses		
Personnel	141.65	
Non-personnel	99.31	
<b>Total Expenses</b>	<b>\$ 240.96</b>	<b>B</b>
Surplus / (Deficit)	<b>\$ -</b>	<b>C = A - B</b>

  

<b>\$Millions</b>	
Property Taxation	\$ 165.47
User Fees, Service Charges & Rentals	\$ 31.52
Investment Income	\$ 24.69
Other	\$ 19.28
<b>Total Revenues</b>	<b>\$ 240.96</b>

The majority of revenues are used to pay for daily operating costs. Approximately 59% of revenues are required for personnel costs, for employees providing City services to residents and business owners.

The remaining 41% of revenues are used toward non-personnel expenses, including contributions to the Life Cycle Replacement and Capital Reserve. The major, daily operational costs include winter maintenance activities (vehicle services, salt, sand), recycling and waste collection and disposal, facility maintenance, maintenance of roads, parks and other outdoor public spaces and utility costs for street lights, traffic signals and facilities.

As noted above, the City contributes a portion of annual revenues to the Life Cycle Replacement and Capital Reserve. The Reserve funds are used, through the capital budget program, for the refurbishment and replacement of City assets. Each year, a life cycle reserve study is completed, to ensure there are sufficient funds available in the Reserve to maintain City assets, in good working order, for the following 25 years.

As the budget is balanced (revenue inflows = expense outflows), it is expected that all revenues will be used or committed by year-end. If there are funds remaining, the surplus is transferred to reserves in the following order:

- Corporate Rate Stabilization Reserve to top-up to 15% of the local tax levy
- Replenish funds used from the Environmental Land Acquisition Reserve
- Remaining to the Life Cycle Replacement and Capital Reserve.

If the year should end in a deficit position, the amount required to balance the operating results to 'net zero', is drawn from the Corporate Rate Stabilization Reserve. The current Reserve balance is \$22.53M.

In 2020, due to the loss of substantial non tax revenue that was used to balance the budget, the City is projecting a structural deficit in the range of \$3M - \$4M per month. Staff will provide monthly updates on the proposed deficit throughout 2020.

## **2. Waterworks Operating Budget**

Markham owns, operates and maintains, in good working order, the water and wastewater system. The water supply and wastewater treatment are purchased from the Region of York (Region). The Region, in turn, purchases water from the City of Toronto and the Region of Peel.

Water billing charged to the consumer is based on a rate per cubic meter (m<sup>3</sup>) of water consumed. Residents are billed on a bi-monthly basis while industrial, commercial and institutional (ICI) customers are billed monthly. The Waterworks operating and capital programs are funded by the revenue received from the water/wastewater rate charged to consumers (water billing revenues). Approximately 70% of the revenues are used to pay the Region for the water supply. The remaining 30% is used to fund the City's day-to-day operations and the contribution to the Waterworks Stabilization and Capital Reserve. The funds in the Reserve are used for repair and replacement of water and wastewater infrastructure assets. A reserve study is carried out annually to ensure there are sufficient funds available in the Reserve to maintain the water and wastewater system, in good working order, for the following 25 years.

Council approved the 2020 water rate of \$4.818/m<sup>3</sup>, a 7.8% increase over the 2019 rate of \$4.468/m<sup>3</sup>. The increase was approved for implementation starting April 1, 2020. The Region has approved a 9% wholesale rate increase effective April 1<sup>st</sup>, 2020.

---

### **3. Cash Flow Considerations**

Markham's greatest source of cash flow is from property taxes. The City has already collected approximately 79% of the 2020 interim property taxes billed on Feb 5<sup>th</sup> and Mar 5<sup>th</sup>. The remaining amounts for the 2020 interim tax bill (excluding arrears) are scheduled to be received through pre-authorized tax payments in the months of April, May, and June.

The City's largest cash outflow during the remainder of the first half of 2020 is the property tax remittance payments to the Province at the end of March and June and to the Region of York at the end of April and June.

### **4. Property Tax**

The City of Markham issues two property tax bills per year; an interim tax bill and a final property tax bill.

- Interim tax bills are issued in January of each year and are for the first half of the year's property tax obligation. These property taxes equal 50% of prior year taxes. Due dates are common for both residential and non-residential (*Commercial, Industrial and Multi-Residential*) properties in February 5<sup>th</sup> and March 5<sup>th</sup>.
- Final tax bills are issued in June each year for residential properties and have instalment dates due on July 6<sup>th</sup> and August 5<sup>th</sup>. Non-residential properties (*Commercial, Industrial and Multi-Residential*) are billed in August each year and have instalment due dates on October 5<sup>th</sup> and November 5<sup>th</sup>. The final taxes represent the balance of the property tax obligation for the current year.

The City has approximately 116,000 tax accounts; 105,500 residential accounts and 10,500 non-residential accounts (*commercial, industrial and multi-residential*). The City of Markham provides several convenient payment options for these owners to complete their property tax payments including;

- Online or in-line through their bank or financial institution
- Through mortgage companies
- Pre-Authorized Tax Payment Plan (PTP):
  - 4, 6 or 11 instalments payment plan
- At the Civic Centre
  - In-Person; or
  - Drop-box located at the Thornhill Entrance; or
  - By Mail

The table below provides the distribution of taxpayer payment preference;

<b>Payment Method Type</b>	<b>% of Taxes</b>
Financial Institutions (Online / In-person)	53.10%
PTP payment withdrawal from bank accounts	29.10%
Mortgage companies	12.00%
By cheque mailed in	3.30%
At Civic Centre Cashiers	2.50%
<b>Total</b>	<b>100.00%</b>

Property taxes are the primary source of revenue to fund the delivery of municipal services. There is a cost to the City when the property tax payment is not made when it is due, that results in the application of the following two (2) separate late payment charges.

Penalty:

A penalty of 1.00% is added to the tax account the day after an instalment payment is due.

- Example: A tax instalment of \$1,000 is due February 5th. A penalty of \$10 is applied to the tax account on February 6<sup>th</sup> if payment is not received by end of business day on February 5<sup>th</sup>.

Interest:

An interest charge of 1.25% on any taxes not paid in a previous month. Interest is not calculated on interest or penalty previously charged.

- Example: As of March 31<sup>st</sup> total outstanding taxes are \$3,000 (exclusive of any previous penalties or interest). An interest charge of \$37.50 will be added to the property tax account on April 1<sup>st</sup>.

2020 Interim Tax Bill

For 2020, the City has billed approximately \$367.7 million of taxes for the interim billing period (January – June). The interim property taxes are due over the following installment months:

<b>Property Class</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>June</b>	<b>Total</b>
Residential	\$112.7M	\$112.3M	\$17.3M	\$13.2M	\$13.2M	\$268.7M
Non-Residential	\$46.3M	\$46.5M	\$6.2M			\$99.0M
<b>Total</b>	<b>\$159.0M</b>	<b>\$158.8M</b>	<b>\$23.5M</b>	<b>\$13.2M</b>	<b>\$13.2M</b>	<b>\$367.7M</b>

As noted in the table above, the total 2020 interim tax billing was \$367.7M. To date, the City has collected \$288.9M or 91% of the \$317.8M which was due for the February 5<sup>th</sup> and March 5<sup>th</sup> instalments, leaving the balance of \$28.8M not paid and deemed in arrears.

There is currently 13.5% or \$49.9M (\$367.7M – \$317.8M) of the total \$367.7 interim billing remaining (excluding arrears) to be paid. This \$49.9M will be collected during the months of April, May and June for properties which are enrolled in the City's Preauthorized Tax Payment Plan (PTP).

To date, the City has received payment for 79% or \$288.9M of the total 2020 Interim Tax Bill (\$367.7M), with an additional \$49.9M or 13.5% expected to be received in the next 3 months.

The City of Markham collects property taxes on behalf of three levying bodies; meaning the City of Markham, the Region of York and the Province of Ontario (Education). Each level of Government is responsible for establishing its own budget and tax rates.

The amounts due to the Region and School Boards must be paid according to the pre-determined schedule, regardless of when the actual property taxes are collected by the City. Accordingly, the City up-fronts payments to the Region and School Boards when taxpayers do not remit taxes by the due dates. To mitigate the impact to the City, late payment charges (*penalty and interest*) associated are kept with the City.

The table below illustrates the payment schedule and remittance amounts for the Province and Region. Payment of interest would be applicable, if the City of Markham is late with any remittance payment.

Body	Jan	Feb	Mar	Apr	May	June
Region of York				\$84.1M		\$81.9M
School Boards			\$61.5M			\$61.4M
<b>Total</b>			\$61.5M	\$84.1M		\$143.3M

On March 25, 2020, the provincial government announced that it is deferring the two (2) quarterly property tax remittances payments by 90 days. The remittance payments which would have been due on June 30<sup>th</sup> is now September 30<sup>th</sup> and the remittance which would have been due September 30<sup>th</sup> is now December 30<sup>th</sup>.

#### Flood Control Program - Stormwater Fees

The Council approved 30 year Flood Control Program is a City-wide initiative to improve storm drainage capacity and limit surface and property flooding risks in the urban areas. The flood control improvements are funded through the Stormwater Fee which is charged to all property owners; both residential and non-residential. The fee revenue combined with revenue from the Canada Gas Tax, fund both current and future stormwater infrastructure improvement projects city-wide.



The total stormwater revenue generated from these fees in 2019 was \$8.8M (\$4.8M Residential and \$4.0M Non-Residential).

The 2020 stormwater fee associated to the property type is applied to the final tax bill for each property in the City of Markham:

- Residential Fee: \$50 per residential property
- Non-Residential Stormwater Fee: \$28 per \$100K of Current Value Assessment (CVA)
  - Example: Commercial Plaza with a CVA of \$2,000,000
    - $\$2,000,000 \times (\$28 / \$100,000) = \$560$

## 5. Financial Assistance Options for Residents and Businesses

As indicated earlier in the report, the current COVID-19 pandemic is causing financial hardship for many residents and businesses owners. On Friday March 27<sup>th</sup>, staff will present options for Council's consideration to assist property owners during this difficult time.

- i. Waive late payment charges (*penalty & interest*)
- ii. Defer tax instalment dates (*final tax bill*)
- iii. Defer the collection of the 2020 stormwater fees
- iv. Defer 2020 Water Rate Increase (*City of Markham*)

To put the first two financial assistance options into context, the table below provides a summary of the recent announcements made in other municipalities with respect to property tax assistance measures being implemented for their residents and business owners during this difficult time.

Municipal Scan	Interim Property Tax Assistance
Toronto	<u>60-day deferral</u> on instalment and preauthorized plans. Late payment fees deferred 60 days
Mississauga	<u>90-day deferral</u> - on instalment and preauthorized plans. Late payment fees remain in place
Richmond Hill	<u>Deferral + P &amp; I Waived</u> - P & I Waived for 2 months (April - May 31) . May 1st instalment deferred to June 1st
Brampton	<u>Deferral + P &amp; I Waived</u> - Instalments due March 18 and April 22, deferred to August 19. Preauthorized withdrawals proceed. Late payment fees waived to August 19
Vaughan	<u>P &amp; I Waived</u> for 3 month period (March - May 31) . Interim taxes to be paid by May 31.
Newmarket	<u>P &amp; I Waived</u> for 2 month period (April - May 31) . Interim taxes to be paid by May 31.
Other Locals in the Region	Generally moving their April tax due dates to June, preauthorized withdrawals deferral upon request, and late payment fees waived 60 days to end of May

---

v. Waiving Late Payment Charges

Staff are investigating options of waiving Penalty and Interest for a period of time. Legislation requires that penalty and interest be applied in the same manner and at the same time for all properties. If penalty and interest were to be waived, it would have to be waived on all tax arrears and would result in lost revenue to the municipality.

Residents and businesses will be encouraged to continue making payments if possible to ensure local government services can be sustained.

vi. Deferring Tax Instalment Dates

Staff are investigating the option of deferring tax bill instalments to assist residents and business owners during this time.

The final tax bill instalments are as follows:

- Residential Properties July 5<sup>th</sup> and August 5<sup>th</sup>
- Non-Residential: October 5<sup>th</sup> and November 5<sup>th</sup>

vii. Deferral of 2020 Stormwater Fees

Staff are investigating the option of deferring the inclusion of the 2020 stormwater which is applied to the final tax bill for each property in the City of Markham:

- Residential Fee: \$50 per residential property
- Non-Residential Stormwater Fee: \$28 per \$100K of Current Value Assessment (CVA)

viii. Deferral of 2020 Water Rate Increase

Staff are investigating the option of deferring the 2020 water rate increase for all residents and business owners. This rate increase of 7.8% was scheduled to take effect April 1<sup>st</sup>, 2020.

**FINANCIAL CONSIDERATIONS:**

The current COVID-19 pandemic is causing financial hardship for many residents and businesses owners. On Friday March 27<sup>th</sup>, Staff will present options for Council's consideration which could assist residents and business owners during this time of financial uncertainty.

**RECOMMENDED**

Joel Lustig  
Treasurer

Trinela Cane  
Commissioner, Corporate Services

**ATTACHMENTS:**