HALDIMAND COUNTY

Report FIN-02-2022 Interim Tax Levy and Temporary Borrowing for the Year 2022

For Consideration by Council in Committee on February 8, 2022

OBJECTIVE:

To secure Council authority, through by-law, for the billing of the 2022 Interim Tax Levy and for temporary borrowing if required.

RECOMMENDATIONS:

1. THAT Report FIN-02-2022 Interim Tax Levy and Temporary Borrowing for the Year 2022 be received;
2. AND THAT the 2022 combined interim tax rates, as identified in Attachment #1, be adopted;
3. AND THAT the 2022 Interim Tax Levy be due and payable in two equal installments, on March 31st, 2022 and May 31st, 2022;
4. AND THAT the rate of penalty and interest for 2022 be set at 1.25% per month (15% per annum);
5. AND THAT a by-law be presented for enactment to authorize an Interim Tax Levy for 2022 based on the tax rates set out in Report FIN-02-2022;
6. AND THAT the Treasurer be authorized to adjust an individual property owner's interim taxes for 2022, if required, in the event that the taxes would be too low or too high in relation to the estimated total annual taxes for 2022, in accordance with Section 317(9) of the Municipal Act;
7. AND THAT a Temporary Borrowing By-law be presented for enactment to set the limit for borrowing certain sums, until revenues are received, to meet current expenditures for the year.

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Approved: Craig Manley, MCIP, RPP, Chief Administrative Officer

EXECUTIVE SUMMARY:

Approving the 2022 interim tax levy, with payments split between a March and May installment, will serve both the County's immediate cash flow needs and provide reasonable notice to the County's property owners, of their anticipated property taxes for the calendar through a balanced schedule of tax payments. The interim tax rates, as identified in Attachment #1, are established to ensure the interim tax levy does not exceed 50% of the anticipated combined municipal and education taxes for the 2022 calendar year for any particular property.

Although not anticipated to be utilized, in the event there is a timing issue related to collection of municipal revenues and outflow of expenditures, the temporary borrowing by-law provides the applicable short-term credit facility.

BACKGROUND:

Section 317(1) of the Municipal Act (Act) allows a municipality, before adoption of the annual operating budget, to pass an Interim Tax Levy By-law. The objective of an interim tax levy is to provide the County with funds to avoid temporary borrowing as well as to spread tax installments relatively evenly throughout the year.

Section 317(3) of the Act outlines the following rules with regard to establishing an interim tax levy:

1. The amount levied on a property shall not exceed the prescribed percentage, or 50 per cent if no percentage is prescribed, of the total amount of taxes for municipal and school purposes levied on the property for the previous year.
2. The percentage under paragraph 1 may be different for different property classes but shall be the same for all properties in a property class.
3. For the purposes of calculating the total amount of taxes for the previous year under paragraph 1, if any taxes for municipal and school purposes were levied on a property for only part of the previous year because assessment was added to the tax roll during the year, an amount shall be added equal to the additional taxes that would have been levied on the property if the taxes for municipal and school purposes had been levied for the entire year.

In conjunction with the Interim Tax Levy By-law, the Act also provides the ability for the municipality to borrow funds, on a temporary basis, until revenues are collected (i.e. property taxes and other municipal own sourced revenues), to a maximum of:

- 50% of such revenues from January 1 to September 30 of the year; and
- 25% of such revenues from October 1 to December 31 of the year.

Although the Municipal Act establishes the authority to set the temporary borrowing limit at 25% of Haldimand County own source revenues for the year (based on property taxes or payments in lieu of property tax revenues only), since 2014, the temporary borrowing limit was fixed at $5,000,000 based on improved cash flow management. This level remains sufficient as this credit facility has not been utilized in the past.

ANALYSIS:

The required Interim Tax Levy By-law and Temporary Borrowing By-law address four key issues: the interim tax rates, the due dates for the interim taxes, the rate of penalty and interest on unpaid taxes and the borrowing limits for temporary financing of operational costs.

Interim Tax Rates

The Act provides that the interim tax levy shall not exceed 50% of the prior year’s combined municipal and education taxes for any particular property. In a year where there is no change in the assessed value of properties, setting a tax rate equal to 50% of the previous year’s tax rate would meet the requirements of the act. However, while 2022 saw the regular reassessment delayed due to the pandemic, there are growth and burden impacts that require the use of a “notional” tax rate instead of the previous year’s tax rate in order to calculate the tax impact.

A notional tax rate is an adjusted tax rate that would calculate the same net levy, as required in the prior year, by using the updated Current Value Assessments (CVA) for the current taxation year. Generally, the calculated “notional tax rates” reflect a slight decrease from the 2021 final tax rate as a result of the assessment growth in 2021. This is due to the fact that the 2021 tax levy requirement, when spread over a higher total assessment per class, in most cases, results in a lower notional tax rate for 2022. Typically, this decrease would be more significant as a result of the phase-in of reassessment impacts, however, 2022 sees no reassessment impacts due to the delayed 2020 reassessment as a result of the current pandemic. The only exception to this is when tax policies are amended, affecting the underlying tax rate. As tax policy decision are reviewed by Council later in the year, this will only potentially impact the final tax bills.

The education tax rates reflect tax rates provided by the Province in January 2022. Similar to the notional rate concept, the education rates typically reflect a reduction in order that the funds collected for Provincial education purposes are revenue neutral. The COVID-19 Pandemic has affected the usual decrease in education rates in two ways. First, since the provincial reassessment was delayed, holding property values at 2020 destination values, the draft education rates for residential are held steady at the 2021 rate. Next, given the impact of the pandemic on the Ontario economy, the Province announced in November 2020 that it would reduce all high business education tax (BET) rates to a rate of 0.88 per cent starting in 2021. The final rates for 2022 maintain this reduced rate established in 2021. Resulting draft rates are shown in the table below:

Table 1 – Comparison of Education Rates

Class	2021	2022	Change	%
Residential and Multi-residential	0.00153000	0.00153000	-	0.0%
Farm and Managed Forest	0.00038250	0.00038250	-	0.0%
Commercial	0.00880000	0.00880000	-	0.0%
Industrial and Pipeline	0.01250000	0.00880000	(0.00370000)	-29.6%
New Construction - Commercial/Industrial	0.00880000	0.00880000	-	0.0%
Small-Scale On-Farm Subclass - Commercial/Industrial	0.0022 000	0.00220000	-	-10.2%

Incorporating notional municipal tax rates and provincially approved education tax rates, the following table represents the calculated 2022 Interim Tax Rates for the various property classes based on the annualized notional tax rates (calculated as described above):

Table 2 – 2022 Interim Tax Rates

Property Class	Tax Classes	2022 Notional Municipal Tax Rate	2022 Education Tax Rate	2022 Annualized Combined Tax Rate	2022 Combined Interim Tax Rate (*)
Residential	RT (RF,RG,RH,RP)	0.01018748	0.00153000	0.01171748	0.00585874
Residential Farmland Awaiting Development	R1P	0.00764061	0.00114750	0.00878811	0.00439405
Multi-Residential	MT	0.02037495	0.00153000	0.02190495	0.01095248
Multi-Residential (New Construction)	NT	0.01018748	0.00153000	0.01171748	0.00585874
Commercial (Occupied)	CT, ST, GT (CF, CG, CH, CP, DP,GF)	0.01724638	0.00880000	0.02604638	0.01302319
Landfill	HT (HF)	0.01724638	0.00880000	0.02604638	0.01302319
Commercial Excess Lands/Vacant Lands	CU, SU, CX (CJ,CR,CZ)	0.01724638	0.00880000	0.02604638	0.01302319
Commercial (New Construction)	XT (XP)	0.01724638	0.00880000	0.02604638	0.01302319
Commercial (New Construction) Vacant Lands	XU	0.01724638	0.00880000	0.02604638	0.01302319
Commercial Small-Scale On-Farm Subclass	C7	0.00431159	0.00220000	0.00651159	0.00325580
Industrial (Occupied)	IT, LT, (IH,IP,LI,LN,LS)	0.02371033	0.00880000	0.03251033	0.01625517
Industrial Excess Lands/Vacant Lands	IU, LU, IX (IK,IZ,LK)	0.02371033	0.00880000	0.03251033	0.01625517
Industrial Farmland Awaiting Development	I1N	0.00764061	0.00114750	0.00878811	0.00439405
Industrial (New Construction)	JT (JP)	0.02371033	0.00880000	0.03251033	0.01625517
Industrial Excess Lands/Vacant Lands (New Construction)	JU	0.02371033	0.00880000	0.03251033	0.01625517
Industrial Small-Scale On-Farm Subclass	I7	0.00592758	0.00220000	0.00812758	0.00406379
Pipelines	PT	0.01517323	0.00880000	0.02397323	0.01198661
Farmlands	FT (FP)	0.00254687	0.00038250	0.00292937	0.00146468
Managed Forests	TT	0.00254687	0.00038250	0.00292937	0.00146468

(*) - Based on the legislative parameters, the 2022 interim tax rates stated above represent 50% of the calculated annualized combined municipal and education tax rate for each property class (excluding any municipal levy increases or tax policy impacts).

A comparison of 50% of the final 2021 Approved rates and the proposed 2022 Interim Tax rates is provided below:

Table 3 – Comparison of 2021 to 2022 Interim Tax Rates

Property Class	Tax Classes	2021 Interim Tax Rate	2022 Interim Tax Rate	2022 Difference
Residential/Farm	RT (RF,RG,RH,RP)	0.00601035	0.00585874	(0.00015161)
Residential Farmland Pending Development	R1P	0.00450776	0.00439405	(0.00011371)
Multi-Residential	MT	0.01125569	0.01095248	(0.00030321)
Multi-Residential (New Construction)	NT	0.00601034	0.00585874	(0.00015160)
Commercial (Occupied)	CT, ST, GT (CF, CG, CH, CP, DP,GF)	0.01327984	0.01302319	(0.00025665)
Landfill	HT (HF)	0.01327984	0.01302319	(0.00025665)
Commercial Excess Lands/Vacant Lands	CU, SU, CX (CJ,CR,CZ)	0.01327984	0.01302319	(0.00025665)
Commercial (New Construction)	XT (XP)	0.01327984	0.01302319	(0.00025665)
Commercial (New Construction) Vacant Lands	XU	0.01327984	0.01302319	(0.00025665)
Commercial Small-Scale On-Farm Subclass	C7	0.00331996	0.00325580	(0.00006416)
Industrial (Occupied)	IT, LT, (IH,IP,LI,LN,LS)	0.01845801	0.01625517	(0.00220284)
Industrial Excess Lands/Vacant Lands	IU, LU, IX (IK,IZ,LK)	0.01660801	0.01625517	(0.00035284)
Industrial Farmland Pending Development	I1N	0.00450776	0.00439405	(0.00011371)
Industrial (New Construction)	JT (JP)	0.01660801	0.01625517	(0.00035284)
Industrial Excess Lands/Vacant Lands (New Construction)	JU	0.01660801	0.01625517	(0.00035284)
Industrial Small-Scale On-Farm Subclass	I7	0.00415200	0.00406379	(0.00008821)
Pipelines	PT	0.01221241	0.01198661	(0.00022580)
Farmlands	FT (FP)	0.00150259	0.00146468	(0.00003791)
Managed Forests	TT	0.00150259	0.00146468	(0.00003791)

Note: 2021 Interim rates have been recalculated to represent ½ of the final approved 2021 tax rates.

As indicated previously, the interim tax rates for 2022 are only slightly lower than 50% of the final 2021 tax rates, due to the lack of reassessment increases. The above noted decreases incorporate any assessment shifts (not applicable in 2022) and growth related impacts as well as any impact related to the changes in the Provincially approved education tax rates.

It must be emphasized that this calculation of 2022 interim tax rates does not incorporate any potential 2022 tax supported operating levy increase. That impact will not be known until Council reviews the 2022 Tax Supported Operating Budget in March. Also, the final 2022 total tax rates could be impacted by changes in tax policy, as well as any changes in assessment in the first quarter of 2022. For these reasons, the final 2022 total tax rates will not be presented to Council until June.

As noted, 2022 is a year of no reassessment impacts, so all properties reflect their final CVA values, based on the valuation date of January 1, 2016 (known as the 2020 “Destination” value). Some properties may have a change in assessment due to supplementary assessments being issued last year for enhancements/additions to the property, or a reduction due to a successful Request for Reconsideration/Assessment Review Board decision. Post Roll Assessment Notices (PRAN’s) were also issued last year which could result in an increase or decrease in assessment an/or a tax class change for a particular property. As a result, the 2022 interim tax levy for an individual property will be based on the “annualized” taxation in 2021 to the extent that the adjustments mentioned above have been reflected on the returned assessment roll for 2022 taxation. Impacts of the 2021 returned assessment for 2022 taxation (i.e. shifts in burden between tax classes and net growth) are the subject of a separate report to Council being presented at the February 8th Council in Committee meeting (FIN-01-2022 Analysis of Assessment Update). For properties that have significant assessment changes, there is the potential that the interim taxes, although billed in accordance with the prescribed legislation, will vary significantly from the estimated total annual taxes for 2022. Section 317(9) of the Act contemplates these situations by including the following provision:

> “If the Council of a municipality is of the opinion that the taxes levied under subsection (1) on a property are too high or too low in relation to its estimate of the total taxes that will be levied on the property, the council may adjust the taxes on the property under subsection (1) to the extent it considers appropriate.”

For the above situations, it is recommended that the Treasurer be delegated the authority to make adjustments to the interim tax levy on a particular property (this would be effected by applying the recommended interim tax rates to the assessed value of the individual property for 2022).

It is estimated that, by utilizing these provisions and the “notional tax rates” indicated above, all taxpayers’ interim tax bills should be approximately 50% of the estimated total tax bill for 2022 (excluding the impacts of Council’s approval of increased tax levy requirements or tax policy changes for 2022).

Tax Installment Due Dates

In 2021, as in past years, Haldimand County levied two interim installments, due the last business day of March and May respectively. For 2022, staff is proposing the same timelines for the interim tax levy. The Final Tax Levy and proposed timing of final tax installments will be established once the 2022 Tax Supported Operating Budget is passed and the final tax rates are approved by Council. The goal, at that time, will be to spread the remaining 2022 tax levy over an additional two equal installments in order to minimize the timing impact on individual property owners, while still providing the County with sufficient cash flow to meet current operating expenditures.

In the future, given changing payment options and to meet taxpayer expectations, staff intend on evaluating various tax installment methods and timing. This could also better manage impacts on future cash flows and associated revenue streams (i.e. tax arrears, investment portfolio and returns, etc.). Any recommended changes will be brought back for Council’s review and approval.

Rate of Penalty and Interest

The Interim Tax Levy By-law also sets the rates for penalties on unpaid taxes and interest on arrears. In previous Levy By-laws, the County set the rate for penalty and interest at 1.25% per month or 15% per year. It is proposed that the rate remain as previously approved. This rate is consistent with almost all municipalities in Ontario and is the maximum rate allowed per Section 245(2) of the Act.

Municipalities have a limited number of tax collection tools available, such as interest rates, arrears notices, tax sale, small claims court and mortgage notification. Setting the interest rate at an effective rate of 15% per year encourages property owners to pay taxes on time. This interest rate should not be compared to current borrowing rates that are available from lending institutions as the municipality should not be viewed as a means to finance tax obligations. As Council is aware, although trending downward, Haldimand County’s taxes receivable are high compared to many other municipalities. Lowering the interest rate on unpaid taxes would likely exacerbate this situation as property owners would have less incentive to pay to avoid high penalties.

A final consideration is the revenue that is generated from the penalty charged on tax arrears. Currently, the County earns in excess of $1 million annually from interest income on tax arrears which helps to reduce the overall tax levy. Reducing the interest rate would have a corresponding increase to the tax levy meaning that all taxpayers, particularly the majority that pay their property taxes on time will, in effect, be subsidizing the late payments.

Temporary Borrowing By-law

Based on the legislative provisions, the County maintains a temporary borrowing by-law to allow for short-term borrowing until the required revenues are collected (i.e. property taxes and other municipal own sourced revenues). Although legislative limits would allow the County to carry a short-term borrowing limit in excess of $15,000,000, the County currently maintains a borrowing limit of $5,000,000.

To date, the County has not utilized this line of credit; however, it is good cash management to maintain this credit facility. Based on discussions with the County's financial institution, a credit limit of $5 million or less will avoid annual financial reporting requirements, credit insurance requirements and annual credit updates/reviews. From a short-term cash flow perspective, the current practice is to maintain a minimum balance within our current general operating bank account which would avoid the use of this credit facility under normal circumstances. The credit limit is reviewed annually and can be re-evaluated if the County's financial circumstances, at that time, warrant any required changes.

It is recommended that, based on the above analysis, there be no changes to the current temporary borrowing limit. As approved in prior years, in the event that no changes are recommended in future years, the borrowing limit will be updated annually without additional approval of Council as the General Manager of Financial and Data Services and the Treasurer have been delegated the authority to sign the required documents. As there are no proposed changes to the credit limit, an Interim Borrowing By-law, similar to prior years, will be presented to Council for approval at the February 16th meeting.

FINANCIAL/LEGAL IMPLICATIONS:

The setting of the interim tax levy, the due dates and the rate of penalty and interest will have a major impact on the County's revenue source and overall cash flow for 2022. Based on historical trends, anticipated revenues from penalties and interest have been incorporated into the 2022 Draft Tax Supported Operating Budget.

The temporary borrowing by-law provides the applicable credit facility in the event short-term borrowing is required for operating costs.

STAKEHOLDER IMPACTS:

Customer Service Representatives (CSR's) collect tax installment payments received in person or by mail.

REPORT IMPACTS:

Agreement: No

By-law: Yes

Budget Amendment: No

Policy: No

ATTACHMENTS:

1. Proposed Interim Tax Rates