Supplemental - Response to COVID-19 Property Tax Relief Requests

Date	March 23, 2022
To	Executive Committee
From	Financial Strategy & Sustainability
Service Area	Assessment & Property Revenue Services
Item No.	EX22-22

RECOMMENDATION

That the Executive Committee receive and file this report.

ISSUE

At the February 9, 2022, Executive Committee, while considering report EX22-6 - Response to COVID-19 Property Tax Relief Requests, Executive Committee requested Administration bring a supplemental report containing further information on property tax penalty rates in Regina and other municipalities, and consultation with hotels and the Regina & District Chamber of Commerce and non-commercial property owners to determine potential uptake of the recommended option. Executive committee also requested Administration provide further information on the impact of potential supports for the hotel industry.

IMPACTS

There are no financial, environmental, policy and/or strategic implications or considerations.

OTHER OPTIONS

No alternative options are identified for this report.

COMMUNICATIONS

The Regina & District Chamber of Commerce and the Regina Hotel Association were provided copies of this report.

DISCUSSION

Penalty Rates

The purpose of charging property tax penalty is to encourage property owners to pay property taxes before the property tax deadline. From 2005 to 2018, City of Regina penalty rates remained constant at 1.25 per cent per month on taxes due in the current year (current years' taxes outstanding from July-December) and 1.5 per cent per month on property tax arrears (taxes outstanding after December 31 of the current year). In 2017, as a result of conversations related to the 2017 revised budget, a review of the penalty rates was conducted. At that time, it was found that current penalty rates in the major prairie cities and other municipalities across Canada varied from 0.5 per cent to 2.5 per cent per month and arrears penalty rates varied from 1 per cent to 2.5 per cent per month. In 2018 a recommendation was made to increase both current and arrears penalty rates by 0.25 per cent per month beginning January 1, 2019.

While property tax penalty is used consistently by municipalities across Canada, application varies greatly in rates and timing making direct comparison of penalty rates complicated. The detailed results of a recent jurisdictional scan of arrears penalties in 19 jurisdictions across Canada is included in Appendix A: Property Tax Penalties and Relief Programs. Table 1 summarizes the current and arrears penalty rates in 10 Prairie cities.

Table 1: Summary of Arrears Penalties in Prairie Cities

Municipality	Current Penalty Rate (Monthly)	Arrears Penalty Rate	
		Monthly	Annualized
Calgary	7% (July and Oct)	1%	12.7%
Edmonton	5% (July, Sept and Nov)	1.25%	16.1%
Estevan	Increases from 0.5% in August to 1.5% in December	0.8%*	10.0%*
Prince Albert	1.9%	1.5%	19.6%
Moose Jaw	1%	1.1%	14.0%
Saskatoon	1.25%	1.5%	19.6%
Swift Current	1%	2.0%**	12.6%
Regina	1.5%	1.75%	23.1%
Yorkton	Increases from 0.5% in July to 3.0% in December	1.0% ***	12.0%
Winnipeg	2.5% per month, 7.5% in September	2.5%	34.5%
Average		1.24%	15.9%

*Estevan applies the 10% penalty once per year. 0.8% is the effective compounding monthly penalty.
**Swift Current applies the penalty bi-monthly.
***Yorkton's penalty rates are not compounding.

The jurisdictional scan (Appendix A) identified 6 jurisdictions that implemented arrears penalty relief during the pandemic, as summarized in Table 2: Arrears Penalty Relief. Calgary, Moose Jaw, Yorkton, New Brunswick and Prince Edward Island (PEI) offered relief over a short period whereas Halifax reduced their annual penalty rates by 5 percentage points in 2020 and has not yet returned them to previous levels. The relief provided by Calgary, Moose Jaw, Yorkton, New Brunswick and Halifax was broad while the relief offered by PEI was focused on tourism businesses that experienced revenue declines over the course of the pandemic.

Table 2: Arrears Penalty Relief

Jurisdiction	Relief
Calgary	No arrears penalty in January, February and March 2022.
Moose Jaw	Suspended arrears penalties from April 1 to September 30, 2020.
Yorkton	Suspended arrears penalties from March 16 to September 30, 2020.
New Brunswick	Provided a tax credit on penalties incurred in June and July 2020.
Halifax	Reduced penalty from 15% to 10% beginning in April, 2020.
Prince Edward Island	Provided penalty relief to tourism businesses from June 1, 2021 to December 31, 2021. Businesses must have experienced at least a 30% decline in revenue or had no revenue between April 1, 2020, and September 30, 2022.

Table 2 depicts relief applied to arrears penalty only and therefore does not include municipalities which extended the property tax due dates for 2020 and 2021, like Regina did for 2020.

<u>Changing Penalty Rates</u>
As reflected in the varying penalty rates and penalty applications across Canada, there is no best practice in terms of penalty rates. As penalties are compounding, analysis of the impact on revenue projections when changing rates is complex. Analysis based on property tax arrears at the time of writing indicates that a 0.25 per cent reduction in the *arrears* penalty rate applied to all properties in arrears would result in a penalty revenue reduction of approximately $500,000. A 0.25 per cent reduction in the *current* penalty rate would result in revenue reduction of $225,000. There is no research to indicate if an overall change in penalty rates, increase or decrease, is effective at incentivizing payment.

<u>Potential Participation in Arrears Payment Plan Option</u>
Predicting uptake for an arrears payment plan offering a reduced penalty rate is difficult. To better understand potential uptake, Administration engaged with residential and non-residential property owners in arrears, the Regina Hotel Association, and the Regina & District Chamber of Commerce.

An invitation to complete a short online survey was mailed to 1,819 property owners in arrears on February 15. Invitations were mailed as the mailing address is the only contact information Administration has for many of the property owners. The survey remained open from February 15 to

February 25. Survey results must be interpreted cautiously as many customers who are in arrears are not responsive to Administration’s efforts to establish contact and many of the customers that have been successfully contacted are already on a payment plan. Accordingly, even though invitations were sent to all properties in arrears, the responses received are not expected to be representative of that population.

At the time of writing this report, the survey had received 80 responses. 98 per cent were residential property owners and 5 per cent were non-residential property owners. 96 per cent of respondents stated an arrears payment plan offering a reduced penalty rate would make them more likely to enter into a monthly payment plan. 91 percent of respondents stated a reduced penalty rate of 0.75 per cent would encourage them to follow through on their payment plans. To supplement the survey results, Administration also tracked the number of property owners in arrears who contacted the City in the time the survey was open. A total of 17 calls was received, with five property owners inquiring about reduced penalty rates and 11 setting up payment plans. Only one property owner who inquired about a reduced penalty also set up a payment plan. The other four needed time to consider a plan or discuss it with their spouses.

35 survey respondents also provided written feedback through an open-ended question asking what else the City should consider when exploring the arrears payment plan option. 22 of these responses were generally supportive of an arrears payment plan program. Six respondents suggested the reduced penalty should be even lower than 0.75 per cent. There were no responses that opposed the program option. Other responses typically explained situations the property owner is in that led to them being in arrears or offered advice on how the City should approach arrears.

While it is hard to predict the uptake in a payment plan program offering a reduced penalty rate, and therefore the cost of the program, feedback from the survey indicates property owners would participate in the program. If an estimated 40 per cent of property tax arrears were paid through a payment plan the annual arrears penalty would be reduced by approximately $892,500 in 2022. This is expected to be partially offset by the benefits of increased cash flows and reduction in property tax arrears from honoured payment plans. The program would be funded by the unallocated Regina Economic Recovery Grant (RERG) funding ($267,000) and the General Fund Reserve (GFR) for 2022 and, based on participation in 2022, the operating budget would need to be adjusted in future years.

<u>Feedback from the Regina Hotel Association and the Regina & District Chamber of Commerce</u>
The Regina Hotel Association conducted a poll of its members on behalf of the City of Regina to gather more information on program impacts. Thirteen responses were received. When asked if they had applied for the Federal Tourism & Hospitality Recovery Program, all but one respondent replied they had. The respondent who did not apply stated it was due to proprietary reasons but did not elaborate. The businesses who had applied confirmed the program is a lifeline, especially for hotels

experiencing significant revenue losses. When asked about the options being considered by the City, respondents stated that an arrears payment plan is not useful as hotels strive to not be in arrears because it raises a red flag for lending institutions and government agencies providing financial aid. A 25 per cent reduction in 2022 municipal property taxes or a deferral program were much preferred options. Respondents suggested these would allow hotels to reinvest the money, creating more employment, increasing hours for existing employees and generally return services to pre-pandemic levels more quickly. A consideration for a deferral program is the timing of repayment. If the repayment is due before revenues have recovered, then the program would only shift the problem to a later period. The most recent forecasting expects tourism industry expenditures to recover to pre-pandemic levels by 2025. The 2022 municipal property tax for all hotel and motel properties is $ 3,818,162.

The Regina & District Chamber of Commerce circulated a poll to their members (approximately 2,000 businesses) asking if an arrears payment plan would be supporting their businesses. 17 businesses responded, with four of them stating the program would benefit them directly and 11 respondents saying the program was either not applicable or not useful. Two respondents did not answer the question or provide substantive feedback. There were two respondents who supported the program in principle even though it would not affect them directly. Five respondents suggested other types of support such as a tax holiday, a general reduction in taxes or permit fees, or a discount for early payment would be more useful to them. One respondent expressed concern that the program would increase costs for businesses who pay their taxes on time, and two others suggested the program should be targeted toward those businesses who are struggling to pay their taxes due to the pandemic.

In addition to presenting a survey to their membership related to a property tax penalty reduction, the Regina & District Chamber of Commerce indicated support for a marketing grant of $1,000 to $1,500 for local small businesses would be beneficial for their membership. The business could use it to support a marketing campaign or promotion. A grant as described would be seen as a helping hand to the City’s small business community. The RERG program which ended December 31, 2021, provided funding for marketing. All businesses and non-profits demonstrating financial need due to COVID restrictions were eligible for RERG funding. The RERG program also required a matching contribution from the business owner.

Hotels and Motels

<u>Economic Outlook</u>

Hotels and motels have been one of the hardest-hit segments of the economy during the pandemic. 60 per cent of hotels in Regina are owned by Saskatchewan residents that operate branded franchises and independent hotels. Many are first or second generation family-run businesses. Generally, hotel chains own very few hotels– they own a brand name. Hotel owners enter into multi-year contracts with companies, like Marriott, Best Western or Hilton, allowing them to use a specific brand for a fee.

Economic recovery predictions for the sector must be used cautiously as events, such as the emergence of the omicron variant, can set recovery back by months. For example, according to the Regina Hotel Association, many events scheduled for Q1 and Q2 of 2022 were cancelled when the omicron variant became a concern. Some of these were hotel-specific business events. Forecasting is further complicated by delays in data availability. Analyses in Fall 2021, from Destination Canada[1] and the Conference Board of Canada[2] were expecting tourism industry expenditures in Canada and Saskatchewan to recover to 2019 levels by 2025. Given the reliance of the hotel sector on tourism activity overall, these forecasts are likely a good indicator of the recovery for hotels. However, these estimates are based on forecasting from May and July 2021, respectively. Since then, the country experienced two more waves of COVID-19, which has set the recovery back. Given this, the actual recovery is likely between the current and poor forecast scenarios suggested by Destination Canada. The poor conditions forecast estimates tourism expenditures for Canada to be approximately 81 per cent of 2019 expenditures by 2025. Given the questionable reliability of the forecasts, it is useful to understand the challenges faced by the industry. Destination Canada has identified a series of these factors for the tourism industry as a whole. These are included in Appendix B: Tourism Industry Trends.

Impact in the 2025 Revaluation

Property revaluation takes place every four years, as legislated in *The Assessment Management Agency Act*. The next revaluation is scheduled to take place in 2025 and will update property assessment values to reflect the base date of January 1, 2023. The 2025 revaluation will capture the data collected from 2019, 2020 and 2021, & 2022. Revaluations are revenue neutral meaning the mill rates and mill rate factors are adjusted so the overall levies collected from a tax class do not change when property values are updated.

However, there may be some impacts withing the commercial class. The impact on hotels will depend on how the hotel/motel property values change relative to the commercial property class overall. If hotel/motel property values decline by more than commercial property values overall, then their share of property taxes paid will decline, resulting in increases to other commercial properties. Given the uncertainty around the post-pandemic economic recovery in all sectors including, but not limited to, restaurants, shopping centers, retail, offices and warehouses, Administration cannot confidently estimate what the impacts on hotels and motels will be.

Federal Tourism & Hospitality Recovery Program

The recently introduced Federal Tourism and Hospitality Recovery Program provides support to the tourism and hospitality sector by offering subsidies up to 75 per cent of eligible rent, including property taxes, and wages for businesses in the tourism and hospitality sector who experienced at

[1] Destination Canada, 2021. Destination Canada Visitor Economy Forecast Update, June 2021.
[2] Conference Board of Canada, 2021. Domestic Travel Ready to Surge: Saskatchewan's Travel Markets Outlook to 2025.

least a 40 per cent revenue drop during the pandemic. Administration has not yet received response from the Federal Government on program uptake, but feedback from the engagement with the Regina Hotel Association indicates that most respondents applied for the program and that the Tourism and Hospitality Recovery Program is a lifeline for the hotel industry. These programs are end-dated to May 7, 2022, with authority to extend to July 2, 2022. The subsidy rates will be reduced by half from March 13 to May 7, 2022.

Property Tax Support for Hotels and Motels in other jurisdictions.
A scan of other municipalities shows that the only program directed specifically at hotels and motels was in the City of Calgary. In 2021, they deferred the 2021 property tax for hotel and motel properties to December 31, 2022. When the program was approved, the City of Calgary automatically enrolled the approximately 100 hotel and motel properties in the deferral program to minimize administrative burden. This cancelled existing TIPP payment plans. Upon notification of enrollment, approximately 35 per cent requested to be removed from the program. Through out the year, 12 more properties withdrew from the program. Most of the properties withdrawing from the deferral program did so as they preferred to be enrolled in the Tax Installment Payment Plan. In January of 2022, the Calgary Hotel Association requested Council abate the municipal property taxes or the first five months of the year for hotel and motel properties. This request has not yet been considered by Calgary City Council.

DECISION HISTORY

On February 9, 2022, Executive Committee considered item EX22-6 - Response to COVID-19 Property Tax Relief Requests. Administration was directed to prepare a supplemental report for the March 9, 2022, Executive Committee meeting providing additional information on property tax penalty rates and potential participation in the recommended program, and additional information on program impacts on the hotel and motel industry.

Respectfully submitted,

Deborah Bryden, Acting Executive Director 2/24/2022

Respectfully submitted,

Barry Lacey, Exec. Director Financial Strategy & Sustainability 2/25/2022

Prepared by: Tanya Mills, A/Director, Assessment & Property Revenue Systems

ATTACHMENTS

Appendix A - Property Tax Penalties and Relief Programs
Appendix B - Tourism Industry Trends