Property Tax and Utility Deferrals – Hotel Partners

ISSUE
The COVID-19 pandemic has caused many Saskatoon businesses to experience a loss in revenue, including the local hotel industry. Due to this loss, the hotel industry, via representatives from the Saskatoon Chamber of Commerce, the Downtown BID and Tourism Saskatoon, are requesting that the City of Saskatoon (City) provide a further deferral program for property taxes and utility charges for hotel properties.

BACKGROUND
At its meeting on March 19, 2020, City Council approved a three-month property tax and utility payment deferral for commercial and residential customers to September 30, 2020. This deferral was intended to provide relief for customers negatively impacted by the COVID-19 pandemic.

At its meeting on February 2, 2021, when considering a letter from the Greater Saskatoon Chamber of Commerce (Chamber) requesting financial relief for the local hotel industry, the Standing Policy Committee on Finance resolved:

> "That the Administration be directed to meet with the Chamber of Commerce and hotel representatives and provide a report back to the March meeting of the Standing Policy Committee on Finance."

DISCUSSION
Following the meeting between the Administration (City Manager and Chief Financial Officer) and representatives of the Chamber and hotel industry as well as Tourism Saskatoon and the Downtown BID, the Chamber submitted a detailed request to the Administration for property tax and utility payment deferrals to the end of 2021.

The impact of COVID-19 on the local hotel industry, as stated by the representatives listed above, has been varied with occupancy levels across the city, suggesting an overall average of 24% occupancy which is an estimated 61% lower than last year.

The group also provided the Administration with information regarding cost-saving initiatives and other supports received during the pandemic. As a result of the pandemic, hotels across the city have cut expenses, both operational and capital. On average, 75%-80% of hotel employees are currently in furloughed to laid off state, and many hotels have had to close food and beverage facilities or reduce hours to decrease operating costs.

The following is a comprehensive list of resources from the provincial and federal governments that have been made available to the hotel sector in Saskatoon:

- Canada Emergency Wage Subsidy (CEWS): As Canadian employers with a drop in revenue during the pandemic, hotels were able to utilize this subsidy to help prevent further job losses and help rehire workers.

- Highly Affected Sectors Credit Availability Program (HASCAP): Available as of February 1, 2021 – 100% government guaranteed financing for heavily impacted businesses.

- Canada Emergency Business Account (CEBA): Interest-free loans up to $60,000 to small businesses. Repaying the balance of the loan on or before December 31, 2022 will result in loan forgiveness of 33%.

- Saskatchewan Tourism Sector Support Program: Event/attraction operators will be able to apply for a one-time, nonrepayable emergency payment.

- Emergency Rent Subsidy (CERS): A subsidy to cover part of their commercial rent or property expenses.

As of December 31, 2020, there were 42 identified hotel properties within the city of Saskatoon. At the time of writing this report, of these hotels, only one property tax account is in arrears and three utility accounts are past due (none of which are beyond 60 days in arrears).

Utility expenses for hotels are lower in the past 12 months, with a total reduction of approximately 24%. This average incorporates the hotels' past 12 months of utility bills versus pre-pandemic bills and is likely caused by lower occupancy rates and reduced facility use.

The four-year reassessment cycle for properties in Saskatchewan was undertaken and came into effect on January 1, 2021. This cycle has a base date of January 1, 2019. Due to reassessment, these properties will see an average reduction in their assessed value of 23%. This means that their property taxes will see a reduction in 2021 of about 29% on average due to their reassessment, as well as the change in percentage value for taxable assessment for commercial properties. It should be noted that this does not include the 2021 property tax increase, contingency amounts, or any changes resulting from the City's tax policy.

Both the reduction in utility bills and the reassessment will result in lower fixed costs for these facilities.

It should also be noted that the Administration works with any persons whose property tax accounts or utility accounts are in arrears. For utilities, payment plans are often agreed upon with the Administration to assist those who are behind on their payments to avoid disconnection.

OPTIONS

Option 1: Maintain the Status Quo

Under this option, the City would continue to bill and collect property tax and utility payments from hotels within its jurisdiction.

Advantages of this option include:

- There would be no costs incurred by the City.
- All utility customers and taxable properties, regardless of their property class, would be treated the same.
- The City would not be placed in a position of deciding which impacted hotels deserve aid and which do not.

In addition, property reassessment, along with a decrease in percentage of value for commercial properties, provides an average decrease in taxes (not inclusive of increases to the 2021 tax rate, contingencies, or tax shifts due to tax policy) of about 29%.

The main disadvantage of this option is that without the requested relief, local hotels may not be able to maintain operations and be forced to close on a short-term and/or permanent basis.

Financial Implications for Option 1
There are no financial implications for this option.

Option 2: Provide Both a Property Tax and Utility Payment Deferral for Hotels Approved Through an Application Process for 2021

Under this option, the City would provide approved hotels with the option to defer payment of their 2021 property taxes and/or utilities until December 31, 2021.

The suggested approval process would consist of the following criteria (many of which are used by the City for other deferral programs):

- The applicant's utility and property tax accounts are in good standing as of March 1, 2020 (this demonstrates that financial difficulties began with the onset of the pandemic).
- The property is not currently for sale.
- There are no existing judgements on the property's tax roll.
- The applicant can demonstrate that they have exhausted other sources of available relief (i.e. have successfully applied for the Highly Affected Sectors Credit Availability Program, etc.).
- The applicant can demonstrate loss of revenue, with a minimum threshold of at least a 30% reduction.

- The applicant must provide a three-year cashflow forecast to ensure a reasonable plan is in place to allow for repayment to occur.

By exercising the above-mentioned criteria, the City would better mitigate the risks associated with deferring large sums of money.

Advantages of this option include:

- Recognition of the difficulties local hotels are experiencing by providing relief for some of their fixed costs.
- The City would be able to develop approval criteria, ensuring that hotels receiving the benefit require it.
- Property tax reductions due to reassessment would still be realized.

Disadvantages of this option include:

- Although the request is a deferral of payment, there are still costs incurred to the City, including lost income from investments and loss of cash flow.
- The City would be placed in the position of granting relief to one heavily impacted industry (i.e. hotels) but not others (i.e. restaurants, retail, airport, etc.).
- Despite the relief provided, there is no guarantee that this amount will enable struggling hotels to continue operations.
- The Province of Saskatchewan (Province) mandates that the education portion of property tax be remitted in the year it is levied, therefore, the City would be responsible for remitting the deferred sums without collecting these amounts.
- The City may unintentionally create an inequity for electrical utility customers as they are able to defer payment within the Saskatoon Light & Power zone but not for those who reside in the SaskPower zone.

Financial Implications for Option 2

The estimated financial impact would result from the reduced cash flow to the City that impacts investment income which is returned to taxpayers as a reduction to the mill rate. This is estimated to be $230,000 for 2021, assuming a 2% rate of return and a maximum of all 42 properties qualifying for the program.

This estimate is calculated based on deferring utilities for all 42 properties of about $500,000 in total per month assuming an April 1 start to the program and approximately $7 million from June to December 2021 for property tax deferrals. Further financial implications may occur if repayment terms are extended beyond 2021, including the additional risk of creating unsustainable debt for customers and an increased risk to the City if it is not able to receive payment (i.e. due to closures, etc.).

Option 3: Provide Only a Property Tax Deferral for Hotels Approved Through an Application Process for 2021

Under this option, the City would provide approved hotels with the option to defer payment of their property taxes until December 31, 2021.

Like Option 2, this option would require an approval process; however, only the property's annual property taxes would be eligible for the deferral.

Advantages of this option include:

- Recognition of the difficulties local hotels are experiencing by providing relief for some of their fixed costs.
- The City would be able to develop approval criteria, ensuring that hotels receiving the benefit do require it.
- Property tax reductions due to reassessment would still be realized.

Disadvantages of this option include:

- Payment deferrals carry a cost to the City, which further increases based on the length of time required to receive payment in full.
- The City would be placed in the position of granting relief to one heavily impacted industry (i.e. hotels) but not others (i.e. restaurants, retail, etc.).
- Despite the relief provided, there is no guarantee that this amount will enable struggling hotels to continue operations.
- The Province mandates that the education portion of property tax be remitted in the year it is levied, therefore, the City would be responsible for remitting the deferred sums without collecting these and would impact the City's cash flow position.

<u>Financial Implications of Option 3</u>
Like Option 2, this option is estimated to cost the City approximately $140,000 for 2021, assuming a 2% rate of return and a maximum of all 42 properties qualifying for the program.

This estimate is calculated based on deferring approximately $7 million in property taxes from June to December 2021. Further financial implications may occur if repayment terms are extended beyond 2021, including the additional risk of creating unsustainable debt for customers and an increased risk to the City if it does not receive payment (i.e. due to closures, etc.).

RECOMMENDATION
That the Standing Policy Committee on Finance recommend to City Council that Option 1: Maintain the Status Quo be approved.

RATIONALE

The recommended option, maintain the status quo, provides the City with the simplest and most equitable approach to the question of what type of property tax and/or utility payment relief it provides to any individuals or groups during the COVID-19 pandemic.

While it is true that certain businesses have been impacted more than others, the list of heavily impacted businesses goes beyond hotels and could easily encompass the entirety of the hospitality industry as well as many other local retailers. If the City were to provide relief to one business group, it may lead to other requests for aid which would not be financially feasible. In addition, there are several federal and provincial programs available, which might be better suited to provide the necessary financial relief being requested.

Also, by maintaining the status quo, the City is not incurring further costs nor putting itself at increased risk of losing property tax and utility revenues from these properties. To put the potential risk into perspective, the average utility consumption for the 42 hotels is nearly $500,000 per month, and the total amount of the estimated 2021 property taxes billed to these properties would be about $7.3 million.

As discussed, the effect the 2021 assessment revaluation cycle has a significant favourable impact to this sector. Due to reassessment, these properties will see an average reduction in their assessed value of 23% and about 29% on average to the reduction in the percentage of value for taxable assessment for commercial properties. It should be noted that this does not include the 2021 budgetary tax increase, contingency amounts, or any changes from tax shifts based on the City's tax policy.

FINANCIAL IMPLICATIONS

Immediate financial implications are presented with each option and vary depending which option is approved. All financial implications noted in this report do not have a funding source and would result in an unfavourable operating budget variance.

Further costs could be incurred if any deferral property tax amounts are not collected before December 31, 2021, as the City must submit the full education portion of property taxes for 2021 to the Province. The approximate total education portion of the property taxes for the 42 properties is $2.7 million.

ADDITIONAL IMPLICATIONS/CONSIDERATIONS

Any deferral of property taxes would require amendments to Bylaw No. 6673, The Discounts and Penalties Bylaw, 1987.

COMMUNICATION ACTIVITIES

If a deferral option is chosen, a letter will be sent to the 42 eligible properties informing them of the program and the application process.

REPORT APPROVAL

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