



CITY OF VANCOUVER

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ADMINISTRATIVE REPORT

Report Date: August 19, 2005
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TO: Vancouver City Council
FROM: General Manager of Corporate Services/ Director of Finance
SUBJECT: 2006 Interest Rate of Property Tax Arrears

RECOMMENDATION

- A. THAT City Council set an interest rate of 8.25% for real property tax arrears to be effective January 1, 2006, and
- B. THAT the Director of Legal Services be authorized to bring forward a by-law, on or before September 30, 2005, to implement the interest rate under section 415(2) of the Vancouver Charter

CITY MANAGER'S COMMENTS

The City Manager RECOMMENDS the foregoing.

COUNCIL POLICY

It has been Council practice to pass a bylaw annually to set an interest rate for real property tax arrears for the coming year, in accordance with the provision of Section 415(2) of the Vancouver Charter.

PURPOSE

The purpose of this report is to recommend an interest rate to be applied to arrears of real property taxes.

DISCUSSION

Section 415(2) of the Vancouver Charter provides that:

"Council may, from time to time, by a bylaw passed not later than September 30 in any year impose interest to be compounded annually on real property taxes which are delinquent in the calendar year following the enactment of such bylaw. Such interest rate shall not be greater than 4 percentage points above the prime interest rate prevailing on July 31 of the year of its enactment as determined from the City's principal bankers."

Interest is charged on tax arrears, which are delinquent taxes that remain unpaid after December 31 of the year levied. Experience has shown that an interest rate should be set above what financial institutions are charging on loans to encourage taxpayers to pay their outstanding taxes.

An interest rate which is lower than market rates provides taxpayers with an incentive to defer payment of outstanding taxes in order to finance other expenditures. This puts the City in the undesirable position of acting like a bank or lending institution.

The bank prime rate is considered an indicator of the cost of borrowing for taxpayers. Interest rates charged by financial institutions on loans can vary anywhere from bank prime up to 3 or 4 percentage points above bank prime, depending on the nature and credit worthiness of the borrower.

This report recommends that Council establish the arrears interest rate at 8.25% per annum for 2006 which is 4% above the prime interest rate of 4.25% offered by the City's principal bankers as of July 31, 2005. This is a slight increase over the 2005 arrears interest rate of 7.75% and is the maximum interest rate permissible under the provisions of the Charter.

FINANCIAL IMPLICATIONS

There are no financial costs to the City.

CONCLUSION

Although the recommended interest rate on arrears is the maximum allowed by legislation, it is necessary to establish a sufficient differential between our rate and interest rates charged by financial institutions on loans to encourage taxpayers to pay their property taxes.

Maintaining the maximum differential will be particularly important if economic forecasts of rising market rates are correct. The recommended rate is still significantly less than most consumers are paying on outstanding credit card balances. The rate charged is one tool used by the City to manage property tax arrears. Management of the arrears is not only important to safeguard the financial assets of the City, but also because it is one of the factors that credit rating agencies look at when assessing the credit worthiness of the City.

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