



ADMINISTRATIVE REPORT

Report Date: August 9, 2010
Contact: Esther Lee
Contact No.: 604.873.7080
RTS No.: 08841
VanRIMS No.: 08-2000-20
Meeting Date: September 21, 2010

TO: Vancouver City Council
FROM: General Manager of Financial Services / Director of Finance
SUBJECT: 2011 Interest Rate on Property Tax Arrears

RECOMMENDATION

- A. THAT City Council set an interest rate of 6.75% for real property tax arrears to be effective January 1, 2011.
- B. THAT the Director of Legal Services be instructed to prepare the applicable by-law, on or before September 30, 2010, establishing the interest rate under section 415(2) of the Vancouver Charter and for enactment by Council.

CITY MANAGER'S COMMENTS

The City Manager *RECOMMENDS* approval of 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 for the year 2011.

DISCUSSION

Section 415 of the *Vancouver Charter* provides that:

- (1) Unless otherwise provided by a by-law passed pursuant to subsection (2) hereof, interest at the rate of 8% per annum compounded annually shall be added to all real-property taxes that become delinquent on or after December 31, 1969, and to delinquent taxes and interest that remain delinquent after December 31, 1969.
- (2) Council may, from time to time, by a by-law 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 by-law. 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.

It has been Council practice to set the rate on an annual basis, rather than leaving it static at 8%.

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 depending on the nature and credit worthiness of the borrower.

CONCLUSION

Council has the option of:

- not enacting an annual interest rate by-law resulting in a default rate of 8%
- setting a rate at the prime rate plus a maximum of 4%.

As in prior years, it is recommended that Council establish the arrears interest rate following the movement of the prime rate as it reflects current economic conditions. The prime rate on July 31 was 2.75% and accordingly, the proposed 2011 rate would be 6.75% per annum, an increase from the 2010 arrears interest rate of 6.25%.

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. 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.

* * * * *