



ADMINISTRATIVE REPORT

Report Date: August 15, 2018
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Meeting Date: September 18, 2018

TO: Vancouver City Council
FROM: General Manager, Finance, Risk & Supply Chain Management/CFO
SUBJECT: 2019 Interest Rate on Property Tax Arrears

RECOMMENDATION

- A. THAT City Council set an interest rate of 7.70% for property tax arrears to be effective January 1, 2019.
- B. THAT the Director of Legal Services be instructed to bring forward for enactment a by-law regarding the 2019 interest rate on property tax arrears, for consideration by Council on or before September 30, 2018, in accordance with the provisions of Section 415 (2) of the Vancouver Charter.

REPORT SUMMARY

The purpose of this report is to recommend an interest rate to be applied to property tax arrears in the year 2019.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

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

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

Section 415 of the Vancouver Charter states 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.

Council, therefore, has the following options:

1. Not pass a by-law and the rate would default to 8%.
2. Pass a by-law to set a rate at prime plus a maximum of 4%.

It has been Council practice to set the rate on an annual basis, rather than leaving it static at 8%. Since 2000, Council has set the rate at 4% above prime resulting in rates ranging from 6.25% to 10.25%. Based on the July 31, 2018 prime rate of 3.70%, the proposed rate for 2019 would be 7.70%.

Strategic Analysis

Taxes which remain unpaid after December 31 of the year in which they were levied become tax arrears, and accrue interest effective January 1 the following year. Experience has shown that an interest rate set above what financial institutions are charging on loans encourages taxpayers to pay their outstanding taxes. An interest rate set 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 as a 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.

Implications/Related Issues/Risk (if applicable)

Financial

Interest revenue on tax arrears over the last 5 years has been approximately \$1M per year and varies due to the amount of outstanding taxes and interest rate. A 1% change in the interest rates has an impact of approximately \$150,000.

CONCLUSION

Establishing a sufficient differential between our rate and interest rates charged by financial institutions on loans encourages taxpayers to pay their property taxes. The recommended rate is significantly less than rates 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 it is one of the factors that credit rating agencies review when assessing the credit worthiness of the City.

As in prior years, it is recommended that Council establish the arrears interest rate following the movement of prime rate as it reflects current economic conditions. The prime rate on July 31 was 3.70% and accordingly, the proposed 2019 rate would be 7.70% per annum, a 0.75% increase over the 6.95% arrears interest rate for 2018.

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