HALIFAX
REGIONAL MUNICIPALITY

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Item No. 10.1.2
Halifax Regional Council
January 26, 2010

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

Dan English, Chief Administrative Officer

Mike Labrecque, Deputy Chief Administrative Officer - Corporate Services and Strategy

DATE: January 20, 2010

SUBJECT: Proposed Changes to Tax Billing

ORIGIN

Revenue Staff.

RECOMMENDATION

It is recommended that Halifax Regional Council

1. Authorize changing the final tax bill due date to the last business day in October from the current due date of the last business day in September.

2. Authorize staff to change the calculation of the interim tax bill to 50% of current year estimated taxes from 50% of the previous year's total taxes.

BACKGROUND

It can be said that a tax bill is a municipality's most public document. Currently, HRM has two tax billings annually. An interim (installment) billing due the last business day in April and a final billing due the last business day in September. The final billing (total annual taxes) is calculated using the tax and area rates set by Council for the current fiscal year. Each respective billing affects 150,000 property accounts.

The due date for the tax bill is set by HRM Council through budget resolution. Section 111 (1) of the MGA empowers Council to do so.

Payment of taxes

111 (1) The council may determine

(a) the due date for taxes;

(b) that taxes are payable in one sum or by installments.

One of HRM's core values is quality customer service. As part of this core value and through Council's direction, staff aim each year to have the interim and final tax bills in the mail to the taxpayer 6 weeks before the billing due date. The staff recommendations proposed in this report aim at increasing customer service and quality assurance around the tax billing process. Since the implementation of the revenue module of Hansen in June 2008, the stakeholders and the lead times involved in completing an end-to-end final tax bill run has drastically increased.

Factors that negatively impact the billing are:

- Four days of computing time
- Increased support/stakeholders from IT and GIS professional staff resources
- Fiscal and area rate budgets are not getting approved until early and late June each year
- Increased volumes of assessment value changes.

The tax bill requires a high level of quality assurance and as time lines are reduced by the above-mentioned factors, time allotted for quality assurance suffers. The accuracy and completeness of each individual tax bill is an important part of how the quality of customer and municipal services are perceived by the taxpayer. Allowing more time for quality control would help prevent errors in the tax bills delivered to tax payers, and reduce the frustration caused for taxpayers.

The interim tax bill is an installment billing and is currently billed in March each year and due on the last business day in April. Section 112 of the MGA empowers Council to:

Payment of taxes by installments

- 112 (1) The council may, by policy, provide for the payment of taxes by installments before the tax rate is set.
- (2) The policy shall set out the date or dates on which the installments are due and **the manner in which the amount of each installment is calculated.**

By section 112 (2) of the MGA, HRM's current interim tax bill is calculated at 50% of the previous year's total taxes. For example, if a taxpayer's 2009 total taxes was $1,500 their March 2010 interim bill would be $750 ($1,500 x 50%). Under the current interim bill calculation methodology, new assessment accounts, new construction sales, existing sales/cap removal, and current year assessment increases are not accurately reflected on the interim billing as the billing is based on the prior year total taxes and does not take into account any assessment values from the current assessment roll. As a result, the subsequent final bill can be at times substantially larger. Changing the calculation to 50% of the current year estimated taxes would enable revenue staff to bill the March interim on new accounts, sales and new assessments from the January assessment roll using prior year tax and area rates.

DISCUSSION

For discussion purposes, staff will outline the advantages of the proposed recommendations.

Advantages of changing the final tax bill due date to the last business day in October are:

- Provides more time for quality assurance and due diligence around the tax bill and reconciling actual tax revenues to budgeted revenues.
- Allows more lead time to input assessment value changes before the bill than after the billing. Assessment value changes inputted before the final bill will be reflected on the final bill. Provincial Valuation Services Corporation (PVSC) has advised that for 2010 tax year we should have all of our value changes communicated to us by July 31. For the 2009 final tax bill, tax staff have done 1,500 value changes subsequent to the final tax bill. This is an inconvenience to the tax payer, as their tax bill would have been

computed and sent to them using the incorrect value. These adjustments are very manual and are very time consuming. They also create extra work for accounts payable as these subsequent value changes usually require a refund as well as extra calls to the call centre and tax staff from residents looking for their refund.

- Allows more time for account maintenance. With respect to property sales, June, July and August are the highest volume months. Moving the due date to October 31 would allow more time for ownership changes and mortgage coding before the bill is generated. Doing this maintenance after the bill usually involves manual adjustments and unnecessary volumes of returned mail to be researched.

- All residential tax exemptions could be credited on the tax bill as opposed to a refund subsequent to the billing. For the 2009 billing, approximately 800 manual refunds were issued. For residents that qualify for the low income rebate this is an inconvenience as well as unnecessary work for taxation and accounts payable staff.

- An October due date is 6 months after the April interim tax bill due date. Thus, an October due date is more aligned with the principle of a bi-annual billing. Residents with children still in school or university may take value in the October due date as September can be very burdensome on household budgets, not to mention registrations for recreation and after school programs.

- An October due date provides more flexibility to the staff stakeholders in Revenue, GIS, IT, print shop and call centre around staff scheduling and managing the tax bill deliverables and deadlines.

- An October due date adds value to fiscal forecasting. If most of the value changes and adjustments are completed before the final bill run, then fiscal revenue forecasts will be less subject to changes after the billing.

- With interest rates at a low (prime 2.25%), negative impacts to investment income would be minimal. In the future the impact is uncertain and will depend on actual cash flows and interest rates.

Advantages of changing the calculation of the interim tax bill to 50% of current year estimated taxes are:

- Taxpayers have their annual taxes "smoothed out" over 2 billings 6 months apart (April and October).

- Increased cash flow from interim bill. Based on the 2009 assessment roll and tax rates, changing the interim calculation to 50% of estimated taxes would have generated an estimated increase in cash flow of approximately $22M. This cash flow increase would help mitigate the loss on investment income due to changing the final tax bill due date to October.

- The interim tax bill will be more reflective of a 50% installment billing for new accounts, new construction sales, existing sales where the cap is removed and assessment increases.

- If Council approves this change it would have minimal impact on existing tax accounts.

BUDGET IMPLICATIONS

A change in the Property Tax due date to the end of October will have an impact on investment income as tax payments will be made later in the year while expenditure patterns will remain unchanged. The change in the methodology for calculating the Interim Tax Billing discussed above will mitigate this somewhat however there will be a net negative impact. The magnitude of the impact will depend on actual cash flows and future interest rates. In the current environment of historically low interest rates the loss of interest income will be smaller but will increase as interest rates return to more normal levels in the future. Looking at the past several years actual HRM rates of return have ranged between 2.41% and 4.38%.

The table below summarizes staff's projections of the net loss in investment income for the 2010/11 fiscal year and potential future losses based on various assumptions of HRM's rates of return:

Assumed Average Rate of Return	Anticipated **Net** Loss in Investment Income
.80% (budgeted rate for 2010/11 fiscal year)	$88,500
1%	$110,700
2%	$221,300
3%	$332,000
4%	$442,700
5%	$553,400

The budgeted rate of return for fiscal 2010-11 is .80%, thus staff are projecting that the budget implications with respect to the recommendations of this report will be $88,500.

Although the proposed staff recommendations have an estimated cost of $88,500 to HRM, staff's goal is to increase it's service capacity in customer service, quality assurance and collection effort with the current staff compliment, and without having to increase our operating budget.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

1. Not change the due date and interim calculation. Staff do not recommend this alternative as it would eliminate the opportunity to increase quality assurance and customer service with respect to the tax billing process.

2. Change the calculation of the interim billing and leave the final bill due date as the last business day in September. Choosing this alternative would generate increased projected cash flow of $22.4M.

   This would translate into a positive budget impact of $75,000 in investment income using the budgeted rate of return of .80% for fiscal 2010-11. Choosing this alternative would not address the customer and quality issues of the final tax bill.

ATTACHMENTS

None.

A copy of this report can be obtained online at http://www.halifax.ca/council/agendasc/cagenda.html then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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