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Halifax Regional Council
November 18, 2003

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:


Dale MacLennan, Director of Financial Services


Catherine Sanderson, Manager of Revenue

DATE: October 29, 2003

SUBJECT: Use of Credit Cards for Tax and other Payments

INFORMATION REPORT

ORIGIN

Request of Council for information regarding the possibility of using credit cards for more municipal transactions including property taxes.

BACKGROUND

Currently, HRM accepts payment of property taxes by a number of methods including by electronic file transfer from the banks for:

- 1) cheques sent to a special post office box which is subsequently converted into an electronic file by the bank for us,
- 2) for Internet, Telebanking and ATM banking,
- 3) for Preauthorized payments from chequing accounts and for mortgage holders accounts.

Payments also arrive through the customer service centres by cash, cheque or debit. HRM also accepts credit cards for the following types of payments:

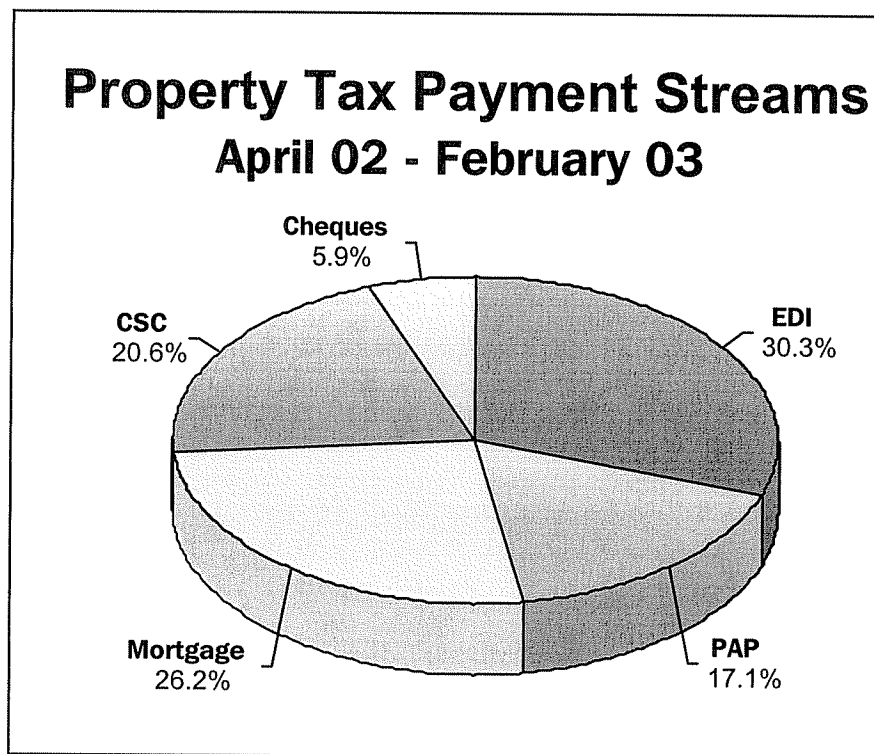
- 1) Recreation program charges
- 2) Amounts up to \$100 eg dog licenses, parking tickets, tender document deposits
- 3) Rent charges up to \$200

The limits are arbitrary although intended to minimize the expense of the credit card discount fees and tend to annoy taxpayers more than serve them. There are no limits on the recreation program charges. *Staff intend to lift the limits in order to better serve the customer effective January 1, 2004.*

Some customers have requested the option to use their credit cards to pay their taxes. Staff, therefore, have examined the costs associated with the various payment streams in order to analyze the impact to overall revenues should this service be offered.

DISCUSSION

The chart on the page below outlines the various payment streams being used currently (this data was gathered from the past fiscal year). The emphasis on electronic methods has created some significant efficiencies in HRM. The EDI (electronic data interchange), the PAP (pre-authorized payment) and the mortgage methods are all electronic means of payment receipt. This, therefore, accounts for some 74% of all payment streams.



The analysis of the costs associated with each payment stream assumed an average property tax of \$1,900 annually, with payments of \$950 twice a year, once in April and once in September. The current costs of processing these payments by the various methods is outlined in Table 1 below with an estimate of costs associated with accepting credit card payments. It was assumed credit cards would initially be used equally between the Call Centre, Customer Service Centres and via an Internet or IVR option.

TABLE 1

	Cheques direct to Revenue	Electronic	Customer Service Centres	Estimated use of Credit Cards
Bank Fees	.04	.71	.10	15.91
Direct labour and variable overhead	.64	.48	2.33	1.03
TOTALS	<u>\$.68</u>	<u>\$1.19</u>	<u>\$2.43</u>	<u>\$16.94</u>

As can clearly be seen, the most expensive form of payment receipt would be via a credit card. This is due to the fees charged by credit cards on the gross amount of the transaction. At HRM the fee rate is on average about 1.67%. In order to determine the potential impact on the operating budget, staff made some assumptions concerning the use of credit cards by taxpayers and then performed a sensitivity analysis on the data.

It was estimated that those who currently use electronic forms of payment ie ATM, Internet, Telebanking would be most open to the use of their credit card to perform the same payment function.

It was estimated that those who pay through their mortgage may gradually migrate to the use of credit cards as they became aware and were able to make the change with their financial institution. This group enjoys the ability to spread their tax bill over 12 months. Those who use Pre authorized payment from their bank accounts, also, would tend to move only if they felt they could spread their payments out over the year.

Those who use cheques and debit would probably migrate for the reduced cost and convenience. Finally, it was assumed that the taxpayers who use cash via the customer service centres would most likely not use credit cards.

TABLE 2

Under these general assumptions and using various percentages of movement to credit cards the following table outlines the cost impacts to HRM.

	Transaction Volume	Percent Switching to Credit Card	Costs Impact
Scenario 1	18,400	5%	\$306,700
Scenario 2	55,250	15%	\$920,000
Scenario 3	92,000	25%	\$1,520,000

The cost impacts of offering this service to taxpayers are therefore very significant. There would also be additional costs associated with startup of the new program including training of staff and advertising and software development costs for a web and IVR based enhancement to our current parking ticket web/IVR system. These costs could range up to \$100,000. The transaction costs outlined above are very sensitive to migration patterns and staff, therefore, conducted a survey through Corporate Research Associates as part of the Halifax Metro Quarterly-Third Quarter 2003. The questions asked were as follows:

- 1) If it were possible to use a credit card to pay HRM property taxes, would you definitely, probably, probably not, or definitely not use a credit card to pay your property taxes?
- 2) If this option were provided, who should pay the additional costs?

13% of all respondents said they would definitely use their credit card to pay their property taxes and 19% said they would probably use the option. This total of 32% of all respondents correlates quite well with the highest estimate of migration of 25% which was examined above. The range of actual people who would switch may be 20% lower, or 25.6% according to CRA experts.

Respondents to the second question were quite clear. 79% felt that the costs of the option to pay with a credit card should be borne by those using the option. Of those who would definitely use their credit card to pay their taxes, 48% said they should foot the bill and 33% said all taxpayers should pay for the additional cost. Of those who would probably use their credit card, 79% said they should pay the extra and 10% said all taxpayers should pay. So, even among the group who plan to use their credit card, the largest percentages agree they should pay the incremental cost for this convenience. ***Staff would therefore be preparing a business case which would allow for the acceptance of credit cards for payment of taxes and local improvement charges on a user-pay basis consistent with the survey results.***

It should be recognized that a large percentage of people avoid credit card usage and enjoy the convenience of paying electronically already via the various options HRM offers. A resounding 60% replied that they would probably not or definitely not use a credit card to pay their property

taxes. Staff feel, nonetheless, that this is a service which should be offered to the taxpayer for their convenience and indeed, acknowledge, that this may be the way of the future for web and IVR based payment systems and for those who regularly use credit cards.

The benefits to those who now pay by another method and will switch to credit cards will include the deferral of payment by the length of time it takes for the tax bill to reach their credit card and up to the due date of the card. Another benefit is the accumulation of reward points or air miles for those whose card would have that feature. It is clear that the significant expense of annual property taxes could create some significant rewards under these programs particularly for commercial accounts.

The Halifax Regional Water Commission was consulted in the drafting of this report. They are interested in offering the option to pay water bills using credit cards yet realize that the credit card discount fee would be a significant cost increase. Particularly if the service were offered to commercial customers. The pollution control charges collected on the water bill are HRM's revenue and if credit cards were used to pay those charges the associated fees would be a cost to HRM. (Estimated at approximately \$60,000, if 25% of customers choose to use credit cards). Should the HRWC seek to recoup the incremental costs from the water customer for water services paid by credit card, the NS Utility and Review Board would need to approve the fee.

BUDGET IMPLICATIONS

Increases to credit card charges as a result of lifting the caps on existing streams of revenue which now accept credit card payments are expected to be minimal and will be absorbed within the existing operating budget. Staff resources to prepare a complete business case, to set a time line and to review the priority of this initiative across other corporate technology projects would be provided within the existing budget.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

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

REGIONAL PLANNING IMPLICATIONS

None.

ATTACHMENTS None

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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