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Halifax Regional Council
September 12, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: 
Cathie O'Toole, CGA Acting Director Finance

DATE: September 8, 2006

SUBJECT: Use of Credit Cards for Property taxes

INFORMATION REPORT

ORIGIN

- November 18, 2003 Information Report to Council - "Use of Credit Cards for Property Taxes"
- Request of the CAO for information regarding using credit cards for municipal transactions including property taxes and construction permits.

BACKGROUND

In the November 2003 report, staff presented a cost analysis on the feasibility of accepting credit cards as payment for taxes as well as the findings of a market survey conducted by Corporate Research Associates. The survey produced market data which suggested the likelihood of an uptake rate of 25% of taxpayers who would use the credit card payment option.

The survey also was clear that residents expected that those who use credit cards to pay their taxes should bear the cost of that service. The estimated annual cost of merchant fees was calculated to be \$1,500,000 at that time based on an average property tax payment of \$1,900 annually, with payments of \$950 twice a year, and a 25% uptake rate among taxpayers.

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
- 2) Internet, Telebanking and ATM banking
- 3) Preauthorized payments from chequing accounts and for mortgage holders accounts

Payments also arrive through the customer service centres by cash, cheque or debit.

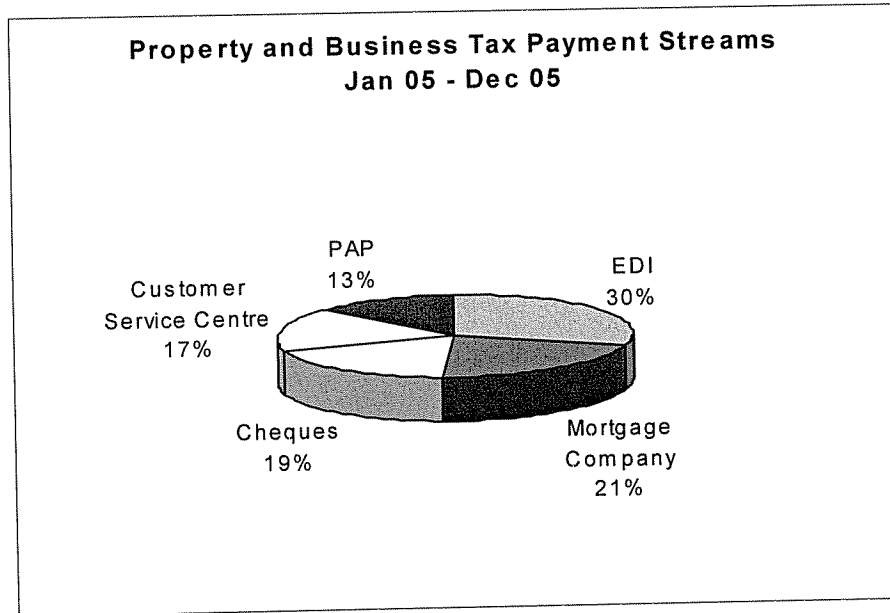
HRM currently accepts credit cards for the following types of payments:

- 1) Dog license renewals, animal fines, kennel and vet fees
- 2) Parking tickets
- 3) Recreation fees
- 4) Temporary property space rentals
- 5) Tender document deposits

The demand for HRM to adopt credit cards as a payment option for taxes is still popular with customers. Staff, therefore, have reexamined the costs associated with the various payment streams in order to analyze the impact to overall revenues should this service be offered. Staff has also researched how other municipalities across Canada treat credit cards as a payment option for taxes and construction permits.

DISCUSSION

The chart on the page below outlines the various payment streams being used currently (this data was gathered from the 2005 calendar year). Electronic methods continue to create 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. These methods account for some 64% of all payment streams.



The analysis of the costs associated with each payment stream assumed an average property tax of \$2,200 annually, with payments of \$1,100 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
HRM Processing Costs (per Transaction)

	Cheques direct to Revenue	Electronic	Customer Service Centres	Using Credit Cards
Bank Fees	\$0.04	\$0.71	\$0.10	\$18.37

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. For HRM the merchant fee on credit card transactions is on average approximately 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.

Under these general assumptions and using various uptake percentages of movement to credit cards the following table outlines the cost impacts to HRM under three scenarios, (1) a 5% uptake, (2) a 15% uptake and (3) a 25% uptake.

TABLE 2
Estimated Total Merchant Fee Costs

	Transaction Volume	Percent Switching to Credit Card	Costs Impact
Scenario 1	18,400	5%	\$338,008
Scenario 2	55,250	15%	\$1,014,944
Scenario 3	92,000	25%	\$1,690,040

The cost impacts of offering this service to taxpayers are very significant.

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. On this point staff will note that providing “rewards points” is clearly not a recognized municipal service.

Staff advise that charging a convenience fee to tax payers that want to pay by credit card is not a possible recommendation as HRM's banking agreement does not permit charging the customer a user fee to cover the transaction cost associated with credit cards. Staff have reaffirmed this situation as a result of the recent award for banking services. None of the proponents who responded to our RFP for banking services would provide this kind of convenience fee.

The Board of the Halifax Regional Water Commission has approved credit cards as an option to pay water bills to **pre-authorized residential customers only**. This payment option is projected to be available by October 2006. The HRWC has estimated that the cost of accepting credit cards as a payment option for residential customers will be \$50,000 based on a estimated uptake percentage of 20%.

Construction permits is another area where HRM currently does not accept credit cards as a payment option. Planning and Development have expressed concerns over the no credit card policy as there is a demand for this payment option in the development community, and the option may be needed to facilitate an on-line permitting system.

The following table documents staff's research as to how other Canadian Municipalities treat credit cards as a form of payment, with respect to property taxes and building permits.

Credit Card Payment Policies of Other Canadian Municipalities

Municipality	Accept Credit Cards For Tax Payments	Accept Credit Cards For Building Permit Payments
Vancouver	No	Yes. No limit
Edmonton	No	Yes. No limit
Regina	No	Yes. No limit
Winnipeg	No	Yes. No limit
Ottawa	No	No.
Toronto	No	Yes. \$20,000 max. limit
Montreal	No	Yes. No limit
St. John's	No	Yes. No limit

Credit cards as a payment option for taxes is very rare. The only municipalities staff found that accepted credit cards for tax payments (although not documented above) were Antigonish and Truro. The annual cost to both municipalities of providing this option was approximately \$30,000. Truro is considering eliminating part or all of this program. The City of St. John's allowed credit cards to be used as a payment option for tax billing in the years 1997 and 1998. This option had an approximate 30% uptake and cost St. John's \$400,000 annually. This payment method was cancelled in 1999 as St. John's City council mandated cost savings across the board.

Staff also researched how Auto Dealerships in HRM treat credit cards as a payment option. The common trend with respect to deposits on new and used cars was that dealerships set maximum limits of \$1,500 to \$5,000 on purchase deposits to limit their merchant costs.

Staff will return to Council with a recommendation report after consulting with Planning and Development regarding the current and possible on-line permitting process to identify the estimated costs of providing this payment option for construction permits.

BUDGET IMPLICATIONS

None at this time. Any future changes to HRM policy with respect to credit card payments will have negative impacts on HRM's fiscal capacity that will have to be addressed.

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

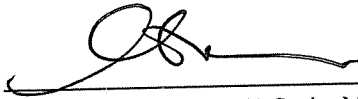
None

ATTACHMENTS

None

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/agenda.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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