Report - Executive Policy Committee - November 20, 2002

4. Discount(s) to be allowed for the prepayment of 2003 Realty, Personal Property and Business Taxes
File FL-2.1 (Vol. 3)

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On November 20, 2002, the Executive Policy Committee considered the matter and recommends to Council:

1. That pursuant to Section 334(3) of *The City of Winnipeg Charter*, Council adopt a by-law providing for prepayment discounts of the City's 2003 realty, personal property and business taxes and such discounts be allowed on prepayments received by the Taxation & Revenue Division during the months of January and February, 2003 at the following discount rates:

	Face Value Discount Rate	Equivalent Annual Discount Rate
Realty & Personal Property Tax Payable at par up to June 30th		
January	0.91%	2.25%
February	0.74%	2.25%
Business Tax Payable at par up to May 30th		
January	0.73%	2.25%
February	0.56%	2.25%

2. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing.

Re: Discount(s) to be allowed for the prepayment of 2003 Realty, Personal Property and Business Taxes

For submission to: Executive Policy Committee

Submitted by: Chief Financial Officer

Report date: November 12, 2002

In Camera Item: No

Recommendation(s): That pursuant to Section 334(3) of *The City of Winnipeg Charter*, Council adopt a by-law providing for prepayment discounts of the City's 2003 realty, personal property and business taxes and such discounts be allowed on prepayments received by the Taxation & Revenue Division during the months of January and February, 2003 at the following discount rates:

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Report Summary

Key Issues:

- To offer an attractive interest rate for the taxpayers of Winnipeg who pay their 2003 realty, personal property or business taxes in advance of the due date.
- This rate should be beneficial to both the taxpayers as well as the City of Winnipeg.

Implications of the Recommendation(s):

General Implications

ð None

X For the organization overall and/or for other departments

X For the community and/or organizations external to the City of Winnipeg

ð Involves a multi-year contract

Comment:

Policy implications

X No

ð Yes

Comment:

Financial Implications

ð Within approved current and/or capital budget

ð Current and/or capital budget adjustment required

Comment:

Using the 2002 actual prepayment information, with the City's 2003 expected short term investment interest rate of 3.00%, the interest income that could be expected in 2003 from depositing the tax prepayments is approximately $163,000. However, after applying the projected tax discount of $91,598 and an administrative cost of $10,000, the projected net income is $61,720.

Report

Recommendation(s):

That pursuant to Section 334(3) of *The City of Winnipeg Charter*, Council adopt a by-law providing for prepayment discounts of the City's 2003 realty, personal property and business taxes and such discounts be allowed on prepayments received by the Taxation & Revenue Division during the months of January and February, 2003 at the following discount rates:

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Reason for the report:

Council must adopt a by-law prescribing the discount rates on the prepayment of realty, personal property and business taxes.

History:

Section 334(3) of *The City of Winnipeg Charter* permits the City to provide for the allowance of discounts when taxes are prepaid, as stated below:

> *334(3) Council may pass by-laws in respect of real and personal property taxes and business taxes*

(c) providing that, when taxes are paid other than by instalments, discounts at rates prescribed in the by-law may be allowed on amounts that are prepaid on account of those taxes by dates specified in the by-law.

Council annually adopts a by-law establishing a discount rate that will financially benefit the City and at the same time provide an attractive investment opportunity for Winnipeg taxpayers.

Discussion:

The proposed discount rates are based on information received from the Corporate Finance Department, Financial Services Division, which considers 3% as the City's projected annual return on investment. Current deposit rate available to taxpayers is approximately 1.5% for a six-month period or an annual rate of 1.75%. A rate of 2.25% is considered to be fair to both the City and to its taxpayer.

For information, statistics on the prepayment of discounted taxes for 2002 and 2001 are presented in *Schedule1*.

Financial Impact Statement:

Project Name: Discount for 2003 Prepayment Realty, Personal Property and Business Taxes
Date: November 12, 2002 First Year of Program

	2003	2004	2005	2006	2007
Capital					
Capital Expenditures Required					
Less: Existing Budgeted Costs					
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal					
Debt - External					
Grants (Enter Description Here)					
Reserves, Equity, Surplus					
Other - Enter Description Here					
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 101,598				
Less: Incremental Revenue/Recovery	163,318				
Net Cost/(Benefit)	$ (61,720)	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	(61,720)				
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Using the 2002 actual prepayment information, with the City's 2003 expected short term investment interest rate of 3.00%, the interest income that could be expected in 2003 from depositing the tax prepayments is approximately $163,000. However, after applying the projected tax discount of $91,598 and an administrative cost of $10,000, the projected net income is $61,720.

Original signed by Carrie Erickson

Carrie Erickson
Manager of Finance & Administration

The accelerated cash flow generated by the prepayment of realty, personal property and business taxes (2002 total $13.2 million) increases the City's short-term investment opportunities for the period January to June. The investment income earned from these early payments continues to exceed the tax discount given (2002 actual of $91,598) as well as the cost of administering the program (approx. $10,000) by the Taxation & Revenue Division.

The 2002 Accelerated Cash Flow generated by the prepayments of realty, personal property and business taxes is:

2002 Prepayments	$13,344,920
Less: 2002 Actual Discount Given	91,598
Cost to administer	10,000
	$13,243,322

Using the 2002 actual prepayment information, with the City's 2003 expected short term investment interest rate of 3.00%, the following represents the interest income that could be expected in 2003 from depositing the tax prepayments:

2003 Projected Investment Income from Prepayments @ 3.00%

	Est. Prepayments (Based on 2002)	# of months invested	2003 Projected Investment Income
January			
Realty and Personal Property Tax	$11,982,776	5	$ 149,785
Business Tax	613,946	4	6,139
February			
Realty Tax and Personal Property	712,984	4	7,130
Business Tax	35,214	3	264
2003 Projection	**$13,344,920**		**$163,318**
Less: Discount			91,598
Cost to administer			10,000
2003 Projected Net Income			**$ 61,720**

"Schedule 1"

2002 / 2001 TAX PREPAYMENTS

	JANUARY 2002			JANUARY 2001		
	Prepayments	No. of Accounts	Discount Rate	Prepayments	No. of Accounts	Discount Rate
Realty & Personal Property	11,982,776	7,576	0.70%	14,374,959	5,793	1.60%
Business	613,946	146	0.57%	604,953	66	1.30%
Subtotal	12,596,721	7,722		14,979,912	5,859	
Discount	87,379			237,864		
Total	12,509,342			14,742,049		

	FEBRUARY 2002			FEBRUARY 2001		
	Prepayments	No. of Accounts	Discount Rate	Prepayments	No. of Accounts	Discount Rate
Realty & Personal Property	712,984	508	0.57%	600,859	647	1.30%
Business	35,214	19	0.44%	1,423	24	1.00%
Subtotal	748,198	527		602,282	671	
Discount	4,219			7,825		
Total	743,979			594,457		

	TOTAL 2002		TOTAL 2001	
	Prepayments	No. of Accounts	Prepayments	No. of Accounts
Realty & Personal Property	12,695,760	8,084	14,975,818	6,440
Business	649,159	165	606,376	90
Subtotal	13,344,919	8,249	15,582,194	6,530
Discount	91,598		245,689	
Total	**13,253,321**		**15,336,505**	

This Report Submitted By:

Department: Corporate Finance
Division: Taxation & Revenue
Prepared by: Melody Balane
File: V:\Adjbal\taustin\Prepayments\2003\Report to EPC on 2003 Prepayment Discount.doc