Agenda - Executive Policy Committee - December 3, 2003

REPORTS

Item No. 4 Discount(s) to be allowed for the Prepayment of 2004 Realty, Personal Property and Business Taxes
File FL-2.1

ADMINISTRATIVE RECOMMENDATION:

That pursuant to subsection 334(3) of The City of Winnipeg Charter, Council adopt a by-law providing for prepayment discounts of the City's 2004 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, 2004 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	0.81%	2.0%
February	0.66%	2.0%
Business Tax Payable at par up to May 31st		
January	0.65%	2.0%
February	0.50%	2.0%

ADMINISTRATIVE REPORT

RE: DISCOUNT(S) TO BE ALLOWED FOR THE PREPAYMENT OF 2004 REALTY, PERSONAL PROPERTY AND BUSINESS TAXES

FOR SUBMISSION TO: EXECUTIVE POLICY COMMITTEE

ORIGINAL REPORT SIGNED BY: CHIEF FINANCIAL OFFICER

REPORT DATE: November 26, 2003

RECOMMENDATION(S):

That pursuant to subsection 334(3) of *The City of Winnipeg Charter*, Council adopt a by-law providing for prepayment discounts of the City's 2004 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, 2004 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	0.81%	2.0%
February	0.66%	2.0%
Business Tax Payable at par up to May 31st		
January	0.65%	2.0%
February	0.50%	2.0%

REPORT SUMMARY:

Key Issue(s):

To offer a discount rate for the taxpayers of Winnipeg who pay their 2004 realty, personal property or business taxes in advance of the due date. This rate should be beneficial to both the taxpayer as well as the City of Winnipeg.

Implications of the Recommendation(s):

General Implications

	None
	For the organization overall and/or for other departments
x	**For the community and/or organizations external to the City**
	Involves a multi-year contract

Comment(s): The City receives payment earlier and in doing so, property and business owners are provided a discount rate.

Policy Implications

x	**No**
	Yes

Comment(s):

Environmental Implications:

x	**No**
	Yes

Comment(s):

Human Resources Implications:

x	**No**
	Yes

Comment(s):

Financial implications

x	**Within approved current and/or capital budget**
	Current and/or capital budget adjustment required

Comment(s): Using the 2003 actual prepayment information, with the City's 2004 expected short term investment interest rate of 3.0%, the interest income that could be expected in 2004 from depositing the tax prepayments is approximately $147,700. However, after applying the projected tax discount of $96,000 and an administrative cost of $10,000, the projected net income is $41,700.

REASON FOR THE REPORT:

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

HISTORY:

Subsection 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 investment opportunity for Winnipeg taxpayers.

DISCUSSION:

The proposed discount rates are based on information received from the Financial Services Division, which considers 3.0% as the City's current projected annual return on investment. The current annual deposit rate available to taxpayers is around 1.35%. A rate of approximately 2.0% is considered to be fair to both the City and to the taxpayer.

For information, a comparative analysis of the prepayment of discounted taxes for 2003 and 2002 is presented in *Schedule 1*.

The accelerated cash flow generated by the prepayment of realty, personal property and business taxes (e.g., in 2003 this totaled $11.9 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 (e.g., in 2003 the value of the discounts totaled $107,595) as well as the cost of administering the program (e.g., approximately $10,000) by the Taxation & Revenue Division.

The 2003 Accelerated Cash Flow generated by the prepayments of realty, personal property and business taxes was:

2003 Prepayments	$ 11,997,148
Less: 2003 Actual Discount	107,595
Cost to administer	10,000
	$ 11,879,553

Using the 2003 actual prepayment information, with the City's 2004 expected short term investment interest rate of 3.0%, the following represents the interest income that could be expected in 2004 from depositing the tax prepayments:

2004 Projected Investment Income from Prepayments @ 3%

	Estimated Prepayments (Based on 2003)	# of months invested	2004 Projected Investment Income
January			
Realty and Personal Property Tax	$11,119,488	5	$138,994
Business Tax	633,149	4	6,331
February			
Realty and Personal Property Tax	231,670	4	2,317
Business Tax	12,841	3	96
2004 Projected gross income	$11,997,148		$147,738
Less: Discount			96,000
Cost to administer			10,000
2004 Projected Net Income			**$41,738**

FINANCIAL IMPACT STATEMENT:

Project Name: Discount for 2004 Prepayment of Realty, Personal Property and Business Taxes

Date: November 14, 2003 First Year of Program **2004**

	2004	2005	2006	2007	2008
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	$ 106,000				
Less: Incremental Revenue/Recovery	147,700				
Net Cost/(Benefit)	$ (41,700)	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-				
Net Budget Adjustment Required	$ (41,700)	$ -	$ -	$ -	$ -

Additional Comments: Using the 2003 actual prepayment information, with the City's 2004 expected short term investment interest rate of 3.0%, the interest income that could be expected in 2004 from depositing the tax prepayments is approximately $147,700. However, after applying the projected tax discount of $96,000 and an administrative cost of $10,000, the projected net income is $41,700.

"original signed by Carrie Erickson"
Manager of Finance and Administration

IN PREPARING THIS REPORT, THERE WAS CONSULTATION WITH AND CONCURRENCE BY:

THIS REPORT SUBMITTED BY:

Corporate Finance Department
Taxation & Revenue
Prepared by: Mel Chambers, A/Manager of Taxation & Revenue
File No.: 2004 Prepayment Discount.doc

"Schedule 1"

2003 / 2002 TAX PREPAYMENTS

	JANUARY 2003			JANUARY 2002		
	Prepayments	No. of Accounts	Discount Rate	Prepayments	No. of Accounts	Discount Rate
Realty & Personal Property	11,119,488	5,621	0.91%	11,982,776	7,576	0.70%
Business	633,149	212	0.73%	613,946	146	0.57%
Subtotal	11,752,637	5,833		12,596,721	7,722	
Discount	105,809			87,379		
Total	11,646,828			12,509,342		

	FEBRUARY 2003			FEBRUARY 2002		
	Prepayments	No. of Accounts	Discount Rate	Prepayments	No. of Accounts	Discount Rate
Realty & Personal Property	231,670	451	0.74%	712,984	508	0.57%
Business	12,841	29	0.56%	35,214	19	0.44%
Subtotal	244,511	480		748,198	527	
Discount	1,786			4,219		
Total	242,725			743,979		

	TOTAL 2003			TOTAL 2002	
	Prepayments	No. of Accounts		Prepayments	No. of Accounts
Realty & Personal Property	11,351,158	6,072		12,695,760	8,084
Business	645,990	241		649,159	165
Subtotal	11,997,148	6,313		13,344,919	8,249
Discount	107,595			91,598	
Total	11,889,553			13,253,321	