

STAFF REPORT TO COUNCIL

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DATE: November 17, 2021

TO: MAYOR AND COUNCIL

NAME AND TITLE: Kris Dalio, Director of Finance

SUBJECT: Utility Late Payments for 2022

ATTACHMENT(S): None

RECOMMENDATIONS:

That Council GIVES FIRST THREE READINGS to "City of Prince George Comprehensive Fees and Charges Bylaw No. 7557, 2004, Amendment Bylaw No. 9269, 2021".

PURPOSE:

This report has been prepared to re-establish the utility penalty system for late payments for the 2022 calendar year.

POLICY/REGULATORY ANALYSIS:

Council has the ability to set deadlines, penalties and/or applicable interest on utility payments through the City's Comprehensive Fees and Charges Bylaw. The general guidance is that user fees for services (including interest and penalties) must be related to the cost of providing the services.

BACKGROUND:

The City collects the annual revenue for its flat accounts in two payments a year - in early April and early October. These payments represent the periods of January 1st – June 30th and July 1st – December 31st. The annual revenue for metered accounts is collected quarterly and the deadlines are roughly six weeks after March 31st, June 30th, September 30th and December 31st. In order to provide financial relief to utility payers in the second half of 2020, Council eliminated the 10% penalty applied to any amounts that are unpaid on the respective deadlines. The practice of zero interest charges also continued unless the bill remains unpaid long enough to roll over to unpaid taxes, at which point the Provincial regulated interest rate applies.

In February 2021, a report to Council from Administration recommended that in 2022, the utility **penalty payment** system for overdue utility accounts be replaced by an **interest payment** system for overdue utility accounts. The recommended interest rate would be the interest rate established under Section 11(3) of the *Taxation (Rural Area) Act*, which is the rate that is also used to calculate the interest on taxes in arrears or delinquent. The rate is based on 3.00% above the prime lending rate of the principal banker to the Province of British Columbia. The rate as of the date of this report is 5.45% (2.45% + 3.00%). The change would require development within the software that manages our utility accounts and had an estimated cost of \$10,000 - \$20,000 in February of 2021.

Since the time of the February report, the software developer and the City have done a deeper dive on desired outcomes and software capabilities. The initial quote involved minimal development and would not have given the City the ability to calculate the interest to the day of payment. It would only be able to charge interest on outstanding amounts at the next billing cycle. This would result in manual calculations that are not practical or efficient to carry out at an administrative level. The estimated cost of developing the software with all of the necessary functionality is \$65,875. It would also be a new development for this system, which means it is untested and may encounter unexpected difficulties after implementation. It is Administration's opinion that this option no longer be pursued and that the penalty system be re-implemented.

FINANCIAL CONSIDERATIONS:

Below is a table of comparative municipalities and their approach to utility penalties and interest (or discount in some cases):

City	Penalty/Interest/Discount	Amount	Comments
Campbell River	Penalty	5%	
Chilliwack	Interest	5.45% (Taxation Act rate)	
District of Langley	Discount	10%	
Kamloops	Interest	1% per month	12% per annum
Kelowna	Penalty	1.5% per month compounded	19.56% per annum
Maple Ridge	Penalty	10%	
Nanaimo	Discount	5%	
Penticton	Penalty	2%	
Saanich	Penalty	5%	Currently waived due to Covid
Vernon	Interest	12%	
Victoria	Penalty	5%	

This table hopefully helps explain some of the difficulty that comes with utility software. Tax penalties, for example, are legislated at 10% so software packages come with the proper specs required to calculate that. Utility penalties and interest do not have strict guidance so some cities have to customize software to meet their desired approach.

It is Administration's recommendation that the penalty system be re-implemented but at a rate of 5% instead of the original 10%. This rate is closer to the desired interest rate in the original recommendation and more in line with peer municipalities that have a penalty system.

2019 penalties on late utility payments amounted to just under \$392,778. An interest payment system was unlikely to exceed \$150,000. An estimate of annual penalties with a 5% rate would be approximately \$200,000.

SUMMARY AND CONCLUSION:

Administration is recommending re-implementing a penalty payment system for overdue utility accounts starting January of 2022.

RESPECTFULLY SUBMITTED:

Kris Dalio, Director of Finance

APPROVED:

Walter Babicz, City Manager
Meeting date: December 6, 2021