City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	August 26, 2010
From:	Jerry Chong Director, Finance	**File:**	
Re:	**Analysis of Annual Fixed Utility Charges**		

Staff Recommendation

That the current process and method for the charging of annual fixed utility costs be maintained.

Jerry Chong
Director, Finance
(604-276-4064)

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ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER		
Engineering	Y ☑ N ☐			
REVIEWED BY TAG	YES ☑	NO ☐	REVIEWED BY CAO DEPUTY	YES ☑ NO ☐

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Staff Report

Origin

During the Finance Committee of June 7, 2010, the following referral was made to staff:

"That the wording and placement of items on the property tax and utility bills be referred to staff."

Analysis

Historically, residential property owners in Richmond receive both an annual property tax and flat rate utility bill containing the following breakdown of municipal taxes and user fees:

Property Tax Bill	Flat Rate Utility Bill
• General Municipal • City Policing • Fire Rescue • Storm Drainage/Dyking	• Water • Sewer • Garbage • Recycling • Drainage/Dyking

With the introduction of metered utilities, owners of single family dwellings ("SFD") volunteered to have water meters installed onto their properties. Instead of receiving one annual utility bill, these properties receive four quarterly bills where water and sewer charges are based on actual consumption. Other flat rate charges including garbage, recycling, and drainage/dyking services are charged on the first quarter meter utility bill each year (billing for January – March). Quarterly metered bills include the following fees:

Metered Utility Bill
• Water (consumption based) • Sewer (consumption based) • Meter Maintenance (fixed quarterly charge) • Garbage – Annual (included in Q1) • Recycling - Annual (included in Q1) • Drainage/Dyking - Annual (included in Q1)

In 2007, building requirements in Richmond were changed, requiring new residential strata complexes to incorporate water meters into the building design. Starting in 2008, property management companies for a number of new residential complexes were each sent quarterly metered utility bills for the complex that they manage. The annual flat rate garbage, recycling and drainage/dyking charges were calculated by multiplying the number of units in the complex by the rate charged per unit and included in the Q1 bill. Allocation of these charges are determined by the management company in accordance to the strata's bylaws.

In 2009, owners of older strata complexes were offered the opportunity of converting to the metered utility program. With this change, a number of concerns were raised by property owners currently receiving flat rate bills regarding the annual garbage, recycling, and drainage/dyking charges. According to property owners, any bill going to a strata complex must be charged to each strata unit by unit entitlement. Their main concern is that annual charges added to the metered utility bill will result in an inequitable division of charges that were once the same per unit but now may vary depending on the size of the unit.

A number of options are available to address this concern. However, in order to maintain equity in billing to all residential properties, the selected option should apply to all utility customers.

Option 1 – Remove Annual Charges From the Metered Utility Bill and Add Charges to the Property Tax Bill

Removing annual charges from the metered utility bill will help reduce concerns regarding the apportionment of charges by unit entitlement. The charges may be added to the property tax bill as user fees. Depending on the services currently provided to the property, annual charges may total up to $329.75. To provide equity to all property owners, annual garbage, recycling, and drainage/dyking charges should be removed from both the metered and flat rate utility bills and added to the property tax bill.

Although the flat rate amount may be transferred to the property tax bill, this amount cannot be deferred as part of property taxes. Discussions with the Tax Deferment Office in Victoria confirmed that the Land Tax Deferment Act's definition of taxes eligible for deferment is as follows:

> "**tax**" means tax levied by a municipality or the Crown on eligible property, but does not include tax arrears, penalties, delinquent tax, utility user fees or interest on any of them;

Since the Land Tax Deferment Act stipulates that utility user fees cannot be deferred and property owners must pay these charges annually prior to deferring the remaining balance, moving utility user charges to the property tax bill could create more confusion to seniors when they are asked to pay a portion of the tax bill each year when they have always been accustomed to deferring the entire tax bill.

Of the approximate 63,000 residential properties in Richmond in 2010, there are currently 672 properties where property taxes are deferred. Of this total, 584 are seniors or people living with disabilities, 55 are individuals living with children 18 and under, and 33 are individuals under financial hardship.

Another disadvantage of selecting this option is that taxpayers tend to overlook the content of a tax bill and only focus on the total payable on each bill. Annually, the tax bill includes tax increases collected on behalf of other taxing agencies that are beyond the City's control. Moving charges from the utility to the property tax bill will significantly increase total taxes outstanding compared to the prior year. Although the combined annual tax and utility charges will be the same whether the fixed garbage, recycling, and drainage/dyking charges are collected on the utility or the tax bill, the significantly larger bill will result in increased complaints from tax payers.

In addition, property tax comparison between municipalities may result in Richmond's property taxes appearing less attractive as the comparison may be skewed by these charges.

This option has a financial impact in that the City will receive the annual fixed charges at a later date, which will affect the City's cashflow and investment income. There is an opportunity cost in not having the excess funds earlier to generate interest income.

Option 2 - Remove Annual Charges From the Metered Utility Bill and Add Charges to the Flat Rate Utility Bill

Another alternative in overcoming unit entitlement disputes between strata property owners would be to issue flat rate utility bills to individual strata property units for all annual garbage, recycling, and drainage/dyking charges while a separate bill is issued to the property manager for the consumption based water and sewer charges. While this option may address the unit entitlement disputes, it will create additional administrative concerns.

To avoid administrative confusion as to which strata properties will receive metered utility bills only and which will receive both a metered and a flat rate bill, this option must apply to all strata properties. Even though all new residential stratas since 2008 have been apportioning bills by unit entitlement, flat rate accounts must be created for each individual unit in these properties to handle the annual changes. This involves a change to our existing business practice and additional programming and consulting costs must be incurred.

Additional administrative costs must also be budgeted with this option. The current budget was calculated based on the model of sending four bills annually to the property manager for the entire complex. Since this option requires that each unit in a metered strata complex is also sent a separate flat rate bill, additional postage and at least the equivalent of 0.5 full time equivalent staffing must be budgeted to handle the additional workload that will be generated. This is especially needed during the critical period between March to July when the flat rate bill, Q1 metered utility bill and the property tax bill are sent out and due consecutively.

Option 2 also requires a one time cost of approximately $20,000 for consulting and programming changes to support the option. With the additional staff required to handle additional bills and phone calls, budget impact is estimated at $60,000 annually. Costs will increase over time with this option as more administrative costs are required to handle the billing and servicing of the new strata units coming on stream.

Option 3 – Maintaining Current Process and Method For Billing of Annual Fixed Utility Charges.

Annual charges to strata properties vary depending on the City services provided. In 2010, apartment dwellings are charged $153.52 for drainage/dyking and recycling. Apportioning charges by unit entitlement assumes that occupants of a larger unit in the complex will consume more of these services in relation to smaller units. This reasoning can be substantiated by the fact that larger units with the higher market value will have a greater financial benefit from the City's drainage and dyking protection services than a smaller unit with a lower market value. Apportioning costs based on unit entitlement may be a more equitable means of applying these annual charges.

Currently, newly built strata complexes have been apportioning drainage and dyking charges and have not raised any concerns.

Under the existing practice of billing property management companies for metered utility bills, older strata complexes converting to water meters will require flat rate bills to be turned off for each unit. This reduces the number of invoices to four for the entire complex. This will result in the reduction in postage and staff time required to respond to individual flat rate concerns. The excess capacity enables the tax section to handle the new growth occurring in the City without increasing staff and the annual budget.

Option 3 will have minimal financial impact.

Based on the analysis, staff recommend option 3, at this time as this has the least amount of impact to most taxpayers. The current rate structures for draining and dyking were designed for simplicity and ease of application. These rates still need to be increased significantly over time to achieve sustainable funding levels for the existing drainage and dyking infrastructure. As increases are implemented, the need to ensure greater equity will outweigh the benefits of simplicity. Staff will include further analysis and recommendations in this regard within the annual Utility Budgets and Rates report to Council.

Financial Impact

None at this time.

Conclusion

The current process and method for the charging of annual fixed utility cost be maintained.

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