

MUNICIPALITY OF CHATHAM-KENT

CORPORATE SERVICES

FINANCIAL SERVICES

TO: Mayor and Members of Council

FROM: Stuart Wood, CMA
Director, Financial Services/Treasurer

Mary Lou McLeod, CGA
Director, Budget and Performance Services

DATE: September 2, 2008

SUBJECT: Mileage Reimbursement Rate Policy

RECOMMENDATION

It is recommended that:

1. A mileage reimbursement rate of \$0.46 per kilometer be established for mileage incurred after the acceptance of this report.
2. The annualized impact of this change in policy of \$66,000 be referred to the 2009 budget.
3. Council adopt an ongoing policy for kilometer reimbursement as set annually by the Minister of Finance (per Section 7306 of the Income Tax Regulations). The rate shall reflect the amount set out in the Income Tax Regulations for travel in excess of 5,000 kilometers. The current rate for 2008 is \$0.46 per kilometer.

BACKGROUND

Each year, as part of the budget review, Finance is asked to report on the cost of operating personal vehicles for business purposes and to establish an appropriate mileage reimbursement rate. Due to the recent increased cost of fuel, Finance has undertaken a review of vehicle costs and reimbursement rates.

Currently, the Municipality reimburses approximately 1.1 million kilometers for business related travel at a rate of \$0.40 per kilometer with an annual budget impact of \$440,000. This rate was established in February, 2006. Among other factors, the cost of fuel was estimated at \$1.00 per litre. The average cost of fuel per litre for the municipal fleet

vehicles are as follows and does not necessarily reflect the average costs for individual consumers:

- 2006 \$0.85
- 2007 \$0.93
- 2008 \$1.11 (Jan to Aug)

COMMENTS

The Municipality's traditional method of recommending a mileage reimbursement rate reviewed the cost of operating a vehicle with input from various sources including the Canadian Automobile Association (CAA), manufacturers' vehicle specifications and municipal survey results. This method requires annual review and is not necessarily responsive to changes in the consumer market

The recommendation in this report is to establish a corporate policy for mileage reimbursement rather than rely on the timing of the budget process. In developing this recommendation the following options were considered:

- 1) Costs of operating a vehicle
- 2) Canada Revenue Agency Automobile allowance rates
- 3) Canada Revenue Agency Vehicle rates
- 4) Municipal survey results

The following sections provide detail regarding the options considered.

Option 1 - Costs of operating a vehicle:

Finance has traditionally researched operating costs of vehicles from sources such as the Canadian Automobile Association (CAA) and manufacturers' vehicle specifications in determining the costs of operating vehicles.

There are many variables that impact the cost of ownership for a vehicle - mileage expectation, cost and residual value, maintenance, insurance, financing, driving habits, personal preferences, etc. A mileage rate is difficult to calculate due to its many variables.

The finance department calculated its own set of operating costs covering 15 vehicles with a range of purchase prices based on information from the manufacturers' web-sites. Assumed was a five year ownership, 75,000 or 125,000 km of travel over that period and gas at \$1.33 per litre. An appropriate charge back rate ranged from \$0.23 at the low end and \$0.93 at the upper end. The model included financing charges at 7.75%. A summary of the findings are included in Appendix A.

If this method were used for 2008, based on a mid-sized car and km usage of 125,000, the range of the rate would be \$0.43 to \$0.49 per km. This method of calculation is not

being recommended because it is very time consuming and can be viewed as being subjective based on the vehicles used in the review.

Option 2 - Canada Revenue Agency Reasonable per-kilometer allowance:

Annually, the Canada Revenue Agency establishes vehicle rates for business purposes in two respects, from a taxability of income perspective and a simplified method for income tax deductibility. The first method discussed is the rate used for reasonableness regarding taxability on receipt. The information has been obtained from the web-site for the Canada Revenue Agency.

“The per kilometer allowance that we usually consider reasonable are the amounts prescribed in Section 7306 of the Income Tax Regulations. Although these rates represent the maximum amount you can deduct as business expenses, you can use them as a guideline to determine if the allowance paid to your employee is reasonable.”

These rates are established at the first of a calendar year for payroll purposes. For 2008, the rates were modified January 8, 2008 and are as follows for Ontario:

\$0.52 per kilometer for the first 5,000 kilometers and
\$0.46 per kilometer thereafter

For Chatham-Kent, approximately 20% of the mileage reimbursements exceed 5,000 kilometers. For ease, it is recommended that one rate be established for reimbursement to avoid a further tracking of mileage accumulation and possible taxability of usage issues. As indicated on the information from Revenue Canada, the type of vehicle and driving conditions can determine whether an allowance is reasonable. To avoid confusion and personal situations, the recommendation includes that the over 5,000 kilometers per year usage be adopted as a policy. For 2008 the rate would be \$0.46 per kilometer.

Option 3 - Canada Revenue Agency Vehicle rates:

The other rate established by Canada Revenue Agency is the simplified rate for income tax purposes relating to moving or medical expenses and does not require receipts to be kept for ease of filing income tax returns. This rate is established for the income taxation year. The rate established January 3, 2008 was for the 2007 taxation year, currently at \$0.495 per kilometer for Ontario.

The rate of \$0.495 has been established by the Canada Revenue Agency for tax deductible purposes and is between the established taxable allowance rates of \$0.46 and \$0.52 per kilometer.

Option 4 – Municipal Survey results:

Due to the rising costs of fuel, a recent survey of 204 Ontario municipalities was completed in April 2008 by the Municipal Finance Officers' Association. Attached as

Appendix B is the result of 56 municipalities with populations greater than 50,000. Rates for reimbursement range from \$0.40 to \$0.52 per kilometer, with an average rate of \$0.478 per kilometer.

Of particular interest, a significant number of respondents tied their mileage reimbursement rate to that permitted as a maximum by the Canada Revenue Agency (CRA). This type of approach would eliminate the need for annual surveys and reports. Adjustments to the CRA rate would trigger an automatic adjustment to the municipal rate, be it an increase or a decrease.

CONSULTATION

External references were made to the rates established by Canada Revenue Agency, the CAA Car Driving Report (2008) Costs, and the MFOA survey.

The Director of Fleet Services and Human Resources were also consulted.

There is currently no specific language included in our labour contracts that address the calculation of mileage reimbursement rates. The effective date and reimbursement rate is currently the rate established by Council as part of the Chatham-Kent Corporate Policy manual.

The Executive Management Team was consulted in the review. Impact of the options as well as timing of implementation were considered in the development of the recommendations.

FINANCIAL IMPLICATIONS

Municipal staff over the past two years have been reimbursed for about 1.1 million kilometers annually. At a per km rate of \$0.40, this policy requires \$440,000. For each \$0.01 the rate changes, the impact will be about \$11,000.

A summary of the options presented in this report and the final recommendation is as follows:

<u>Option #</u>	<u>Description</u>	<u>Range p/km</u>	<u>Avg p/km for costing</u>	<u>Annualized budget change</u>
1	Cost of operating (125,000 km)	\$0.23-\$0.65	\$0.48	\$88,000
2	CRA – per km	\$0.46-\$0.52	\$0.508	\$118,800
3	CRA – vehicle rate 07	\$0.495	\$0.495	\$104,500
4	MFOA	\$0.40-\$0.52	\$0.478	\$85,800
<u>Recommended</u>				
2	CRA – less than 5,000	\$0.46	\$0.46	\$66,000

The annualized impact of the development of this policy will be \$66,000 and will be included in the 2009 budget. For 2008, with an effective date of September, the 2008 budget impact will be \$22,000 and has been included in the forecasted budget variance of June.

Prepared by:

Prepared by:

Stuart Wood, CMA
Director, Financial Services/Treasurer

Mary Lou McLeod, CGA
Director Budget & Performance Services

Reviewed by:

Reviewed by:

Gerry Wolting, BMath, CA
General Manager, Corporate Services

C.D. Weldon
Chief Administrative Officer

Attachment(s) – Appendix A – Mileage Allowance Study - 2008
Appendix B – MFOA Mileage Rate Survey

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Mileage Allowance Study - 2008

		Cost / km including gas	
		Based on 75,000 km	Based on 125,000 km
Other	Smart Car	\$0.34	\$0.23
Compact Cars	Toyota Matrix	\$0.45	\$0.33
	Pontiac Vibe	\$0.45	\$0.32
	Honda Civic	\$0.52	\$0.36
Mid-sized Cars	Chrysler Sebring	\$0.72	\$0.49
	Nissan Altima	\$0.70	\$0.49
	Hyundai Sonata	\$0.62	\$0.43
Luxury Cars	Chrysler 300M	\$0.89	\$0.60
	Lexus ES	\$0.86	\$0.58
	Acura TSX	\$0.74	\$0.51
Pickup Trucks	Chevrolet Avalanche	\$0.93	\$0.65
	GMC Sierra	\$0.66	\$0.48
	Toyota Tundra	\$0.75	\$0.53
SUV	Hyundai Santa Fe	\$0.71	\$0.49
	Chevrolet Trailblazer	\$0.89	\$0.61
	Kia Sorento	\$0.80	\$0.55
Average Cost / km including gas		\$0.69	\$0.48

Source - Manufacturer's web-site

MFOA Mileage Rate Survey

Appendix B

Item #	Municipality	Is your Municipality in the GTA	Population > 50,000	Per km paid	What is the basis for this rate	When was this rate last reviewed	Is this rate currently under review	km for average calc
1	City of Greater Sudbury	No	155,219	0.40	Linked to Canada Revenue Agency Rate (kept within "reasonable" range)	2005	No	0.40
2	City of London	No	356,000	0.40	Survey of other municipalities	August, 2005	No	0.40
3	City of North Bay	No	53,966	0.40	Linked to In town mileage as per CUPE agreement 0-4,000 .40/km; 4,001 - 10,700 .36/km; over 10,700 .33/km	last scheduled adjustment was January 1, 2007	no	0.40
4	London	No	330,000	0.40	Collective Agreements	2006	don't know	0.40
5	District of Muskoka	No	57,000	0.41	Caa rate for compact car driven 32,000	2005	there is pressure for a review	0.41
6	Caledon	Yes	58,000	0.42	Linked to other organization	2005	Yes, report to Council on May 27	0.42
7	Region of Waterloo	No	400,000	0.42	Not sure	2006	don't know	0.42
8	Town of Caledon	Yes	58,000	0.42	Council direction, partially based on comparison of other municipalities within the GTA	2005	no	0.42
9	Belleville	No	50,000	0.43	No response	2006	no	0.43
10	Norfolk County	No	62,000	0.43	CAA formula is used	March 1, 2008	reviewed semi-annually for March 1 and September 1	0.43
11	United Counties of Leeds & Grenville	No	70,000	0.435	use a survey of surrounding municipalities and the CCA mileage rate	March 1, 2008		0.44
12	Burlington	Yes	165,000	0.44	Linked to Canada Revenue Agency Rate	July 2007; an annual review and comparison to other municipalities is usually undertaken each July	Yes	0.44
13	City of St. Catharines	No	131,989	0.44	CAA	2006	No	0.44
14	City of Waterloo	No	117,700	0.44	Comparison with other municipalities	September 1, 2006	No	0.44
15	City of Guelph	No	115,000	0.45	Linked to Canada Revenue Agency Rate	2005	No	0.45

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16	City of Sault Ste. Marie	No	75,000	0.45	As negotiated in collective bargaining	last increased July 1, 2007	No response	0.45
17	County of Middlesex	No	69,024	0.45	Other municipal review as well as Caa and CRA as part of the analysis	2008 budget	no	0.45
18	County of Northumberland	no	85,000	0.45	I believe our HR did a survey of other municipal entities in Eastern Ontario to come up with it	At least 2 years	Yes	0.45
19	Kingston	No	117,000	0.45	Linked to other organization	March 13, 2008	No	0.45
20	Waterloo Region	no	500,000	0.45	Internal determination	August 2007	No response	0.45
21	County of Huron	No	59,000	0.463	linked to the average monthly price per litre of regular gasoline in southwestern Ontario - therefore the rate will fluctuate as the price of gas increases	last month 9(April)	every month	0.46
22	Dufferin County	No	55,000	0.47	Linked to MTO	2007	no	0.47
23	United Counties of Prescott & Russell	No	80,000	0.47	Linked to Canada Revenue Agency Rate	2006	?	0.47
24	City of Barrie	No	130,000	0.471	Linked to Canada Revenue Agency Rate	May 2007	Yes, committee established to review it	0.47
25	Halton Region	Yes	453,700	0.49	Canadian Automobile Association	October 1, 2006	No	0.49
26	Town of Halton Hills	Yes	552,000	0.49	Linked to Canada Revenue Agency Rate	2007	rate is reviewed and changed annually, if warranted	0.49
27	County of Lambton	No	133,000	0.50	Federal Treasury Board Directive in effect at July 1st of each year	July 1, 2007	no - policy stipulates that the rate will be adjusted automatically without the need to go back to Council annually as of July 1st each year to reflect the then current rate as published by the Treasury Board of Canada. This means that the rate will next	0.50

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28	Aurora	Yes	50,000	0.50	No link	2006	No	0.50
29	Brampton	Yes	475,000	0.50	Linked to Canada Revenue Agency Rate	in 2007	not sure	0.50
30	County of Bruce	No	62,745	0.50	Review CAA rates / CPI etc.	March, 2007	No	0.50
31	County of Wellington	No	90,000	0.50	Linked to Canada Revenue Agency Rate	new rate came into effect on April 1, 2008	no	0.50
32	Town of Aurora	Yes	50,700	0.50	Survey of other municipalities	May 1, 2006	Unknown - CAO decides on the rate	0.50
33	Ajax	Yes	95,000	0.52	Linked to Canada Revenue Agency Rate	Jan. 1, 2008	No	0.52
34	City of Oshawa	Yes	152,000	0.52	Linked to Canada Revenue Agency Rate	Updated on the date the annual budget is passed, Mar 2008	No - it is pegged to the Ministry of Finance published rate	0.52
35	City of Welland	no	50,331	0.52	linked to the Niagara Region	February 1, 2008	no	0.52
36	Clarington	Yes	80,000	0.52	Through union negotiations	January, 2008	No	0.52
37	County of Oxford	No	100,000	0.52	Linked to Canada Revenue Agency Rate	2 years	No	0.52
38	York Region	Yes	983,000	0.52	Linked to Canada Revenue Agency Rate	January 1/08	no	0.52
39	Town of Oakville	Yes	165,000	0.525	Linked to Canada Revenue Agency Rate; linked to other organization - the greater of the Treasury Board of Canada or CCRA whichever is more	April 1, 2008	reviewed quarterly with the Treasury Board	0.53
40	City of Peterborough	No	80,000	0.53	Formula - 50% based on CPI increase; 50% based on gas price increase as specified in one of Union's collective agreements	April 1, 2008	No	0.53
41	City of Kitchener	No	200,000	.44 /km for first 5000km; .39 for each km after that	Based on costs of operating a four door vehicle	2008	No	0.44

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42	City of Brantford	No	91,487	.49 /km for occasional drivers; .42/km for regular drivers who also receive a \$5.00/day car allowance	Linked to Canada Revenue Agency Rate	current rates became effective January 1, 2008	Yes, rates are reviewed each year	0.49
43	Town of Halton Hills	Yes	56,700	.49 ; if performing inspection duties in the field it is .54	CAA rate for a mid size car	January 21, 2008	No	0.49
44	City of Windsor	No	220,000	.50 /km except where union contracts differ	Linked to Canada Revenue Agency Rate; certain collective agreements and divisions use rates different than main rates	December 31, 2007 re 2008	No	0.5
45	City of Hamilton	No	500,000	.52 first 5000 km; .50 after that	Linked to Canada Revenue Agency Rate	reviewed each year when CRA releases their #'s	no	0.52
46	City of Brampton	Yes	460,000	.52 for 1st 5,000 km; & .46 thereafter	Linked to Canada Revenue Agency Rate	Changes automatically when CRA max rates change	N/A	0.52
47	City of Pickering	Yes	94,000	.52 for 1st 5,000 km; & .46 thereafter	No response	2004 for 2005	Yes	0.52
48	City of Thunder Bay	No	112,000	.52 for 1st 5,000 km; & .46 thereafter	Linked to Canada Revenue Agency Rate	2004	no	0.52
49	County of Essex	No	176,642	.52 for 1st 5,000 km; & .46 thereafter	Linked to Canada Revenue Agency Rate	December 1, 2007	No - updated annually with CRA rates	0.52
50	Hamilton	Yes	550,000	.52 for 1st 5,000 km; & .46 thereafter	?	2007	?	0.52
51	Mississauga	Yes	640,000	.52 for 1st 5,000 km; & .46 thereafter	Linked to Canada Revenue Agency Rate	January 1, 2008	No	0.52
52	Niagara Region	No	433,946	.52 for 1st 5,000 km; & .46 thereafter	Linked to Canada Revenue Agency Rate	2006	No	0.52
53	Region of Durham	Yes	603,090	.52 for 1st 5,000 km; & .46 thereafter	Linked to Canada Revenue Agency Rate	January 2008	No	0.52

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54	Regional Municipality of Peel	Yes	1,000,000	.52 for 1st 5,000 km; & .46 thereafter	Linked to Canada Revenue Agency Rate	Effective Jan 2008	no	0.52
55	Town of Richmond Hill	Yes	185,000	.52 for 1st 5,000 km; & .46 thereafter	Linked to Canada Revenue Agency Rate	early 2008	no	0.52
56	Newmarket	Yes	75,000	.52 in town, .47 out of town, 25% more if carpooling	Linked to Canada Revenue Agency Rate	updated annually	no	0.52
								0.478