

**CITY OF SAN ANTONIO  
COMMUNITY INITIATIVES DEPARTMENT  
CITY COUNCIL AGENDA MEMORANDUM**

**TO:** Sheryl Sculley, City Manager  
**FROM:** Dennis J. Campa, Director, Department of Community Initiatives  
**SUBJECT:** Refund Anticipation Loan (RAL) Disclosure Requirements  
**DATE:** March 23, 2006

**SUMMARY AND RECOMMENDATIONS**

This ordinance requires the posting and fair disclosure of certain information related to income tax refund anticipation loans (RALs), prohibits certain practices related to RALs and imposes penalties for violation of mandatory disclosure requirements.

Staff recommends approval of this ordinance.

**BACKGROUND INFORMATION**

Since 2002, the City of San Antonio, Department of Community Initiatives (DCI) has partnered with the Internal Revenue Service (IRS), the Annie E. Casey Foundation, Catholic Charities, United Way of San Antonio & Bexar County, financial institutions and local universities in establishing the San Antonio Coalition for Family Economic Progress. The Coalition was formed to ensure working families have access to all tax credits to which they are entitled, free of charge, while decreasing the number who use expensive tax preparation services and RALs. A companion goal was connecting participants to mainstream financial services.

The Volunteer Income Tax Assistance (VITA) program serves individuals and families earning up to \$40,000 annually, the Federal Poverty Level for a family of four. Since 2003, VITA has experienced consistent growth through partnerships, expanded resources, access, and improved outreach efforts. During the 2005 tax-filing season, the Coalition prepared over 25,000 tax returns and returned almost \$40 million dollars to working families. For 2006, the Coalition expects to serve over 30,000 families and return close to \$50 million to working families. By providing free VITA services, including electronic filing, filers are able to maximize the amount of credits and receive their refund normally within 7-10 days. They also become educated about avoiding the use of expensive tax preparation services, high interest rate RALs, and other predatory financial services.

The tax code is increasingly being used as a tool to alleviate poverty, reward work and help individuals and working families supplement their wages and build economic stability. Many of our working families are eligible to receive the Earned Income Tax Credit (EITC), with an

average amount returned to families last year of \$1,952. The EITC is a refundable credit for working filers and can make a substantial difference in working families' annual earnings. In 2004, more than 170,000 low-income San Antonio households received the EITC. Of those families, an estimated 68% utilized a paid tax preparer and 48% used a RAL.

RALs are high cost, short-term loans secured by, and repaid directly from, the taxpayer's IRS refund. RALs drain millions of dollars from the taxpayers' refunds and low income working families' pockets. According to IRS data, 78% of RAL users in 2004 had adjusted gross incomes of \$35,000 or less. In 2004, RALs cost San Antonio taxpayers an estimated \$13 million in interest and processing costs. Additionally an estimated 56% of RAL users were EITC recipients. RALs are often advertised erroneously as "fast cash" or "instant money" rather than as loans, with an average annualized interest rate of 178%. Through the City and the Coalition's outreach efforts, families are educated on alternatives to RALs and are encouraged to make greater use of mainstream banking services.

### **POLICY ANALYSIS**

This ordinance, based on a Council Consideration Request by Councilman Flores, is consistent with City's policy to strengthen families and improve financial success. The provisions of this ordinance will compel paid tax preparers to comply with RAL disclosure requirements to include annualized interest rates, associated fees, and duration of the loan. The provision includes mandatory written disclosure in English and Spanish and also requires the preparer to provide a verbal explanation of the written disclosures. Additionally, this ordinance will require the mandatory posting of RAL terms in a prominent location in the place of business.

To ensure compliance with the provisions of this Ordinance, implementation will include broad based community outreach to the industry and to consumers. DCI estimates that an estimated 300-350 local businesses are offering RALs, including tax preparation services, auto dealerships, rental centers, and check cashing locations. These targeted businesses will receive outreach and education on the provisions and requirements of this law. In addition, the community will be educated on alternatives to RALs and connected to mainstream banking services.

On-site monitoring of RAL providers for compliance of the provisions of this ordinance will occur during the VITA season (January through April). Businesses that fail to comply with the requirements may be assessed a fine of up to \$500. The United Way 211 helpline will facilitate community inquiries and complaints regarding RALs.

### **FISCAL IMPACT**

In FY 2005-2006, the City's Adopted Budget for the Department of Community Initiatives includes General Funds of \$138,225 to operate the VITA program at 20 sites community-wide. This action requires no additional General Fund commitment for FY 2006. For FY 2007, additional resources would be necessary for operations and enforcement, which will be evaluated during the development of the FY 2007 Proposed Budget.

### COORDINATION

This item has been coordinated with City Council's Governance Committee, the Office of City Council District 1, the Office of Management and Budget, the City Attorney's Office, and the San Antonio Coalition for Family Economic Progress.

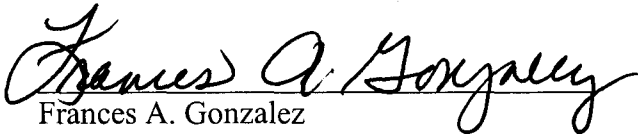
### SUPPLEMENTARY COMMENTS

Provisions of the City Ethics Ordinance do not apply.

Upon passage of eight affirmative votes, this Ordinance will become effective immediately.

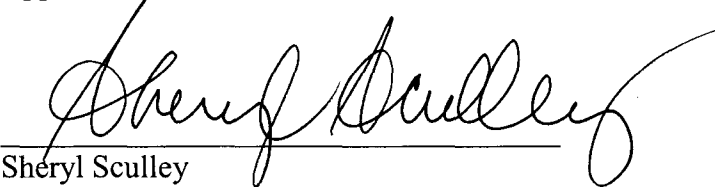


Dennis J. Campa, Director  
Department of Community Initiatives



Frances A. Gonzalez  
Assistant City Manager

Approved for Council Consideration:



Sheryl Sculley  
City Manager