***MGA* Review Discussion Paper**

Revenue Sources

This technical document is part of a series of draft discussion papers created by Municipal Affairs staff and stakeholders to prepare for the Municipal Government Act Review. It does not reflect existing or potential Government of Alberta policy directions. This document is the result of a careful review of what is currently included in the Municipal Government Act (MGA) and regulations, definitions of terms and processes, changes requested by stakeholders over the last 18 years, some highlights from other jurisdictions, and identification of potential topics for discussion during the MGA Review. This information will be used to prepare consultation materials as the MGA Review proceeds.

These discussion papers have been reviewed and approved by the MGA Stakeholder Advisory Committee, comprised of representatives from major stakeholder organizations: Alberta Association of Municipal and Counties, Alberta Association of Urban Municipalities, Alberta Rural Municipal Administrators Association, Alberta Chambers of Commerce, City of Calgary, City of Edmonton, and Local Government Association of Alberta.

The Government of Alberta is asking all Albertans to directly contribute to the MGA Review during online consultation in late 2013 and consultation sessions throughout Alberta in early 2014. This technical document is not intended for gathering stakeholder feedback, but to generate thought and discussion to prepare for the upcoming consultation. Public engagement materials will be available in early 2014. To learn more about how you can join the discussion on how we can build better communities, please visit mgareview.alberta.ca/get-involved.

Preamble

The *Municipal Government Act* (*MGA*) provides the legislative framework to guide the operations of municipalities in Alberta. The current *MGA* empowers municipalities with the authority and flexibility to provide services in the best interests of the community. The *MGA* Review will proceed along three major themes: *governance*; *assessment and taxation*; and *planning and development*.

This paper is one of 12 discussion papers exploring aspects related to the *assessment and taxation* theme. Property tax valuation systems should be designed to maximize equity among property taxpayers and visibility or openness, while minimizing administrative complexity and confusion[1]. Alberta's property assessment and taxation framework must be considered with the following principles in mind:

- Clarity
- Fairness
- Efficiency
- Predictability
- Stability
- Transparency

This paper focuses on Municipal Revenue Sources as outlined in the *MGA* and its attendant regulations. Below is a list of the 12 papers that relate to the *assessment and taxation* theme.

- Market Value Assessment and Administration
- Farm Property Assessment
- Supplementary and Progressive Assessment
- Exemptions and Other Special Tax Treatment
- Linear Property Assessment
- Railway Property Assessment
- Equalized Assessment
- Assessment Complaints and Appeals
- Machinery and Equipment Assessment
- Airport Property Assessment
- Taxation
- Municipal Revenue Sources

[1] International Association of Assessing Officers (IAAO). *Standard on Property Tax Policy.* Kansas City: IAAO, 2010.

Revenue Sources

Revenue sources are the income-generating tools that a municipality uses to finance its daily operations, pay debts, and undertake capital projects. Accessible and reasonable revenue sources are needed to ensure municipal viability today and into the future. For the purposes of this paper, municipal revenue sources have been grouped as follows:

- General Revenue Taxes – Councils have the ability to set property and business tax rates to fund municipal operations, capital expenditures and a variety of other items such as programs, debt payments, requisitions, and reserve funds. These taxes are paid by home and business owners in a municipality.
- Targeted Taxes – Councils may collect taxes to cover expenditures on specific types of capital improvements, municipal infrastructure, or local improvements. These taxes and the purposes for which they may be used are identified in the *MGA* as special taxes (for waterworks, dust treatment, paving, recreational services, or other uses), business revitalization zone taxes, local improvement taxes, and well drilling equipment taxes[2].
- Levies – Council may set targeted fees to offset the costs of capital improvements, increased use of municipal infrastructure, or targeted improvements. Examples include community revitalization levies, redevelopment levies and off-site levies[3].
- Approval Fees – Council may set fees for services, licences, permits and approvals.[2]
- Franchise Fees – Council may charge a fee to a utility provider for the right to operate within its boundaries. These fees are paid by the utility provider and are identified on consumer utility bills.
- Fines/penalties – Council may create fines and penalties for specific bylaw violations (e.g., speeding, parking, littering, tax arrears, etc.). Fines are intended to encourage compliance with bylaws and to deter behaviours that council considers inappropriate.
- Investment Income – A municipality may invest money, and the investments may pay interest or dividends back to the municipality. The *MGA* generally restricts municipalities to low-risk securities (e.g., investments guaranteed by the Crown or a bank) and municipally controlled corporations. Municipalities may pursue other investments with provincial permission.
- Grants – Municipalities may apply for a variety of grants from provincial and federal governments to help finance their capital projects and some aspects of their operations.

The *MGA* provisions regarding revenue are intended to give municipalities a wide range of decision-making powers and tools to raise the funds necessary for a municipality's operations. Table 1 on the following page outlines the percentage each revenue source contributed to the total revenue collected by all Alberta municipalities in 2011.

[2] The topic of special taxes is covered in more detail in the Taxation discussion paper.
[3] The topics of fees and levies are covered in more detail in the Fees and Levies discussion paper.

TABLE 1: Breakdown of 12 Common Municipal Revenue Sources for all Albertan Municipalities in 2011

Municipally Revenue Source	2011 Revenue totals from all municipalities	Percentage of 2011 revenues	Property Owner	Business Owner	Develop-ment Industry	Oil and Gas Industry	Utility providers	All Citizens
Property Tax	$4,808,356,295	42.85%						
Business Tax	$212,484,611	1.89%						
Special Taxes	$9,264,899	0.08%						
Business Revitalization Zone Taxes	$3,665,315	0.03%						
Local Improvement Taxes	$37,977,813	0.34%						
Well Drilling Equipment Taxes	$26,346,455	0.23%						
Developer Agreements and Levies	$172,949,456	1.54%						
Sales and User Charges	$2,918,315,262	26.02%						
Franchise and Concession Contracts	$375,057,714	3.34%						
Fines/Penalties	$193,192,205	1.72%						
Provincial Grants	$2,193,118,342	19.54%						
Federal Grants	$271,761,973	2.42%						
Total Revenue	**$11,222,490,340**	**100%**						

Discussion Points

Below are some identified discussion topics and questions based on a review of requested amendments, cross-jurisdictional research and issues raised by stakeholders.

1. <u>Other Municipal Revenue Sources</u>

Municipal leaders have advocated for access to additional revenue sources in order to provide the services and infrastructure needed for a growing economy and population. The Minister's Council on Municipal Sustainability asked for six new municipal revenue sources (see appendix 1 for a complete list). Provincial leaders have indicated that municipal revenue has increased substantially under the Municipal Sustainability Initiative and that finding additional money for municipalities within future provincial budgets may be a challenge. .

Cross-jurisdictional Research

- In Newfoundland, municipalities may levy a poll tax on adults who live, work or own a property within the municipality. The poll tax is levied against those who do not pay local property tax (i.e., renters and full time employees residing in another municipality) and may in some cases be applied to businesses that own property in, but are not ordinarily residents of, the municipality.
- Saskatchewan currently dedicates one full point of its provincial sales tax to revenue sharing with municipalities and distributes this money based on municipal type.
- Under the *City of Toronto Act*, the City of Toronto has the option of charging a variety of taxes including a road pricing tax (to address congestion and parking issues), an amusement tax, alcohol and tobacco taxes, and an advertising tax (i.e., signage).

Stakeholder and Legislative Amendment requests

- Municipalities in Alberta have requested that the Province enact policy or legislation to:
  - share provincial income tax revenues with municipalities;
  - grant municipalities authority to administer a hotel tax;
  - grant municipalities authority to levy a local tourism tax; and
  - allow municipalities to split the non-residential property tax rate to allow for different tax rates on industrial properties and small businesses.
  - Expand the scope of activities to which municipalities can collect compensation for road damage.
- Citizen based stakeholder groups have expressed concerns about new municipal revenue sources through concerted letter-writing campaigns and position papers.
- Business, Industry and the public would likely be interested in the details of new policy/legislative requests to ensure any new municipal revenues do not create unfair or unmanageable obligations.

2. Intermunicipal Revenue Sharing

Background

Many municipalities provide services to residents within their municipal boundaries and throughout the surrounding region. The services are broad and may range from funding public facilities which serve the region (e.g., recreation centres, libraries or museums), to subsidizing social programs (e.g., housing supports, violence prevention), to dedicating and maintaining serviced municipal reserve lands for a regional school site. Some municipalities have entered into voluntary cost-sharing agreements with their neighbours to help fund these services.

Cross-jurisdictional Research

- In British Columbia, a municipality's documents of incorporation and annexation orders may require the sharing of revenues from a designated revenue source, property or area, with other municipalities.

Stakeholder and Legislative Amendment requests

- Municipal Affairs has received requests from several 'regional centre' municipalities asking for mandatory intermunicipal revenue-sharing. Under this type of arrangement, funds would be directed to municipalities that act as regional centres to offset the costs of providing services in the region.
- Municipal Affairs has received comments from several municipalities expressing concerns they may be asked to subsidize services in another municipality which their residents may or may not use.

3. Industrial Revenue Pooling[4]

Background

Alberta municipalities collect over $1.5 billion annually from regulated industrial assessment (i.e. Linear Assessment and Machinery and Equipment Assessment). Most of this revenue is collected by rural municipalities and may be used to help fund some of the unique servicing requirements of industrial areas (e.g. roads, waste management, etc.). Some municipalities suggest that residents in neighbouring municipalities are likely to use municipal services in nearby centres, and have requested that the Province introduce a process whereby industrial property assessment revenue is shared among all municipalities. Some municipalities have expressed concern with this viewpoint, and note that many municipalities do contribute funding to services outside their boundaries.

Cross-jurisdictional Research

- In British Columbia, as noted above, a municipality's documents of incorporation and annexation orders may require the sharing of revenues from a designated revenue source such as a pipeline.

[4] Linear Pooling is addressed in the Linear Property Assessment Paper.

Stakeholder and Legislative Amendment Requests

- Urban municipalities have requested that the Province investigate a process for the sharing of municipal revenues generated from linear property taxation.
- Rural municipalities do not agree with the concept of sharing linear property tax revenue and thereby potentially paying for services used solely by urban residents. Rural municipalities also maintain that they require the revenue received from industrial property to help pay for the costs of long distances of rural road infrastructure.

4. Investment Income

Background

Under the legislation, municipalities are currently restricted to making relatively secure investments (such as GICs, federal/provincial securities, and controlled corporations) with the funds available to them (dedicated and undedicated funds). These restrictions are intended to safeguard public funds by ensuring they are generally placed in low-risk investments.

Greater investment freedom could increase municipal income-generating opportunities; however, it could also expose a municipality's savings to greater risks and further liabilities. For example, in *Remmers v Lipinksi*, 2000 ABQB 294, improper administration of a rural municipality's surplus revenues resulted in the loss of $2.4 million in six months due to investing practices which violated the *MGA*'s investment provisions.

Cross-jurisdictional Research

- Municipalities in Nova Scotia and cities in Saskatchewan have no legislated restrictions on municipal investments. Municipalities invest according to municipal policies and bylaws.
- In the Northwest Territories and Nunavut, municipalities may only invest surplus funds.

Discussion Questions

1. What types of revenue sources (new and existing), should municipalities have access to?
   a. What are the potential impacts of these revenue sources (for example, on municipal capacity, municipal equity, economic costs and benefits)?
   b. How should these revenue sources be used?

2. How should revenue sharing occur in Alberta?
   a. Are there specific services to which revenue sharing should apply? If so, what are they?
   b. Are there specific revenue sources where revenue sharing should occur?

3. What restrictions, if any, are appropriate for municipal investment?

4. If new revenue sources are made available, how should they be approved (e.g. choice of Council or via a referendum)?

Appendix 1 - Potential Revenue Sources and their Administrative Costs

	Implication (Potential Cost Burdens) for Administration			
Revenue Source	**Municipal Own Source Model**		**Revenue Sharing Model**	**Regional Pooling Model**
	Locally driven, provincially collected	Locally set and collected	Provincial revenue sharing	Regional revenue pooling
Sources recommended by the Minister's Council				
Amusement Tax	High	High	High	N/A
Tourism Tax	Medium	High	Medium	Medium
Property Transfer Tax	High	High	High	High
Vehicle Registration Tax	High	High	Medium	N/A
Expanded Scope for Development Levies	High	Low	N/A	Medium
Limited Split Mill Rates within Non-Residential Property Class	High	Low	Medium	Medium
Provision of annual funding to municipalities equivalent to provincial education property tax revenue.	(Not evaluated)	(Not evaluated)	(Not evaluated)	(Not evaluated)
Resource Revenues	N/A	N/A	Medium	N/A
Sources considered, but not recommended, by the Minister's Council				
Personal Income Taxes	Medium	High	Low	N/A
Reduction/elimination of provincial education property tax	High	Medium	N/A	N/A
Fuel Tax	Medium	High	Medium	N/A
Gaming Tax	High	High	Low	N/A
Payroll Tax	High	High	N/A	N/A
Corporate Income Taxes	N/A	N/A	Low	N/A
Alcohol Mark-ups	N/A	N/A	Medium	N/A

Source: KPMG. *Analysis of Potential New Municipal Revenue Options Prepared for Alberta Municipal Affairs*. December 1, 2006.

Notes

Administrative burden: high level assessment of costs associated with the implementation of any new revenue source and its collection.

High: No existing system for administration.
Medium: Administration requires changes.
Low: Minimal potential changes to current resources expected.

Cost implications have also been determined separately for categories that might be considered components of administration: "infrastructure", "personnel" and "other". For every revenue source, the evaluated implications for these categories are the same as, or less than, the implications for administration, as shown.
N/A : Not applicable.