

# Considerations for a Fiscal Policy on Revenue Generation

## Recommendation

That Executive Committee recommend to City Council:

That Council Policy C624 Fiscal Policy For Revenue Generation, as set out in Attachment 1 of the October 16, 2020, Financial and Corporate Services report CR\_8018, be approved.

## Previous Council/Committee Action

At the January 27, 2020, Executive Committee meeting, the following motion was passed:

That Administration prepare a draft Fiscal Policy for Revenue Generation (Cost and Benefit Allocation) codifying the City's cumulative approach to tax policy and user fee policy based on these reports, and provide a report back to Committee.

## Executive Summary

In Edmonton's strong economy of 2003 to 2014, Edmontonians' threshold for property tax increases to pay for increased services was higher. Over the previous decade, the City increased its reliance on property tax revenues. However, property tax tolerance has lowered due to the COVID-19 recession, following the 2015-16 oil price recession.

For many services and infrastructure assets, allocating costs entirely to the overall tax levy is appropriate, particularly if the service provides broad benefits to the community at large. However, the City also provides services and infrastructure that give direct or greater benefit to certain parties. For these services, it can be appropriate for the City to distribute some costs to benefiting parties. Allocating costs in this way can reduce strain on the property tax levy.

Especially during times of financial stress, it is important to ensure that allocation of public costs is equitable and reasonable. Determining who pays, how much and why is under the authority of City Council. The recommended Fiscal Policy For Revenue Generation C624 in Attachment 1 provides a principle-based governing framework to ground discussion.

The Policy provides guidance for achieving four of the recommendations included in the July 6/8, 2020, City Council report CR\_8379, Reimagine - Strategic Response to COVID-19.

### Report

Over the last decade, a strong economy that supported business and household prosperity led to an increased reliance on property tax revenues. Edmontonians were seeking new and enhanced services and infrastructure, and were willing to pay through property tax increases. The share of actual tax revenues to total operating revenues increased from 50.9 percent in 2009 to 56.6 percent in 2018.

The COVID-19 pandemic has added a severe recession marked by prolonged recovery and much uncertainty to a sluggish economy that was still recovering from the 2015-16 oil price recession. This will significantly constrain the city's fiscal capacity for the foreseeable future, with significant reductions to residential and non-residential property tax tolerance. Relying on property tax increases to fund services and projects may be increasingly challenging in the years ahead. At the same time, however, there are ongoing needs for new and enhanced services as the City continues to advance Council's strategic plan.

Edmonton's businesses and residents face mounting financial pressures. Especially during times like these, it is important that allocation of public costs continues to be equitable and reasonable. As a first step, a principle-based governing framework should establish the basis for cost allocation.

When it comes to taxation and revenue collection to fund Council's priorities, one high-level consideration is "*how much revenue should be collected?*", or what is a reasonable amount to spend on service delivery? Another high-level consideration is "*who should pay?*". Other questions stemming from these considerations include:

- When should the property tax base contribute toward the cost of a service?
- When should consumers of a service contribute to its cost?
- Should properties that benefit from a service to a greater degree contribute more?
- When should developing and redeveloping neighbourhoods contribute?

An additional high-level consideration is "*how should that amount be distributed across contributors?*".

The proposed Fiscal Policy For Revenue Generation, included as Attachment 1, provides principle-based guidance on who should pay for City services and infrastructure, and why.

### Who Benefits From City Services?

The City of Edmonton provides various services and infrastructure for the community. Some services and infrastructure broadly benefit the community at large, such as public safety services. Other services and infrastructure provide greater or more direct benefit to consumers of a service, or to certain stakeholders or properties. Examples of these include consumers of transit and recreation services, and parties seeking regulatory approval from the City.

Some City services can benefit both specific users and the community at large. An example of this is Edmonton Transit Service (ETS). When an individual uses transit, the direct benefit to that individual is getting to their destination. But there are also community benefits such as reduced traffic congestion and its associated productivity losses; reduced air pollution and greenhouse gas emissions; and increased economic and community connectedness through low-cost transportation. To make cost allocation decisions, it is critical to understand who benefits from the services and infrastructure the City provides. For ETS, it is appropriate for the cost of the service to be distributed amongst both the tax base and service consumers. In 2019, 60 percent of ETS's operating costs were funded through tax support, 34.5 percent through fare revenues and 5.5 percent through non-fare revenues.

### Who Should Pay For City Services?

The City recognizes that all public costs must be shared in some way across the community. The fundamental question of “*who pays for what, in what amount, and why?*” determines how costs are allocated.

The purpose of the proposed Fiscal Policy For Revenue Generation is to provide a clear and consistent governing framework for allocating service and infrastructure costs. The policy establishes guidelines for raising revenues by distributive equity and how benefits accrue, and was prepared with the following principles:

- Distributive Fairness and Equity: Service and infrastructure costs are distributed fairly and equitably throughout the community.
- Benefiter Pays: Services and infrastructure should be paid for by those who will benefit from them.
- Integration: Service and infrastructure costs are distributed throughout the community in accordance with the broader policy objectives of City Council.
- Decision-Making Model: Service and infrastructure cost allocation considerations are factored into City of Edmonton business decisions, with the understanding that all public costs must be defrayed in some way.
- Clarity and Consistency: A clear and consistent governing framework provides guidance on who should pay for City service and infrastructure costs and why.

- **Accountability:** The governance of service and infrastructure cost allocation is transparent, accessible and understood by the community and stakeholders.

The policy ensures that financial, program design and budget decisions brought before Council are prepared in accordance with the policy.

### Policy Connection to 'Reimagine'

The July 6/8, 2020, City Council report CR\_8379, Reimagine - Strategic Response to COVID-19, made several recommendations to recover from the COVID-19 pandemic and the economic recession and ensure the City's ongoing financial viability:

- Limit tax increases (R24);
- Increase cost recovery levels (R27);
- Increase cost recovery of regulatory services (R28); and
- Increase use of cost distribution/sharing tools (R29).

Financial viability is having the means, both today and into the future, to provide services important to Edmontonians; to city-build and to deliver on Council's strategic goals. The proposed Fiscal Policy for Revenue Generation provides high-level assistance in advancing these recommendations.

### Implications of Policy

The policy is intended to serve as a principle-based framework to ground Council discussions on cost allocation. It provides a starting point for Council to explore "*who pays for what, in what amount, and why?*" The policy provides high-level parameters for this discussion, based on principles of distributive equity and benefiter pays. It does not, however, bind Council on specific budget decisions. The policy also permits Council discretion in applying their values to determine where, and to what extent, broad community benefits and direct benefits lie from a service or infrastructure asset. The policy thus carefully straddles the line between providing principle-based guidance, but not being overly-prescriptive in fiscal policy decisions that are the authority of current and future Councils.

### Corporate Outcomes and Performance Management

| Corporate Outcome(s): The City of Edmonton has a resilient financial position. |   |             |             |
|--|---|-------------|-------------|
| Outcome(s)   | Measure(s)  | Result(s)   | Target(s)   |
| The City of Edmonton has a resilient financial position.                       | Adjustments to the approved Operating Budget results in the same or lower approved tax rate increase. | 1.3% (2020) | 2.6% (2020) |

### **Attachment**

1. Council Policy C624 Fiscal Policy For Revenue Generation

### **Others Reviewing this Report**

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- J. Meliefste, Acting Deputy City Manager, Integrated Infrastructure Services
- K. Armstrong, Deputy City Manager, Employee Services
- R. Smyth, Deputy City Manager, Citizen Services
- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- B. Andriachuk, City Solicitor