

Education Levy and Rate Setting

Recommendation

1. That option 1(a), as outlined in the April 16, 2019, Financial and Corporate Services report CR_7092, be approved for the development of the 2019 Tax Rate Bylaw.
2. That Attachment 3 of the April 16, 2019, Financial and Corporate Services report CR_7092 remain private pursuant to section 27 (privileged information) of the *Freedom of Information and Protection of Privacy Act*.

Executive Summary

City Council will have the opportunity to pass the City of Edmonton 2019 tax rate bylaw on April 30, 2019. This bylaw sets the tax rates needed to distribute the municipal and education tax requisition. On March 25, 2019, Administration learned that the provincial education requisition is not expected to be released before the end of April. This report outlines various options for City Council's consideration in the event the provincial requisition is not received before the tax rate bylaw is approved.

Report

Each year, the City of Edmonton passes its tax rate bylaw near the end of April. This bylaw sets tax rates in order to distribute the municipal and education tax requisition, which ensures tax bills can be sent and the requisite revenue collected to fund City programs and services.

On March 25, 2019, Administration learned that the provincial education requisition is not expected before the end of April - partially due to the provincial election. Passing the tax rate bylaw by the end of April is required in order for the City to send tax notices in May.

The lack of provincial education requisition complicates the development of Edmonton's tax rate bylaw as education tax rates cannot be calculated with absolute certainty or accuracy. Despite the absence of a provincial requisition, the City is still required to make regular payments to the province every quarter based on last year's school levy (approximately \$120M per quarter). The *Municipal Government Act* does not contemplate how to address this situation.

Options Considered by Administration

Administration has considered four possible courses of action and recommends option 1. Each of the four options are outlined below:

Option 1 - Estimate the Provincial Education Requisition (Recommended)

Under option 1, the City of Edmonton would estimate the provincial education requisition. Any shortfall or excess would be corrected in 2020 when the City sets its 2020 tax rates through the use of section 359(3) of the *Municipal Government Act*. Administration recommends this approach as it is the most straightforward and there would be no need to amend existing bylaws. It is also expected to be the least confusing to the taxpayer and have the least financial impact on the City. Further legal considerations are included in Attachment 3.

Option 2 - Estimate Requisition with 2019 Amendment

Option 2 is similar to option 1 with the City of Edmonton estimating the provincial education tax requisition. However, rather than waiting until 2020, Edmonton would amend the property tax bylaw later in 2019 once the provincial education requisition is known and mail out amended tax notices.

Option 3 - Split Notices

Under option 3, the City of Edmonton could pass the tax rate bylaw, but would mail the tax notices with no education tax levy (an estimated education amount would still be calculated, but collection would be delayed). Once the education tax requisition is received, the City would then proceed to amend the tax rate bylaw in 2019 for the education portion only and mail out notices for the education amounts. Option 3 is not recommended as the City would still be required to remit education tax payments to the province every quarter regardless of whether the City mails out tax notices listing the education tax owing.

Option 2 or 3 would require several internal City processes and existing bylaws to be amended (including the tax rate bylaw, monthly payment bylaw, tax penalty bylaw and community revitalization levy bylaws). Tax collection software system changes would also be required, the costs of which have not been estimated. The City would also incur the additional mailing costs for approximately 400,000 accounts and likely need to send monthly payment updates for approximately 125,000 accounts.

Both options 2 and 3 could create confusion as property owners would receive two tax notices within a single tax year, when they typically would only expect one. This may also pose a challenge for property title changes mid-way through the year, as it will be unclear which party (buyer or seller) pays which portion of the tax bill. Amending tax rates may also require ministerial approval.

Option 4 - Delay the Tax Bylaw

Under Option 4, the City of Edmonton would delay passage of its 2019 tax rate bylaw until such time as the provincial education tax requisition is known. This approach is not recommended as the Province can legally wait until the end of the year before confirming its budget and the taxes collected in mid-July are required for City operations throughout the latter half of 2019. In 2018 property tax revenue for the City was approximately \$2.0 billion of which \$481 million related to Education taxes. The Province still requires the City to remit education tax payments.

In addition to the issues identified with options 2 and 3 where internal City processes and existing bylaws would need to be amended, this option has a significant financial impact on the City's operations. The City collects approximately \$1.2 billion in cash within the May/June time period. Delaying the passage of the tax rate bylaw until the requisition is known would require interim financing to deal with the significant cash flow issues that would be created.

The *Municipal Government Act* allows a municipality to borrow for operating expenditures (section 256) but the City's Debt Management Fiscal Policy does not. The City's current lender, Alberta Capital Finance Authority, will only loan money for capital purposes. While the City could borrow from an alternate lender, a bylaw would be required. The City's promissory note programs is capped at \$100 million dollars. An expansion of this program would take some time and could not likely be expanded to accommodate the cash need required with this option. As a result, further financing would be required.

While the *Municipal Government Act* permits borrowing for operations, a borrowing bylaw would be required (although, advertising would not be required since the term would be less than three years) prior to entering any lending agreement with a lender. As the province still requires the City to make the education payments, an interim financing agreement would need to be sufficient to address both the cash flow requirements of property taxes and the education requisition.

In addition to financing concerns, this approach would require additional communications as property owners would need to be informed of the delay in their tax notices. Administration anticipates that the potential confusion posed by Options 2 and 3 would be similar to that of Option 4.

Estimating Education Tax Requisition

If options 1 to 3 are selected, the City must estimate an education tax requisition. In 2018, the total requisition to Edmonton was \$480,478,898. Three options for estimating

the education requisition to the City of Edmonton are presented in Attachment 1. Those estimates range from no change to a 5.3% increase to \$506,011,172.

The methodologies for estimating the likely provincial education requisition are numbered as sub-option (a), (b) or (c).

- Sub-option (a) would have the City estimate the education requisition with the best available information.
- Sub-option (b) uses the same requisition as Edmonton was billed last year.
- Sub-option (c) would be based off last year's equalized tax rate and this year's equalized assessment base.

For the reasons outlined in Attachment 1, Administration recommends using the highest of the estimates, sub-option (a), as it is based off published Government of Alberta budget targets and current assessment numbers. As a result, this estimate is likely to be the most accurate. The full impact to property owners under each estimation method is detailed in Attachment 2 of this report.

Regardless of which estimation method is chosen, the City would also need to adjust the estimate to reflect (1) the requisition allowance levy, (2) the over-unders from 2018 and (3) the additional requisition from annexed parcels. The first two adjustments are a standard processes the City performs annually. The annexation adjustment is to reflect the newly added Edmonton properties in 2019. These adjustments are described further in Attachment 1.

Budget Considerations

It is in the City's financial interest to pass its tax rate bylaw before the end of April. If the tax rate bylaw is not passed before the end of April, the City may be required to pull out of existing investments or engage in short-term borrowing to cover operating costs. Depending on the option selected, the City may incur additional, unbudgeted costs with mailing, printing and system changes, along with any costs associated with communicating new dates.

Legal Considerations

A situation where a municipality passes a tax rate bylaw prior to the provincial education amounts being available is not directly contemplated under the *Municipal Government Act* RSA 2000 Chap M-26.

Section 168(4) of the *School Act* RSA 2000 Chap S-3 requires municipalities to still make education tax payments in situations where the education tax rates have not been provided by the Province as of March 15.

Section 359(3) of the *Municipal Government Act* allows a municipality to reduce or increase the amount of revenue in a subsequent year if in any year too much or little revenue is generated to cover the requisitions.

Section 354 (4) and (5) of the *Municipal Government Act* states that tax rates in a property tax bylaw cannot be amended after tax notices are sent unless the minister allows this to take place.

Additional legal considerations have been included in Attachment 3.

Public Engagement

Public engagement was not undertaken for this report because the matter came to the City's attention in late March and the tax bylaw must be passed by April 30, 2019. Public engagement would not have materially altered the recommendation put forward for Council's consideration as the recommendation is based on legal and financial analysis.

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 has a stable financial base	The City collects what it budgets.	97.8% taxes collected by the end of 2018.	98% taxes collected by the end of each tax year.

Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
Financial	The City is unable to collect its 2019 levied municipal tax amount	1	5	5	Administration recommends mitigation options within this report.	The City could withdraw investments or borrow using its line of credit.

Attachments

1. Estimate Context and Considerations
2. Education Tax Requisition Impacts
3. Legal Considerations - PRIVATE

Others Reviewing this Report

- B. Andriachuk, City Solicitor
- C. Owen, Deputy City Manager, Communications and Engagement