COUNCIL REQUEST FOR DECISION

MEETING DATE: April 9, 2018

SUBMITTED BY: Jennifer Cannon, Director, Finance

PREPARED BY: Jennifer Cannon, Director, Finance

Gino Damo – Manager, Revenue Services

REPORT TITLE: 2018 PROPERTY TAX BYLAW 975-2018 FIRST READING

REPORT SUMMARY

To consider First Reading of Bylaw 975-2018.

RECOMMENDATION

That Council give Bylaw 975-2018 First Reading.

BACKGROUND

KEY ISSUE(S) / CONTEXT:

Background on the Emerging Issues

1. EIA Transit

At the Airport Accord Oversight Committee meeting on February 23, 2018, the partners to the Accord (City of Leduc, Leduc County, City of Edmonton, and Edmonton International Airport (EIA)) agreed to implement an integrated sub-regional service with the Accord Partners based on a cost sharing model by December 31, 2018. They also agreed to short term actions to be implemented by May 1, 2018 to coincide with the opening of the mall. The new transit will link Route 747 at the EIA and extend enhanced opportunities to travel between Edmonton and Leduc. In addition, it will increase access to the EIA with the opening of the new mall and future amenities.

It is important to recognize that there was a business case brought forward as part of the Committee of the Whole public budget meetings in November 2017. Administration was aware that there would be a need for transit to the new EIA mall, but the information was incomplete due to availability of limited information; as a result the business case was not approved. It was determined that more information was needed in addition to seeking financial partnerships. At the EIA Accord Oversight Committee on February 23, 2018, the Transit Task Force presented the proposed services and costing. This kick-started the transit business case and on March 26, directed Administration to make the financial commitment. The EIA Accord Transit Services and Funding report (2018-CR-047 presented April 9, 2018) provides significant information about this initiative and seeks the authorization to adjust the 2018 operational budget. At this time the 2018 figures are an estimate and further refinement will occur during the 2019 budget process.

EIA Transit Costs

As already stated, the regional partners agreed to implement an integrated sub-regional service with the Accord Partners based on a cost sharing model by December 31, 2018. They also agreed to short term actions to be implemented by May 1, 2018 to coincide with the opening of the mall, with the short-term enhancements to be cost-shared by Leduc County and the City of Leduc. The estimated costs for this service enhancement is as follows:

Annual operating cost will be $1.928M with the City of Leduc's portion being $1.021M. As this service is expected to start May 1, 2018, the operational base impact will span two years:

- 2018 will be $1.195M with the City of Leduc's portion being approximately $650k.
- 2019 will be $733k with the City of Leduc's portion being approximately $371k.

Capital and one –time costs will also span two years, but these are one-time funded and do not impact the operational base (except for future reserve allocations). The estimated costs are as follows:

- 2018 will be $22.4k with the City of Leduc's portion being $14.56k.
- 2019 will $2.459M with the City of Leduc's portion being $1.438M.

The costs associated with the EIA transit initiative were not included in the December approval of the 2018 budget. It is Administration's intention to use one-time funding for the annual operating cost of approximately $650k-$700k in 2018, by utilizing the 2017 year-end surplus. The ongoing operational funding requirement will be addressed through the 2019 budget process. To provide perspective, the $1.021M equates to an approximate 2.22% tax revenue increase requirement (below is an illustration of how this could look based on the Dec 4th approved multi-year strategy).

December 4, 2017 Budget Approval

	2018	2019	2020
Base Operational / Capital Requirements	2.33%	3.27%	3.37%
	+	+	+
Dedicated Mill Rate Strategy for Protective Services	1.32%	1.32%	1.32%
	=	=	=
Proposed Tax Revenue Increase Requirement	3.65%	4.59%	4.69%

Modified Multi-year Millrate (inclusive of transit)

	2018	2019	2020
Dec 4th, 2017 Multi-year tax strategy	3.65%	4.59%	4.69%
	+	+	+
EIA Transit Requirement	one time funded	1.11%	1.11%
	=	=	=
	3.65%	5.70%	5.80%

2. Provincial Education Requisition

The second emerging issue was a result of the Provincial Education Requisition.

The Provincial Education Requisition for 2018 is $18,104,561 increased from last year $17,752,690 (2017). This requisition is made of two components: residential and non-residential. To enhance clarity it is important to recognize that the Provincial Education Requisition uses equalized assessment which is based on assessment values from 2016 (as provincial equalized assessment lags one-year compared to municipalities assessments).

Defining equalized assessment - As stated from Municipal Affairs, "Equalized assessment is a process that levels the playing field for municipalities so that property tax requisitions and grants can be fairly allocated."

Since equalized assessment "levels the playing field for municipalities", areas that experience growth in declining economic conditions will be impacted unfavourably by the requisition. As the City of Leduc continued to experience non-residential growth when other areas in Alberta saw a decline, the result for this year was a considerable unfavorable increase to the non-residential component of the requisition. In 2017, the City of Leduc was requisitioned $7,503,783 for non-residential; this year it increased to $8,110,926. The $607,143 increase is the equivalent to a 1.31% tax revenue increase for the non-residential ratepayers. To provide perspective this would mean:

Municipal requirement	3.65%
Provincial requirement	1.31%
Total tax revenue increase	4.96%

Reviewing the residential component of the requisition, in 2018 there was a decrease from $10,248,908 (2017) to $9,993,636 (2018). The $255,272 decrease is favourable and is equivalent to a 0.55% reduction in the tax revenue requirement. To illustrate:

Municipal requirement	3.65%
Provincial requirement	-0.55%
Total tax revenue increase	3.10%

Recognizing the increase was both significant and unexpected for the non-residential ratepayers Administration recommends alleviating the impact to the non-residential ratepayers through a targeted approach with a combination of expenditure reduction and the use of 2017 year-end surplus funds.

Municipal Targeted Approach

Through collaboration, it is Administrations understanding that Council has a desire to keep the tax revenue increase to a minimum; a shared goal between both Administration and Council. Recognizing that the Provincial School Requisition has placed pressure upon the non-residential ratepayers while providing a reduction to the residential ratepayers Administration is recommending through a targeted approach a consistent tax revenue increase inclusive of both municipal and provincial levies. The combined tax revenue increase of 2.90% is being proposed for both residential and non-residential ratepayers. This lofty goal will be achieved by reducing the 2018 contracted services budget by $230,000. As this is a reduction of expenses this is considered ongoing reduction to the operational base and will extend into 2019. The remaining revenue (approximately $200k) will be sourced from the 2017 year-end surplus. As surplus funds are considered one-time funding they will not extend into 2019. This means that in 2019 these one-time funds will need to be addressed.

Next Steps

Administration developed proposed budget revisions based on Council's desire to find a way to utilize year-end surplus funds, to be split between the operating and capital budget. Until 2017, the year-end surplus funds were re-invested into the community and have supported numerous capital projects such as the spray park, Telford Lake rowing facility, and the Library expansion to name a few. The 2018 budget will need to be revised as the surplus has been strategically used to support the emergent EIA transit requirement and to provide targeted assistance to the non-residential ratepayers as a result of the unanticipated increase of the provincial requisition.

Recognizing the need to capture the EIA transit funding within the operational base beyond 2018 and the desire to keep tax revenue increases to a minimum Administration based on the direction from Council, further reviewed a shift in fiscal philosophy with respect to year-end surplus funds. As part of the 2019 budget process Administration is committed to researching how other municipalities utilize year-end surplus funds. Administration is cautious as surplus funds are one-time and would like to ensure appropriate due-diligence is taken. This research will be used to support and draft a revised philosophy, in addition to a new fiscal policy that supports continued community capital re-investment in combination with a taxation strategy.

<u>Shift in Fiscal Philosophy</u>

The current fiscal philosophy uses surplus funds to support community re-invesement through capital and one-time projects. The revised policy will be based on a new platform that continues to support community re-investment, but also provides strategic taxation options.

The focus for Administration with regard to the fiscal philosophy will be to find ways that the surplus can be used to reduce in a prudent manner the 2019 and 2020 tax revenue requirements; 5.70% and 5.80% respectively (inclusive of EIA transit as indentified previously. Administration is confident in working with Council to developing a philosophy that can align tax smoothing strategies and fiscal sustainability that will manage the magnitude of shifts between budget years.

An example of a revised fiscal strategy that could be used would be to establish a conservative "forecasted" surplus and use 50% for community re-investment and 50% for tax reduction. Please note, this example is high level and does not define an exact mulit-year mill rate target for 2019 and 2020.

To provide an example:

	2018	2019	2020
Tax Revenue Requirement Approved Dec 4, 2017	3.65%	4.59%	4.69%
	+	+	+
Emergent Item EIA Transit Requirement	$700k one time funded	1.11%	1.11%
	=	=	=
Modified Multi-year Millrate	3.65%	5.70%	5.80%
Proposed Revised Strategy	2.90%	4.00% to 4.50%	4.00% To 4.50%

RECOMMENDATION

To reiterate, it is Administrations recommendation to have a combined tax revenue increase of 2.90% for both residential and non-residential. This will be achieved by reducing the 2018 contracted services budget by $230,000, with the remaining $200k from the year-end surplus funds.

Secondly, Administration is committed to working with Council in developing a revised fiscal policy for 2019 that can align tax smoothing strategies and fiscal sustainability, while managing the magnitude of shifts between budget years. The intent will be to reduce the tax revenue requirements in 2019 and 2020 in a manner similar the above example.

General Background

Community Stability & Fiscal Sustainability

On December 4, 2017 Council approved the following smoothed multi-year tax strategy.

	2018	2019	2020
Base Operational / Capital Requirements	2.33%	3.27%	3.37%
	+	+	+
Dedicated Mill Rate Strategy for Protective Services	1.32%	1.32%	1.32%
	=	=	=
Proposed Tax Revenue Increase Requirement	3.65%	4.59%	4.69%

This multi-year tax strategy was accepted as part of a value proposition aimed at meeting the needs of the community. In both the 2018 budget planning survey (conducted May 2017) and 2018 citizen satisfaction survey, the City of Leduc residents indicated high service levels and quality of life as their top key performance indicators. The mill-rate strategy offers, maintained high service levels and a focus on continued capital investment.

The approved budget delivers a balanced approach to achieve short-term goals and long-term fiscal sustainability. The formula for continued success is comprised of:

Value Proposition + Infrastructure Investment Strategy + Integrated Capital Financing Program

The Value Proposition - The City of Leduc is dedicated to ensuring citizens receive excellent value for taxes paid, resulting in a high quality of life. Recognizing citizen's desire for high levels of service is paramount and this budget delivers on this. It also provides a value proposition that creates an environment that allows businesses to invest, innovate, grow and prosper.

Infrastructure Investment Strategy – Is a formal process established to align our capital program in a manner that identifies capital projects as critical, necessary and desirable; which in itself supports robust and viable infrastructure. This is imperative as the city maintains a capital program in excess of $1 billion dollars (historical value).

Integrated Capital Financing Program – is a methodology that is used, that takes into consideration smart debt, reserve optimization, year-end surplus reinvestment, capital grants utilization, and asset management, to strategically maintain the capital program (current and future). This approach maximizes financial flexibility and reinforces long term vitality.

These reasonable measures are developed in alignment with the Government Finance Officers Association (GFOA) international best practices, and contribute to sound government management and financial planning.

Value Proposition

The value proposition underpins the foundation for short-term success and long-term fiscal sustainability, bridging the gap between short-term needs and long-term pressures.

The proposed 2018-2020 budget balances long term vision with short term needs. By utilizing tools such as the revenue registry and growth indicators, the City is able to be proactive and adaptive to change. The three year mill rate strategy provides a fiscally balanced path that keeps the City of Leduc's high services levels intact while providing enhanced funding for arts and culture, protective services, economic development and community organizations. This value proposition of balancing community needs with fiscal sustainability is tested annually through various means such as the citizen engagement survey and more specifically the budget survey. Leduc has consistently rated above 70% with respect to perceived value for tax dollars paid since the conception of the annual budget survey.

Supporting Capital Investments

As mentioned previously, the infrastructure investment strategy supports the overall capital assets program. Currently, 86% of the capital investments is either a mandatory/critical project or a necessary project. Overall the City of Leduc capital assets program amount to $1.1 Billion. Keep in mind this amount is based on historical cost and not replacement cost. This is rather important to note as replacement cost is much higher than historical cost.

Other Considerations

The City of Leduc has numerous "other" considerations which can have an impact on the current and future operational and capital budgets.

1. It is important to recognize that the City is engaged in the Airport Accord and the costs stemming from this initiative are not defined and in some cases unknown. As a regional partner there could be emergent items come forward that have not been considered and this is important to understand as Administration may not be able to plan for them adequately.

2. The Airport Tax Agreement was scheduled for review at the end of 2017, however a mutual agreement between the City of Leduc and Leduc County has been made to extend this review. The uncertainty surrounding the continuation of this significant revenue stream creates a high level of vulnerability with respect to the operational reliance.

3. There are numerous unfunded capital projects and other operational requirements in the near future that need to be considered. These include:

Unfunded Capital

- Snow storage site - $4.1M (2021-2022)
- Facilities master plan projects - $17.2M (2025-2027)
- North fire hall - $4.6M 2019 (2021-2022)
- Aquatics expansion - $3.1M (2020-2021)
- Downtown redevelopment plan - $6.4M (2021,2023-2025)
- Crystal Creek Servicing (High School)

Potential Operational

- Leduc Regional Fire Service

2018 Mill Rate in Detail

As part of the taxation process, it is important to understand some factors that play a role.

Assessment in Review

Assessment is a key component of the taxation process. Changes in property assessment over the prior year are the result of either:

a) Assessment growth, which results from new developments such as renovations and/or new buildings (generating new tax revenue), and

b) Market value adjustments, which are changes to property assessments resulting from market forces such as supply, demand and inflation. Within Leduc, on an overall basis, market value adjustments do not generate new tax revenue, as the City's practice has been to reduce property tax mill rates in an amount equivalent to offset overall market value increases. It is important to note that properties whose market value has increased or decreased at a rate different from the overall average will be impacted by their change in market value compared to the average.

2018 Property assessments changes:

- Total new residential assessment growth is 3.05%.
- Total new non-residential assessment growth is 2.67%.

With respect to the existing assessment base:

- 85% of residential tax rolls fall within the -3% to 3% assessment adjustment range. This means that the majority of residents will see a minimal change in assessment over last year.
- 89% of non-residential tax rolls will see an assessment decrease over last year.

Municipal Property Tax

The 2018 municipal property tax revenue is $45,753,226 ($43,300,662 in 2017). This increase in the revenue requirement will be funded by a $28,094,737 in residential and $17,658,489 in non-residential taxation..

Residential: The 2018 municipal tax revenue increase results in a tax mill rate of 7.155 for 2018 (6.780 for 2017)

Non-residential: The 2018 municipal tax revenue increase results in a tax mill rate of 8.568 for 2018 (8.060 for 2017).

Leduc Foundation

- The 2018 Leduc Foundation requisition is $115,563 ($103,180 in 2017). The Foundation tax mill rate will be 0.020 (0.017 for 2017). For clarity, this requisition is also a flow through tax that is collected on behalf of the Foundation by the municipality.

2018 Property Taxes

Based on Bylaw 975-2018, total taxes levied (municipal, provincial, and foundation) for 2018 are $64,175,644.

A residential property based on an average market value of $350,000 will see their property tax increase (including municipal, education and foundation) by approximately $97 for the year or $8 per month.

LEGISLATION AND/OR POLICY:

The Municipal Government Act Part 10, Section 353(1) requires a Bylaw (Attachment 1) to establish property tax rates, against assessed property, to raise sufficient tax revenue to fund the 2018 Operating and Capital budgets and to provide for various requisitions from outside organizations such as School Boards and the Leduc Foundation. Each year Council sets a mill rate taking into consideration new assessment growth, market value changes and inflationary increases in property values.

PAST COUNCIL CONSIDERATION:

Predecessor - 2017 Property Tax Rate Bylaw 943-2017

- 1st reading approved on April 10th, 2017
- 2nd and 3rd reading approved on April 24th 2017.

CITY OF LEDUC PLANS:

None

IMPLICATIONS OF RECOMMENDATION

GENERAL:

The City of Leduc determines its revenue requirements through a public budget process each fall. If the market value of assessable property has increased more than the revenue requirements, then the tax mill rate decreases. However, if the revenue requirement increase exceeds the market value changes, a tax mill rate increase occurs.

ORGANIZATIONAL:

None

FINANCIAL:

Approval of the 2018 Property Tax Rate Bylaw will provide funding as per the 2018 Municipal Budgets. As the Budget is developed and approved in December prior to finalization of the assessment, assessment growth projections are based on best available information at the time. Final property assessments were completed February 28, 2018 as per the Municipal Government Act and resulted in an overall new growth of 5.72% (combined residential and non-residential).

POLICY:

Shift in Fiscal Philosophy

The current fiscal philosophy uses surplus funds to support community re-invesement through capital and one-time projects. The revised policy will be based on a new platform that continues to support community re-investment, but also provides strategic taxation options.

The focus for Administration with regard to the fiscal philosophy will be to find ways that the surplus can be used to reduce in a prudent manner the 2019 and 2020 tax revenue requirements; 5.70% and 5.80% respectively (inclusive of EIA transit as indentified previously. Administration is confident in working with Council to developing a philosophy that can align tax smoothing strategies and fiscal sustainability that will manage the magnitude of shifts between budget years.

LEGAL:

The Municipal Government Acts requires that tax rates for a municipality be set by bylaw (s.353). The tax rate must be set for each assessment class (s.354 (2)) and it may be different for each assessment class (s.354 (3)). The Act requires that the tax rate be calculated by dividing the amount of revenue required by the total assessment of all property on which that rate will be imposed (s. 355). The amount of tax due from a specific property will be calculated by multiplying the assessment for that property by the tax rate contained in the bylaw (s.356). If a council did not meet the obligations in the Act it would be unable to pay the expenditures and transfers set out in the budget or other requisitions.

Section 364 of the Municipal Government Act, allows Council to pass a bylaw that exempts machinery and equipment used for manufacturing or processing to the extent they consider appropriate. This bylaw creates a 100% exemption for this category of assessment.

IMPLEMENTATION / COMMUNICATIONS:

Assessment/tax notices will be sent out mid-May 2018.

ALTERNATIVES:

1. That Council defeats Bylaw No. 975-2018 First Reading.

ATTACHMENTS:

1. Bylaw No. 975-2018 – 2018 Property Tax Rate Bylaw.

Others Who Have Reviewed this Report

P. Benedetto, City Manager / I. Sasyniuk, General Manager, Corporate Services / J. Cannon, Director, Finance

Bylaw No. 975-2018
2018 PROPERTY TAX RATE BYLAW

A BYLAW OF THE CITY OF LEDUC IN THE PROVINCE OF ALBERTA, TO AUTHORIZE THE RATES OF TAXATION TO BE LEVIED AGAINST ASSESSABLE PROPERTY FOR THE 2018 TAXATION YEAR.

The *Municipal Government Act*, R.S.A. 2000, Chapter M-26, as amended, grants a Municipality the authority to adopt a Property Tax Rate Bylaw annually to authorize Council to impose a tax on property in the Municipality to raise revenue to pay for expenditures and transfers set out in the City's budget, and to pay for requisitions.

AND: in accordance with the Act, Council approved the final 2018 budget at the Council meeting of April 23, 2018 calculated for Municipal purposes at $97,788,153 and for capital purposes at $74,755,090

AND: it has been estimated that the sum of $51,959,927 will be collected by the City from sources other than from current property taxes.

AND: the revenue requirements for requisitions received by the City from other authorities are:

Alberta School Foundation Fund (ASFF)	
Residential/Farm land	$9,321,337
Non-Residential	$6,904,071
Opted Out School Boards	
Residential/Farm land	$702,124
Non-Residential	$1,301,561
Total School Requisitions	$18,229,093
Requisition Allowance MGA (359(2))	$75,000
Leduc Foundation	$118,325

AND: the *Municipal Government Act* provides for each Municipality to prepare an assessment for each property in the municipality except for the properties identified in the Act that no assessment is to be prepared for those properties.

AND: the total assessable value of property in the City is:

Residential/Farmland	$3,918,943,100
Non-Residential	$2,052,312,470
Machinery and Equipment	$4,344,120
	$5,975,599,690

APPROVED
As to Form
B. L.

City Solicitor

AND: Council has passed Bylaw 974-2018 being a Bylaw authorizing the supplementary assessment of all improvements to properties which are completed or occupied or moved into The City in 2018, but not including machinery and equipment

AND: the taxation rates and taxation revenue for certain properties which were brought into The City of Leduc as a result of annexation governed by:

- Order in Council 258/2013

THEREFORE: the Council of the City of Leduc in the Province of Alberta enacts as follows:

PART I: BYLAW TITLE

1. That this Bylaw shall be known as the '2018 Property Tax Rate Bylaw'.

PART II: DEFINITIONS

2. In this bylaw, unless the context otherwise requires:
   a. "City": means the municipal corporation of the City of Leduc
   b. "City Manager": means the chief administrative officer of the City or his or her delegate.

PART III: APPLICATION

3. a. Council authorizes the City Manager to impose taxes for the purpose of raising revenue to be used towards the payment of expenditures and transfers set out in the budget of the City and for the purpose of raising funds for the school requisition as a consequence taxes are hereby imposed on each class of assessed property within the City, whether listed in the assessment roll or supplementary assessment roll, at the rates for each class shown below:

	Tax Levy	Assessment	Tax Rate
General Municipal			
Residential	$28,019,737	$3,918,943,100	7.155
Non-Residential	$17,583,489	$2,052,312,470	8.568
Machinery and Equipment	$ -	$ -	8.568
Supplemental	$ 150,000		
	$45,753,226	$5,971,255,570	
ASFF			
Residential/Farm Land	$9,321,337	$3,644,402,534	2.558
Non-Residential	$6,904,071	$1,698,600,831	4.065
	$16,225,408	$5,343,003,365	

Opted-Out School Boards			
Residential/Farm Land	$702,124	$274,512,466	2.558
Non-Residential	$1,301,561	$320,221,639	4.065
	$2,003,685	$594,734,105	
Requisition Allowance Includes Machinery & Equipment	$75,000	$5,975,599,690	0.013
Foundation Includes Machinery & Equipment	$118,325	$5,942,081,590	0.020

b. Notwithstanding the tax rate set for machinery and equipment, Council completely exempts from taxation machinery and equipment used for manufacturing or processing, pursuant to section 364(2) of the *Municipal Government Act*.

PART VI: ENACTMENT

4. This Bylaw shall come into force and effect when it receives Third Reading and is duly signed.

READ A FIRST TIME IN COUNCIL THIS________ DAY OF _______, AD 2018.

READ A SECOND TIME IN COUNCIL THIS_______ DAY OF _______, AD 2018.

READ A THIRD TIME IN COUNCIL THIS ______ DAY OF ________, AD 2018.

____
Bob Young
MAYOR

____
Sandra Davis
CITY CLERK

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Date Signed