
The 2016 Business Plan and Budget Process: Revenues

Recommendation

That the Executive Committee refer this report and its attachments to City Council's 2016 Budget deliberations.

Topic and Purpose

The purpose of this report is threefold:

1. To provide the Executive Committee with an update on the City's operating revenue assumptions for the 2016 Business Plan;
2. To provide the Executive Committee with a background/discussion paper on ways in which the City of Saskatoon does, and should, fund its operating services and programs; and
3. To provide the Executive Committee with some issues and options to help the City increase its own-source, non-tax revenues in order to reduce the reliance on property tax to fund municipal programs and services.

Report Highlights

1. The Administration is providing an update of its revenue assumptions for the 2016 Business Plan and Budget.
2. Attachment 1 provides a background/discussion paper that provides an overview on how the City pays for its operating services and programs.
3. Attachments 2 through 4 provide some issues and options that will help the City of Saskatoon to reduce its reliance on property tax to fund programs and services.

Strategic Goal

The Business Plan and Budget process addresses all seven strategic goals in the Strategic Plan.

Background

At its April 20, 2015, meeting, the Executive Committee considered a report by the City Manager. That report contained several elements, including an overview of the 2016 Business Plan and Budget process, which aims to implement a more integrated, accountable, and transparent process.

The report indicated that the Administration would provide regular updates to the Executive Committee throughout the process, so that the Committee and the public are informed about the fiscal opportunities and challenges that the City is addressing in 2016.

At this same meeting, the Executive Committee considered a report from Hemson Consulting. That report investigated, among other things, the reasons why the City of

Saskatoon’s property tax increases in recent years have been higher than normal. One of the consultant’s main findings was that the growth in the City’s non-tax revenues have been declining as a share of the budget, resulting in a greater reliance on property tax to fund City operations.

At its May 19, 2015, meeting, the Executive Committee considered a report by the City Manager titled, “The 2016 Business Plan and Budget Process – A Fiscal Update”. The report highlighted the preliminary revenue estimates for the 2016 Operating Budget. Table 1, presented in that original is reproduced for information.

**Table 1:
2016 Budget Operating Revenue Assumptions**

Revenue Assumption	Projected Increase
Assessment Growth	\$ 4.5 million
Grants-in-Lieu & Franchise Fees	\$ 3.6 million
Fines, Penalties, & User Fees	\$ 0.4 million
Municipal Revenue Sharing	\$ 3.7 million*
Total Preliminary Increase	\$12.2 million

**Based on Provincial Sales Tax revenue projections contained in the 2015/16 provincial budget. This assumption will be confirmed in late June once the provincial government releases Public Accounts for the fiscal year-end 2014/15.*

It is important to note that the figures in Table 1 are preliminary estimates based on information and assumptions made at the time of the report.

At its meetings of June 15, 2015, and July 22, 2015, the Executive Committee considered additional reports from the City Manager that addressed the inflationary, growth, and service level impacts on the 2016 operating expenditures. Table 2 summarizes the outcomes of those meetings to show the potential operating expenditure increase for 2016.

**Table 2:
2016 Budget Operating Expenditure Assumptions**

Expenditure Assumption	Projected Increase
Salary/Benefits	\$9.4 million
Utilities, Contracts, Materials, Supplies	\$2.0 million
Roads/ Sound Walls Improvements	\$4.1 million
Capital Transfers/Phase in	\$1.3 million
Remai Modern Art Gallery	\$1.3 million
Civic Funding Plans	\$1.6 million
Snow & Ice Clearing Improvements	\$445,000
Expanded Transit Service to Evergreen	\$209,000
Total Preliminary Increase	\$20.35 million

As Table 2 indicates, the City's expenditure assumptions have been updated, but revenue assumptions have not. This report will provide an update on operating revenues.

Report

The purpose of this report is threefold:

1. To provide the Executive Committee with an update on the City's operating revenue assumptions for the 2016 Business Plan;
2. To provide the Executive Committee with a background/discussion paper on ways in which the City of Saskatoon does, and should, fund its operating services and programs; and
3. To provide the Executive Committee with some issues and options to help the City increase its own-source, non-tax revenues in order to reduce the reliance on the property tax to fund municipal programs and services.

1. Updated Revenue Assumptions:

Since the May 19, 2015, Executive Committee Meeting, the Administration has been updating its revenue assumptions for the 2016 Business Plan and Budget. As Table 1 in the background section of this report highlights, the Administration projected a revenue increase of \$12.2 million. However, more information has emerged that has changed some of these assumptions.

The most significant change to the revenue assumptions pertains to the Municipal Revenue Sharing (MRS) Program. Based on the Provincial Sales Tax (PST) revenue projections contained in the 2015/16 Provincial Budget, the Administration assumed that the City would receive an increase of approximately \$3.7 million.

However, when the Provincial Public Accounts were released at the end of June this year, actual PST revenues came in at approximately \$47 million less than projected. As a result, it is now anticipated that the City will see an increase of \$1.1 million in its MRS allocation for 2016, resulting in a shortfall of about 2.6 million from the original assumptions. The Administration will be using this updated MRS amount of \$1.1 million as it finalizes the 2016 Budget.

To address this potential shortfall, the Administration is bringing forward an additional report—to this same meeting—that recommends including a return on investment from the City's Water Utility, to be phased in over a number of years, starting with \$3 million for 2016. This will help to increase the City's own-source, non-tax revenues, and reduce the City's reliance on the property tax to fund the operating budget.

Other revenue assumptions include a reduction of about \$900,000 in transit revenues, a \$400,000 reduction in revenues from electricity rates, and a \$300,000 decrease in fines and penalties. These reductions are offset by a \$400,000 increase in assessment growth, a \$300,000 increase in recreation revenues, and a \$300,000 in miscellaneous revenues.

2. Background/ Discussion Paper on Paying for City Services

Attachment 1 to this report attempts to explain how the City does, and should, fund its operating expenditures. Given the limited revenue raising abilities the City has access to and control over, it should evaluate and carefully consider whether the current ways in which it pays for certain operating services is optimal and/or appropriate.

Based on the public finance literature and economic principles, the paper recommends that services that have certain characteristics should be paid for by general taxes—such as property tax—especially for those services that provide collective benefits to the community. On the other hand, those services that provide benefits to the individual should be paid for by some type of fee or charge that represents the costs of delivering the service. While the City generally achieves this, there are some services, such as solid waste collection that are contradictory to this model.

The impetus for this paper was generated by a recent report conducted on behalf of the City that found, amongst other things, the City's growing reliance on property tax is partially the result of slower growth in the City's own-source, non-tax revenues. An additional motivation is to provide City Council and the public with perhaps a better understanding of the different types of services that the City provides, and the most optimal ways in which the City should pay for them.

The research and recommendations in this background/discussion paper are in alignment with public feedback obtained through the 2015 Civic Services Survey and the budget engagement process. Specifically, participants in the survey and the budget engagement process indicated a preference for increases in both property taxes and user fees to pay for improvements to City services and programs.

3. Revenue Issues and Options

Attachments 2 through 4 provide the issues, recommendations, and options for Executive Committee to consider as they relate to increasing the City's own-source, non-tax revenues. The rationale supporting these recommendations is consistent with the research and conclusions found in Attachment 1, in that those who benefit from a service should pay for the service.

Attachment 2, for example, provides the issues and options for establishing a permit fee for overweight vehicles in order to ensure that service/program is full-cost recovery. By adopting the recommendation in this attachment, it would remove about \$61,000 from property tax.

Attachment 3 recommends that the City adopt right-of-way permit fees to make this program fully cost recoverable and remove funding for these from property tax. By adopting this recommendation, it would remove about \$44,350 from property tax.

Attachment 4 recommends that the City establish an administrative fee of \$375 for sidewalk crossing permits to make this service fully cost recoverable. By adopting this recommendation, it would remove about \$77,000 from property tax.

As the budget process evolves, the Administration will continue to refine its revenue and expenditure assumptions and/or opportunities. Thus, more details about revenues and expenditure implications for the 2016 Operating Budget may emerge, which may result in either an increase or decrease in these assumptions.

Options to the Recommendation

1. Executive Committee may direct the Administration to explore other revenue opportunities, or service delivery models, to be incorporated for the 2016 Business Plan and Budget.

Public and/or Stakeholder Involvement

The 2016 Business Plan and Budget will include a variety of public and stakeholder engagement opportunities as the process emerges. Previous reports to Executive Committee have outlined this process. For example, Attachment 2 of the City Manager's June 15, 2015, report, to Executive Committee provides a detailed description of the engagement opportunities.

Communication Plan

A communication and engagement plan has been prepared for the 2016 Business Plan and Budget. The goal is to inform citizens of the budgeting process, and to provide an opportunity for citizens to give their input into the budget, well in advance of City Council approval.

A variety of tools are being used to promote the Shaping our Financial Future, Budget 2016. All tools are being created using plain language, imagery, and videos. The City is first taking a digital approach to communications while still complementing it with traditional tools such as print ads, PSAs, and brochures.

- Saskatoon.ca – the website is regularly updated to include more information on how citizens can get involved. All background documents including related public reports and presentation materials will be added as they become available.
- Social Media – information is posted to the City's Facebook and Twitter pages. A Facebook Event page has been created, and will be used to promote upcoming engagement activities.
- Video series to help inform citizens on a variety of budget topics including:
 - How Your City Budget Works
 - How Municipal Tax Differs from Federal and Provincial Tax
 - What Contributes to Property Tax Increases (NEW)
- Print Ads – all events will be advertised in the City Pages in *The StarPhoenix* and *Sunday Phoenix*.
- Ongoing Public Service Announcements.
- Budget Conversation Starter Brochure and other print material.

Policy Implications

There are no policy implications at this time. However, during the preparation of the 2016 Business Plan and Budget, the Administration may propose various policy changes for consideration by Executive Committee and/or City Council.

Financial Implications

The Administration is estimating that the revenue adjustments addressed in Attachments 2 through 4, will reduce property tax supported programs by \$175,000 in the 2016 Business Plan and Budget. In addition, the proposed Return on Investment from the Water Utility will help the City to obtain a fair return on investment back to shareholders (citizens) that will also help to reduce the City’s reliance on property tax to fund operating services and programs.

Table 3 illustrates the changes to the City’s revenues assumptions as a result of the information contained in this report.

**Table 3:
Revised 2016 Budget Operating Revenue Assumptions**

Revenue Assumption	Projected Increase
Assessment Growth	\$4.9 million
Grants-in-Lieu & Franchise Fees	\$3.6 million
Municipal Revenue Sharing	\$1.1 million
Utility ROI	\$3.0 million
Recreation Revenues	\$300,000
Miscellaneous Revenues	\$300,000
Proposed Fees (Attachments 2 to 4)	\$175,000
Less	
Electricity Rates	(\$400,000)
Transit Revenues	(\$900,000)
Total Preliminary Increase	\$12.1 million

Given these assumptions and based on the expenditure estimates contained in Table 2, the Administration is projecting an expenditure-to-revenue gap of approximately \$8.25 million.

Due Date for Follow-up and/or Project Completion

The Administration will continue to provide information on the 2016 Business Plan and Budget at each Executive Committee meeting up until the Business Plan and Budget is presented. The preliminary 2016 Business Plan and Budget will be tabled at the October 19, 2015, Executive Committee meeting.

The revenue adjustments proposed in this report (and attachments), and other related reports will be provided to City Council during budget deliberations so that it has the information it requires to make necessary decisions. In the meantime, Executive Committee, or City Council, may direct the Administration to explore other revenue

adjustments, or service delivery models, that are not exclusively addressed in this report.

Public Notice

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachments

1. Paying for City Services: Principles, Concepts, and Ideas on how the City of Saskatoon Pays for Operating Programs and Services, A Discussion Paper.
2. 2016 Budget Issues and Options: Vehicle Permit Fees
3. 2016 Budget Issues and Options: Right of Way Permit Fees
4. 2016 Budget Issues and Options: Sidewalk Crossing Permit Fees

Report Approval

Written by: Mike Jordan, Director of Government Relations
Approved by: Murray Totland, City Manager

Administrative Report – The 2016 Business Plan and Budget Process (Executive August 19, 2015).docx



PAYING FOR CITY SERVICES:

Principles, Concepts, and Ideas on How the City of Saskatoon Pays for
Operating Programs and Services

A Discussion Paper

August 11, 2015

Prepared by Mike Jordan

Director of Government Relations

INTRODUCTION:

Each year, in accordance with provincial enabling legislation, the City of Saskatoon (the City), through City Council, adopts an operating budget and a capital budget. While these two types of budgets are passed at the same time, and are interrelated to some degree, they each serve different purposes. Briefly, the City's capital budget allocates financial resources to major capital infrastructure projects, such as the building of new roads, bridges, and buildings. The projects contained in the capital budget are paid for by a combination of government grants, borrowing, reserve contributions, and development levies, to name the most prominent.

On the other hand, the City's operating budget allocates resources to the various services and programs that residents rely on every day. Some of these services include police and fire protection, road maintenance, snow clearing, park maintenance, and public transit operations. The services contained in the operating budget are paid for through a combination of property taxes, user fees, and government transfers.

Nevertheless, there is a widely held perception that the City of Saskatoon pays for its operating budget expenditures through property taxes only. When the City releases its annual operating budget, headlines in the newspaper, or the lead story on the six o'clock news, focus on the size of the property tax increase, rather than projects, programs, and services that are contained in—or cut from—the budget.

This perception requires some clarification. That is, property tax revenues account for about 45% of all revenues in the City's 2015 operating budget, with the remaining 55% coming from other non-tax sources—such as user fees, licenses and penalties, and transfers from other orders of government.

However, relative to property tax revenues, the City's non-tax revenue sources—excluding government transfers—have been declining as a share of the operating budget. In other words, the City has been relying more on the property tax to pay for its operating programs and services. As such, concerns have been raised in Saskatoon about the fact that property tax increases in recent years have been larger than normal.¹

In 2014, the City of Saskatoon engaged the services of Hemson Consulting to investigate this issue. Among other things, the consultant was asked to determine the reasons why annual property tax increases have been higher than normal in recent years, despite the fact that Saskatoon has been growing at a record pace. In April 2015, Hemson presented its findings to the City, and concluded that the following factors have each contributed to property taxes rising faster than usual²:

- Inflation;
- increases in service levels and capital expenditures;
- slower growth in non-residential assessment; and
- slower growth in the City's non-tax, own-source revenues.

While these are all important factors and require further elaboration, this paper focuses on the last point. More precisely, in order to provide a better understanding of this trend, the primary

¹ For example, in 2013, 2014, and 2015, the City of Saskatoon's property tax increases have been above 5% annually.

² See Hemson Consulting Ltd., "Financing Growth Study," Prepared for the City of Saskatoon (April 8, 2015) Appendix B. Obtained from <https://www.saskatoon.ca/city-hall/budget-finances/shaping-saskatoons-financial-future>.

objective of this paper is to elaborate on how the City does, and should, fund its operating expenditures.

Given the limited revenue raising abilities the City has access to and control over, it should evaluate and carefully consider whether the current ways in which it pays for certain operating services is optimal and/or appropriate. If the current framework is appropriate, then reliance on property tax will continue to grow for the foreseeable future. However, if the existing framework is not optimal, then there is some opportunity for the City to adjust the ways in which it funds its operations.

Reliance on property tax to fund City operating expenditures is not necessarily a bad thing. As this paper will address, it ultimately does (and should) depend on what types of services are driving the property tax increases. Of course, the question that emerges is: What is appropriate or optimal? Well, the answer is partially found in the public finance literature. Economists have designed a framework to evaluate how public goods and services should be paid for.³

For instance, the framework suggests services that have certain characteristics should be paid for by general taxes—such as the property tax—especially for those services that provide collective benefits to the community. On the other hand, those services that provide benefits to the individual should be paid for by some type of fee or charge that represents the costs of delivering the service. Despite the value of this framework, the decisions ultimately lie with the values and objectives of a particular jurisdiction, and the elected officials who represent the people of that jurisdiction.

Nonetheless, based on the benefits-received model of local public finance, this paper argues that user fees are the most efficient and fair way to pay for many—not all—City programs and services. Indeed, user fees are not a panacea for financing City expenditures, but “for some services, user fees are not only feasible,” they are “...economically desirable because they help to allocate resources to maximize the satisfaction we receive from those resources.”⁴ By doing so, the City may be able to reduce its growing reliance on the property tax to pay for operating programs and services.

In order to provide some proper context for this analysis, this paper is organized as follows:

- Section one provides an overview of the legislative framework that provides the City with the authority to deliver services and fund those services. It shows that this legislative framework provides the City with limited revenue raising abilities, especially when it comes to raising revenues through taxation.
- Section two offers a general overview of the City’s major operating expenditures to illustrate the different types of services that the City of Saskatoon provides. It does not describe each individual service, but rather addresses the distinguishable characteristics that some of these services elicit.
- Section three provides an overview of the City’s operating revenues. It illustrates that the City has two major revenue categories: own-source revenues and external source revenues. It shows that when it comes to the City’s own-source revenues, the City has tax (property tax), and non-tax (fees or charges) revenues.

³ See for example, Harry Kitchen, “Financing City Services, Part 1: Operating Expenditure”, (Calgary: Manning Foundation for Democratic Education) October 10, 2013; obtained from <http://manningfoundation.org/Docs/Operating-Expenses.pdf>.

⁴ Donald N. Dewees, “Pricing Municipal Services: The Economic of User Fees”, in *Canadian Tax Journal* Vol 50, No 2 (Toronto; Canadian Tax Foundation, 2002) 586.

- Finally, section four offers some concluding observations and potential opportunities that the City may wish to consider to help it reduce its reliance on property tax to fund its operating programs and services. This section does not address any new revenue sources that the City should attempt to obtain from the provincial government. Instead, it considers the revenue instruments available to the City through its existing fiscal framework.

SECTION 1: The Legislative Framework for Municipal Finance in Saskatchewan

Municipal governments in Saskatchewan—including the City of Saskatoon (the City)—derive much of their authority from the province. In other words, the Government of Saskatchewan, primarily through enabling legislation, generally establishes the governance structures, the spending responsibilities, and the revenue raising abilities that municipalities may implement. For the City of Saskatoon, this authority is obtained from *The Cities Act*.⁵

According to section 4(2) of *The Cities Act (the Act)*, the purposes of cities are:

(a) to provide good government; (b) to provide services, facilities and other things that, in the opinion of council, are necessary and desirable for all or a part of the city; (c) to develop and maintain a safe and viable community; (d) to foster economic, social and environmental well-being; (e) to provide wise stewardship of public assets.

To accomplish these purposes, the Act provides the City with powers to enact bylaws. Section 8 of *the Act* provides the City with areas of jurisdiction to which it may pass bylaws. For example, the City may pass a bylaw for “services provided by or on behalf of the city, including establishing fees for providing those services.” The City also has the power to regulate certain activities in the city, and gives the City certain powers to provide for a system of licences, inspections, permits, or approvals. The Act allows the City to charge a fee to offset the costs of administering this regulatory framework.

Despite the broad jurisdiction the City is provided by *the Act* to deliver certain programs and services or regulate certain activities, the legislation also places some important financial limitations on the City. For example, section 128 of *the Act*, stipulates that a City must adopt a capital and operating budget for each financial year.

The legislation requires that the City’s operating budget shall include the expenditures related to the following:

- the amount needed to provide for the operations of the city;
- the amount needed to pay all debt obligations with respect to borrowings by the city;
- the amount needed to meet the sums that the city is required, by statute, to raise by levying taxes or other amounts that the city is required to pay;
- the amount to be transferred to reserves; and
- the amount to be transferred to the capital budget.

To pay for these expenditures, *the Act* requires that the operating budget include the following sources of revenue:

- taxes;
- grants;
- transfers from reserves; and
- any other source.

More importantly, however, *the Act* stipulates that the City’s operating revenues must be sufficient to pay for its operating expenditures. In other words, the legislation mandates that the City’s operating budget must be balanced; the City cannot budget for an operating surplus or deficit, unlike federal and provincial governments. However, this does not mean that at the end

⁵ For more on *The Cities Act* see, <http://www.qp.gov.sk.ca/documents/english/Statutes/Statutes/c11-1.pdf>. Additional authority is also provided through other pieces of legislation, most notably, Saskatchewan’s *Planning and Development Act*.

of a financial year that a surplus or deficit may not emerge; it simply means that the City cannot budget for a surplus or deficit. The fact that the City cannot pass a budget surplus or a budget deficit also limits its financial flexibility at times.

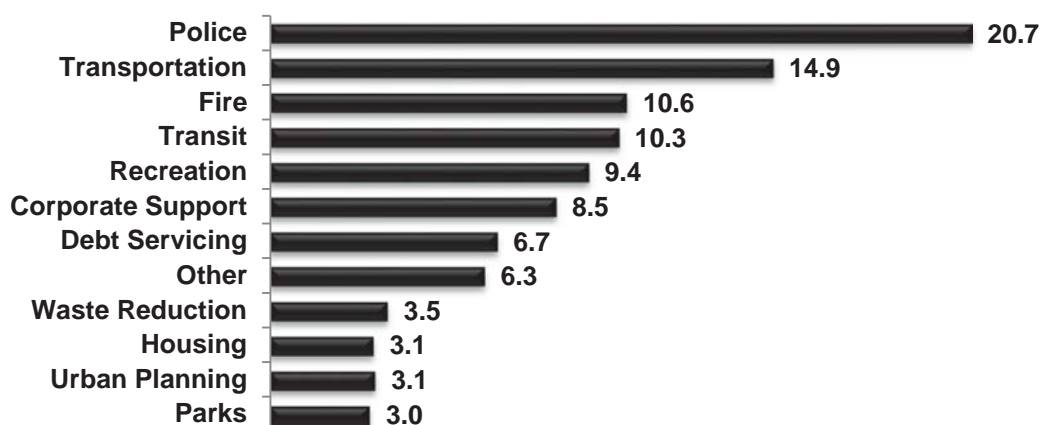
Given this legislative framework, the paper now turns to address the City's expenditures. The next section explores the nature and types of City expenditures to show that the City provides a variety of services that have distinguishable characteristics. These characteristics are important to note because in order to ensure an equitable and efficient system of municipal finance, different methods should be used to pay for services that elicit different characteristics.

SECTION 2: An Overview of City Expenditures

The City of Saskatoon (the City) provides over 70 services that people use on a daily basis. For example, the City maintains roads and parks, operates public transit, provides water and wastewater, offers solid waste collection and recycling services, supports arts, culture, and recreation opportunities, and is responsible for public safety through the delivery of police and fire services, to name a few of the most important. The City has direct local control over these services and is responsible for establishing their service levels, among other things.

Figure 2.1 shows the City's 2015 operating expenditures, as a percentage share of the budget. It shows that over half of the City's operating expenditures are allocated to transportation and public safety.

**Figure 2.1:
City of Saskatoon's 2015 Operating Expenditures
(Percentage Share of Operating Budget)**



While all of the above noted services are “City services” they do have distinguishable characteristics that help to differentiate them. Economists have developed a framework, or more precisely a continuum, to help analyze the features of different types of services. Table 2.1 provides an overview of this continuum.

**Table 2.1
A Continuum of Municipal Services**

Private Goods	Blended/Merit Goods	Pure Public Goods
Water	Public Transit	Parks
Wastewater	Recreation	Local Roads
Solid Waste Collection	Libraries	Police & Fire Protection
		Street Lighting

Before this paper elaborates on this continuum, it is important to point that there are two ways of looking at the characteristics of City services. One considers the perspective of the consumer of the service (typically, the resident) and the other considers the perspective of the provider of the service (in this case, the City).

From the consumer perspective, services can have private or public characteristics, based on who the beneficiary is.⁶ As noted in the table, at one end of the continuum are those services that have “private good” characteristics, such as water, wastewater, and garbage collection. The distinguishable features of these types of services are: (a) specific beneficiaries can be identified, (b) individuals can be excluded or prevented from using the service, and (c) all operating and capital costs are easy to determine.

At the other end of the continuum, by contrast, are those services that have “public good” characteristics, such as police and fire protection, local roads, and neighbourhood parks. The unique features of these types of services are: (a) specific beneficiaries are hard to identify, as the service provides collective benefits; and (b) it is difficult or prohibitively expensive to exclude or prevent an individual from using the service.

In the middle of the continuum are those services that have a blend of both public and private good characteristics, often called merit goods. These services include public transit and public recreation facilities. The unique features of these services are that they provide a benefit to the individual user and collective benefits to the community. For example, public transit provides a benefit to the person who uses the service, but it also provides a collective benefit to the community in that it helps reduce traffic congestion and greenhouse gas emissions by taking private vehicles off the roads.

From the provider’s perspective, the economic literature identifies two characteristics to distinguish services that have public good characteristics versus those that have private good characteristics: (1) rivalry, and (2) excludability.⁷

A service is considered to be rival if consumption by one person prevents it from being available to others. For example, one of the primary inputs into providing a municipal service is staff time. If staff is providing a service to one person, say in the case of providing building permits, they are unable to use that time to provide a service to another person. Thus, the service is said to be rival.

Conversely, a service is considered to be non-rival if one person’s consumption does not reduce the availability of others to consume that service. An excellent example of a non-rival service is street lighting. Once street lighting is provided, more than one person can consume the service without reducing the availability for others to consume it at the same time.

Excludability refers to the ability to restrict a person from consuming the service. For example, if a person does not pay his or her water bill, the City can restrict water service to that person. On the other hand, if a person does not pay his or her property tax bill, the City cannot restrict that person from receiving police services. In this case, the service is non-excludable as there is no mechanism for the City to restrict a person from consuming the service.

To summarize, rivalry and excludability help to define what City services have private good features, and what City services have public good features. If a service is non-rival and non-excludable then it can be said that the service has “pure public good” characteristics. By contrast, if a service is rival and excludable then it is said that the service has “pure private good” characteristics.

⁶ For more details on these concepts, see Harvey S. Rosen, Paul Boothe, Bev Dahlby, and Roger S. Smith, *Public Finance in Canada, First Canadian Edition*. (Toronto: McGraw Hill Ryerson, 1999).

⁷ For a broader discussion on these concepts, see Catherine Althaus and Lindsay M. Tedds, “User Fees in Canada: A Municipal Implementation Guide”, paper presented at the University of Waterloo Tax Symposium, June 19, 2014.

Of course, there are services that the City provides that do not easily fit into these categories. Some services, for example, are restricted (excludable) but one person's consumption does not limit the availability to others (up to a certain point). A good example of this is public transit. If a person does not pay the transit fare, the City has the ability to restrict that person from using the service.

Before concluding this section, it is important to note that some of the services that the City provides are not considered to be goods or services in the sense identified above. Instead these services represent "permissions" for property owners to undertake certain activities on their property.⁸ In other words, these permissions reflect the regulatory framework of the City to limit or restrict certain activities. They implicitly recognize that certain unregulated activities have negative implications on the community; and therefore, require a regulatory framework that captures the external costs associated with such activities.

The objective of this analysis is to distinguish between the different types of services that the City provides. This distinction is important because each of these general types of City services require different sources of funding to satisfy the principles of public finance. The next section of this paper will address the most appropriate ways to pay for City operating expenditures, including those services that have public and private good characteristics.

⁸ For a discussion on this concept, see City of Calgary, "Underlying Principles Guiding User Fees & Subsidies Review", Revised Discussion Paper, March 2007. Obtained from <http://www.calgary.ca/CA/fs/Pages/Policies/User-Fees-and-Subsidies-Policy-Review/User-Fees-and-Subsidies-Policy-Review.aspx>.

SECTION 3: An Overview of City of Saskatoon Revenue Sources

The purpose of this section is to provide an overview of the City's major revenue sources. It focuses primarily on the City's own-source revenues, meaning those revenues that are generated by City policies and decisions, such as property tax and user fees. It will build off of the analysis provided in the previous section, and addresses how the different types of City services should be funded. But before this section addresses these issues, it first begins by providing an overview of some important public finance principles and criteria that helps to evaluate the use of various revenue instruments.

Public finance economists typically have two models of public finance: the "ability to pay" model, and the "benefits received" model. The ability to pay model maintains that taxes should be distributed according to some measure of a taxpayer's ability to pay. Its main goal is to satisfy vertical equity concerns (more on this point later).

The benefits received model, by contrast, maintains that those who benefit from public services should pay for those services. This model attempts to satisfy horizontal equity concerns (again, more on this point later). In terms of local government finance, the benefits received model is most appropriate.⁹

Why? Well, because local governments in Canada do not have access to broad-based income taxes, which better reflects ability to pay. Similarly local government, more than any other order of government, provide services that offer direct benefits to local residents. Federal and provincial governments, by contrast, primarily deliver services that provide collective benefits (e.g., national defence, public health), and thus, the ability to pay model is a much better fit in this context.¹⁰

Moreover, public finance economists also refer to five key principles when determining how to fund public services. These principles are: efficiency, fairness (or equity), stability/predictability, accountability/transparency, and ease of administration. This paper provides a brief overview of each of these points.

Efficiency (economic or allocative): in economics, efficiency is concerned with the allocation of resources. Generally, efficiency is achieved when the tax per unit, charge or use fee equals the extra cost of the last unit consumed, known as the price equals marginal cost¹¹. The main economic reason for imposing appropriately designed charges or fees on those who benefit from public services, is to provide the public sector with incentives for using resources in the most efficient manner possible. A tax, or any other revenue instrument, is said to be efficient when they do not require private firms or individuals to alter their production, consumption, work, or savings patterns in order to comply with the tax or fee.

Fairness (equity): considers horizontal and vertical dimensions. Horizontal equity is achieved when individuals in similar situations are treated equally, or when those who consume public services pay for them. Vertical equity by contrast, refers to the unequal

⁹ Much of the proceeding discussion is based on Harry Kitchen, "No Seniors' Special: Financing Municipal Services in Aging Communities", IRPP Study, (Montreal: Institute for Research on Public Policy, No 51, February 2015) 24.

¹⁰ For more discussion on this, see Harry Kitchen, "Local Taxation in Selected Countries: An Empirical Examination", Working Paper (Kingston, ON: Queen's University, Institute for Intergovernmental Relations, 2004) 14.

¹¹ Supra Note 4.

treatment of unequal individuals. In other words, it determines the treatment of individuals with different levels of well-being. Vertical equity is best achieved through a progressive income tax system.¹²

Stability and Predictability: this criterion suggests that the revenue source should be stable and predictable and avoid any volatile swings so that it can meet the ongoing operating costs of government.

Accountability/Transparency: while this principle is relatively straight forward, accountability is improved when the purpose of a tax or user fee is clear to those required to pay for the service. Accountability is further enhanced when there is close link between the beneficiaries of a service and the payment for that service. Transparency is achieved when residents or beneficiaries of a service have access to information on how the price or charge is set and how expenditures are made.

Ease of Administration: the implementation of any revenue instrument or expenditure should be economical to operate and simple for taxpayers or users to understand and comply with. In other words, the resources allocated to administering the tax or fee should be minimized.

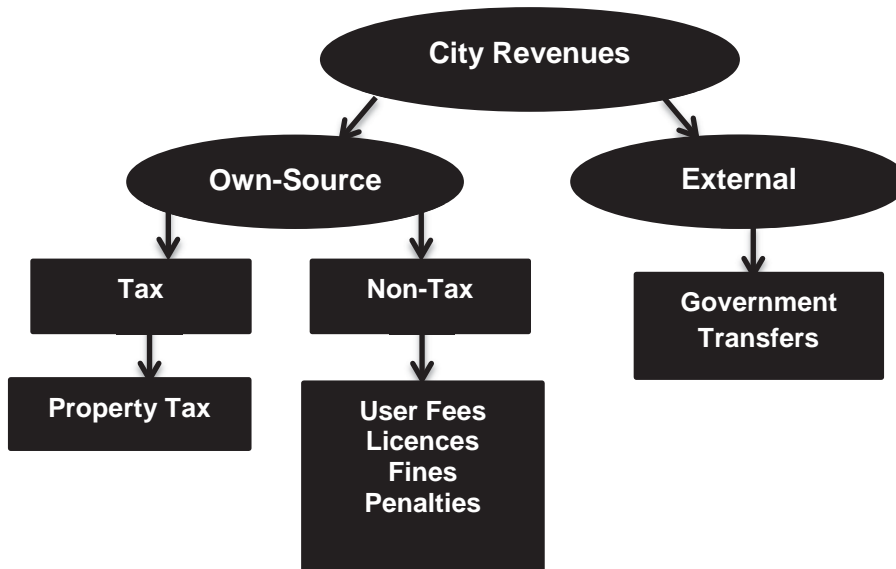
While this above criteria is very useful in evaluating the appropriate revenue instrument, it is important to note that not all City revenue policies will be able to achieve each of these objectives simultaneously. For example, a policy that aims to achieve economic efficiency may do so at the expense of equity, or fairness. Similarly, a policy that attempts to achieve predictable and stable revenues may also be difficult or expensive to administer, such as property tax. Ultimately, value judgments and choices will need to be made.¹³

However, when it comes to revenue instruments, the City has very few choices relative to the federal and provincial orders of government. As Section 1 of this paper describes, provincial legislation limits the City's ability to generate revenues to pay for its operating expenditures. The City of Saskatoon, like other Canadian cities, funds its operating expenditures from a combination of locally generated revenues and external funding sources. To illustrate this point, Figure 3.1 shows general categories of how the generates its operating revenues.

¹² For example, see Robin W. Boadway and Harry M. Kitchen, *Canadian Tax Policy, 3rd edition, Tax Paper No 103* (Toronto: Canadian Tax Foundation, 1999).

¹³ David N. Hyman and John C. Strick, *Public Finance in Canada: A Contemporary Application of Theory and Policy* (Toronto: Harcourt, Brace and Company, 1995) 320.

**Figure 3.1:
City Operating Revenue Sources**



The major distinction between the City’s own-source revenues and the external sources is that the City has direct control over the amount of revenue—subject to legislative restrictions and jurisprudence—that can be generated from own-source revenues. For example, City Council approves the amount of property taxes collected, and sets the rates and fees that is charged for certain services, when it adopts the annual operating budget. By contrast, the City has no control over external sources, as these are established by other orders of government, primarily the provincial government¹⁴.

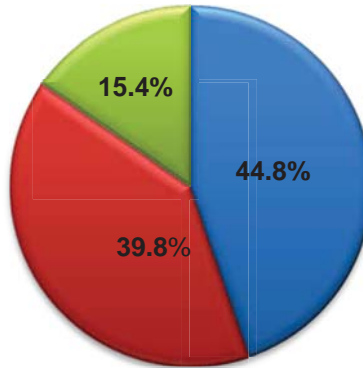
So, how do these revenue sources fund the City’s operating expenditures? Figure 3.2 illustrates the revenue sources for the City’s 2015 Operating Budget as a percentage share of the budget. As the chart, shows, about 85% of the City’s 2015 Operating Budget is funded by own-source revenues, with about 45%, or less than half of all operating revenues, coming from property tax.

¹⁴ This refers to Saskatchewan’s Municipal Revenue Sharing Program and other specific purpose transfers, such as Transit Assistance for Persons with Disabilities. The federal government does not provide operating grants to the City, but does provide capital infrastructure grants through the federal Gas Tax Fund, for instance.

Figure 3.2

City of Saskatoon's Operating Revenues by Major Source

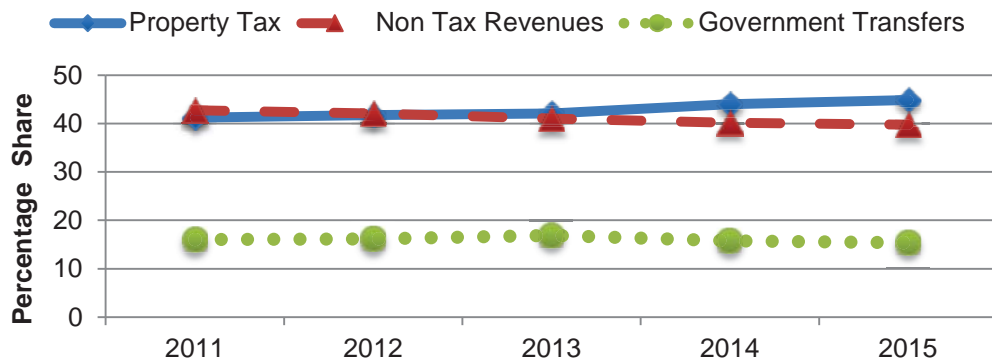
Taxation Non Tax Government Transfers



Despite the fact that the property tax funds less than half of the City's 2015 operating budget, concerns have been raised in Saskatoon about the point that property tax increases in recent years have been larger than normal. To investigate this issue, the City engaged the services of Hemson Consulting. One of the consultant's main findings was that the growth in the City's non-tax revenues have been declining as a share of the budget, resulting in a greater reliance on property tax to fund City operations.

Figure 3.3 illustrates this trend. The share of the property tax has increased from a low of 41.2% of the budget in 2011, to 44.8% of the budget in 2015. By contrast, the City's own-source, non-tax revenues have declined from 42.7% of the budget in 2011 to 39.8% of the budget in 2015.

Figure 3.3
Share of Operating Revenues by Source



So, should this trend be a cause for concern? Should the City reverse this trend? Well, the short answer is: it depends.

As the reader will recall, the discussion in Section 2 highlighted the characteristics or distinctions between the different types of services that the City provides. However, it did not address how those types of services should be funded. In other words, what services should be funded by the property tax? What services should be funded by other instruments, such as user fees? The subsequent analysis will address these points.

The Property Tax:

Perhaps no tax receives as much criticism as the residential property tax. It is often characterized as being regressive because it is perceived as affecting lower income property owners more adversely than higher income property owners (this point is addressed in more detail below).¹⁵ It is also considered to be inadequate because it does not provide enough revenues to finance local government activities. It is considered to be unfair because it is levied against capital (stock) as opposed to income or consumption (flows). It is considered to be too high because it is billed in one single instalment, instead of being billed periodically, like income tax. Finally, its highly visible nature has made the property tax an unpopular revenue source for financing local government activities.¹⁶

Sharing in this criticism, of course, is the way in which properties are valued, or the “assessment”. In most jurisdictions, properties are typically assessed at fair market value. The term “market value” has come to mean—in most jurisdictions—an arm’s length transaction between a willing buyer and a willing seller in an open market. Because market value is determined through sale prices and other legislatively prescribed techniques, an increase in the demand for real estate in a particular jurisdiction will almost certainly lead to a rise in market values for property. This has led to the criticism that market value assessment discourages property improvements and leads to unpredictable tax burdens in volatile property markets.¹⁷

The perception is, therefore, that an increase in the assessed value of the property leads to an automatic increase in the property tax burden for the property owner. An increase in property taxes does not automatically stem from the assessment process, but the budgetary and service delivery decisions of a municipal council. The assessment process is used to simply distribute, or redistribute in the case of reassessment, the local tax burden among property owners. Nonetheless, the obvious question is: are the above criticisms justified?

Not according to most economists and policy analysts. As one economist puts it:

¹⁵ See the excellent discussion on the economic incidence of the property tax by William Fischel, Wallace Oates and Joan Youngman, “Are Local Property Taxes Regressive, Progressive, or What?” July, 2011. Obtained from: https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=IIPF67&paper_id=28

¹⁶ For more of these criticisms see Enid Slack, “Understanding the Evolution of Property Tax Policy”, A paper prepared for, 2001: A Property Tax Odyssey, 34th Annual National Annual Workshop, Canadian Property Tax Association. Ottawa, Ontario, October 2, 2000.

¹⁷ For an overview of arguments for and against assessment methods, see Harry Kitchen, “Property Tax & Assessment Systems: The Good and Bad,” Presentation at the 50th Annual Conference of the Institute of Municipal Assessors (IMA), June 5, 2006, 7.

“the property tax is...a good local tax. It is far from perfect, but perfection in taxation is not of this world. However, relative to other tax bases available to local government...the property tax gets high marks.”¹⁸

The general consensus is that the property tax is a good tax to fund some, but not all, municipal services because: (a) it is a valuable revenue source for local governments, and is fundamental to local autonomy; (b) it provides a largely immobile tax base; (c) it is accountable and transparent; and (d) it achieves equity when it funds services providing collective benefits to the local community.¹⁹

As noted earlier, there is a widely held perception that the property tax is a regressive tax.²⁰ The allegation is that the property tax takes a greater percentage of income from low-income earners than high-income earners. However, as one study has noted, “despite a series of books and papers stretching over a period of nearly 50 years, there is nothing approaching a consensus on this issue”.²¹

This lack of consensus stems from the fact that there are three different views or theories about how the property tax interacts in the economy, or what the economic incidence of the property tax is. In other words, who bears the burden of the property tax is fundamental to its understanding as a good local tax.

One view, or theory, the so called “benefit view” surmises that the property tax is simply “the payment that households make for the bundle of local public services that they have chosen to consume”.²² In this case, the incidence of the property tax is irrelevant, because the tax is equivalent to a user fee for public services.

Another theory, the so called “capital tax view” (or new view) posits that the property tax is predominantly shifted to the owners of capital in the economy.²³ As such, this view holds that the property tax is a progressive tax.

A third theory, called the “traditional view,” which has largely been discredited in the literature,²⁴ holds that property tax is an excise tax that falls on both land and structures. According to this view then, the property tax is considered to be regressive because housing constitutes a relatively larger share of consumption for poorer individuals.

Despite the theories on the incidence of property tax and the inconclusiveness in the literature, the major objective of property tax is to raise revenues to help finance services provided by local governments. While the property tax is used to fund local services, public perception is that there is a direct linkage between the amount of property taxes paid and services received.

¹⁸ See Wallace E. Oates, “Local Property Taxation: An Assessment,” *Land Lines vol. 11 no 3 2001*. (Lincoln Institute for Land and Policy).

¹⁹ See Slack, *supra note 5* and Kitchen, *supra note 6*.

²⁰ See for instance, Dave Dormer, “Calgary Mayor Naheed Nenshi Pitches Shift on Business Tax C Collection”, (Calgary Sun) December 4, 2013. Obtained from: <http://www.calgarysun.com/2013/12/04/calgary-mayor-naheed-nenshi-pitches-shift-on-business-tax-collection>.

²¹ See *Supra Note 15*, at 1.

²² *Ibid*.

²³ For an explanation of this view see, George R. Zodrow, “The Property Tax as a Capital Tax: A Room with Three Views,” *National Tax Journal*, vol 54; no 1. (Washington D.C.: National Tax Association, 2001) 140.

²⁴ See *Supra Note 15*, at 2-3.

Although this is true, it is important to distinguish between what types of services are funded by property tax.

Ideally, as Kitchen and others have argued, property tax should be used for funding local public services where specific beneficiaries cannot be identified.²⁵ For example, local parks, police protection, roads and sidewalks are used by most, if not all, citizens in the municipality. Identifying a single beneficiary so as to determine an individual's tax liability is impossible. Generally, property taxes are used to finance what economists call "pure" public goods.²⁶

To review the discussion in Section 2, a pure public good refers to public services that are non-excludable and non-rival in consumption meaning that once the service is provided there is no additional resource cost of excluding individuals from using the service or another individual from consuming it. The property tax then distributes the cost of financing such goods and services among taxpayers based on some measure of the assessed value of the property. A good example is a public park.²⁷

However, when it comes to providing goods and services that have private characteristics, such as water, sewage, and solid waste collection systems, then property tax may not be the most appropriate source of funding. Since direct beneficiaries can be identified, and because redistribution is not necessary, user fees are a more appropriate funding choice.

User Fees:

Before discussing the importance of user fees as a means to fund municipal services, there is a need to define what a user fee is in order to show how it differs from a tax. Several court cases in Canada have addressed this issue. The general definition of a user fee, as developed by the case law, can best be described as follows:

"A user fee, by definition, is a fee charged by the government for the use of government facilities...there must be a clear nexus between the quantum charged and the cost to the government of providing such services or facilities. The fees charged cannot exceed the cost to government of providing such services or facilities. However, courts will not insist that fees correspond precisely to the cost of the relevant service. As long as a reasonable connection is shown between the cost of the service provided and the amount charged that will suffice."²⁸

The key points arising from this definition are that: a user fee is simply the price that the government charges for providing a service or accessing a facility; the fee covers the full cost of delivering the service; and the revenues are dedicated to the provision of the service and do not flow directly to the general revenue account of the government. Taxes, on the other hand, are generated for a public purpose and do not necessarily correspond to the cost of providing the

²⁵ Harry Kitchen: "Property Taxation Issues in Implementation," *Working Paper*. (Kingston, ON: Institute of Intergovernmental Affairs, Queen's University, 2005) 4, and Richard M. Bird, "User Charges in Local Government Finance", in Richard Stren and Maria Emilia Freire, eds., *The Challenge of Urban Government* (Washington: World Bank Institute, 2001).

²⁶ For a discussion of pure public goods see Rosen, et.al *supra* note 18, 131-149.

²⁷ The consumption of a public good may also be non-excludable, meaning that it would be very expensive or impossible to prevent an individual from consuming the good or service. A good example is a sidewalk.

²⁸ This quote is adapted from Kelly I.E. Farish and Lindsay M. Tedds, "User Fee Design by Canadian Municipalities: Considerations Arising from the Case Law," in *Canadian Tax Journal*, 62:3 (2014) 641.

service—that is, there is no clear nexus between the cost of the service and the tax being imposed—and the tax revenues flow to the general revenue account of the government.²⁹

It is important to note that this definition does not necessarily apply to municipally-owned public utilities providing services such as water, wastewater and electricity. Public utilities are permitted to establish a price that reflects a “fair return standard,” which allows for a “return on investment commensurate with that of comparable risk enterprises.”³⁰ This means that public utilities can include a return on investment when establishing fee rates for the delivery of this service.

With that definition established, user fees are an important source of revenue for all orders of government, but particularly municipal governments, like the City of Saskatoon. In 2015, user fees represent about 13% of the City’s operating revenues. While this seems like a small amount, fees for water and wastewater are not included in the City’s operating budget.

Depending on the municipality or City, user fees sometimes fund all or a portion of the costs associated with the delivery of water and wastewater systems, the collection of garbage and recycling, access to libraries and recreation facilities, and public transit operations. The City currently charges full user fees for golf courses and recycling collection, to name a couple of services, and charges partial user fees for public transit and access to recreation facilities. However, the City does not charge a user fee for garbage collection, despite the fact that more and more cities in Canada have moved in this direction.³¹

In addition, user fees are often structured in different ways, ranging from a flat or fixed charge, unrelated to consumption (e.g., recycling), to fees or charges that vary with consumption (e.g., water rates). Occasionally, they will have a mix of fixed or variable charges (e.g., wastewater). City departments will also charge user fees to recover the costs of providing certain programs and services to citizens.

As a City revenue source, user fees, if priced appropriately, can be more predictable than other sources and are better aligned with changes in the economy. With user fees, the City may observe market activities, forecast demand, and make pricing adjustments to reflect a change in the economy.

However, despite the revenue raising ability of user fees, it has the potential to serve other important functions with respect to the provision of some City services. Primarily, user fees should be structured so that they generate an efficient use of municipal services.³² In other words, user fees can help to “constrain the demand for services, allocate scarce services and signal when the value of the service is such that new investment is required”.³³

The economic literature strongly supports the use of user fees to fund some—not all—City services, particularly, those services that have private good characteristics.³⁴ To recall, the

²⁹ See *ibid.*

³⁰ See for example, Kathleen C. McShane, “Opinion on Capital Structure and Fair Return in Equity” Prepared for Ontario Power Generation, November 30, 2007; 6, 10.

³¹ For example, the cities of Calgary, Edmonton, and Winnipeg charge a flat fee for garbage collection, as opposed to paying for this service from property taxes.

³² See Kitchen, *supra* note 3 at 26.

³³ See Dewees, *supra* note 4 at 598.

³⁴ See for example, David G. Duff, “Benefit Taxes and User Fees in Theory and Practice,” in *University of Toronto Law Journal*, 54:4, (2004) 391-447, and Richard M. Bird and Thomas Tsiopoulos, “User Charges for Public Services: Potentials and Problems” in *Canadian Tax Journal*, 45:1 (1997) 25-86.

discussion in Section 2, services that have private good characteristics are those where the beneficiary of the service can be identified, the consumption of the service is rival and persons can be excluded from using the service. In other words, user fees uphold the principle that those who benefit from a service should pay for the service.

According to the benefits received model of public finance and in consideration of the economic principles described earlier in this section, user fees are an efficient, equitable, accountable and transparent way to pay for City services. If priced correctly, user fees provide consumers of the service with the ability to choose how much of the service they wish to consume in order to derive a benefit from that service. In situations where the service is mandatory—where there is no market competition—“the cost of providing the service should serve as the minimum measure of the benefit.”³⁵

Notwithstanding the economic benefits associated with user fees, they are often resisted by citizens and occasionally, elected officials. The opposition to user fees tends to arise because:

- they are alleged to be regressive;
- cost data is insufficient; and
- there is reluctance by municipalities to introduce new fee or alter existing fees that have been established over a period of time.³⁶

Despite the opposition to user fees, this paper is not suggesting that they be used for all services, just those services that possess specific characteristics. To reiterate, services that generate collective benefits to the community, should be, and generally are, paid for by property tax, and not user fees.

However, services that provide benefits to an individual person, or household, should be funded by a user fee and not property taxes. The City provides services that provide both benefits to the individual user, and collective benefits to the community. In these cases, the City should, and does, fund those services through a combination of property taxes and user fees. Finally, the City provides services that regulate certain activities. For these services, user fees or regulatory charges are definitely the appropriate way to fund them.

Stated another way, the City provides services that are either fully tax supported, partially tax supported, or receive no tax support:

- fully tax-supported (no user fees) – services provided for everyone, such as police and fire services, roads and local parks;
- partially tax-supported (reduced user fees) – services that benefit both individuals and society at large, such as recreation facilities and public transit;
- no tax support (full user fees) – services that primarily benefit the individual, including water, wastewater, and golf courses, and
- licences, permits and approvals (full user fees) – services that regulate the use of, or changes to, private property, such as building permits, development permits, business licences, and pet licences.

Government Transfers

³⁵ See supra note 8 at 8.

³⁶ See Kitchen, supra note 3 at 25.

Although the intent of the preceding analysis is to focus on the City's own-source revenues, tax (property tax) and non-tax (user fees), the analysis would not be complete without a brief discussion on the City's external revenue source, namely, government transfers. To deliver certain operating services and programs, the City receives transfers from the Government of Saskatchewan. These transfers are either unconditional grants, meaning that the government transfers the money to the City and the City may use the money as it deems appropriate, or conditional grants, meaning that the money must be dedicated to the delivery of specific services of programs.

As noted in Figure 3.2, government transfers accounted for approximately 15.4% (\$66 million) of the City's total operating revenues in 2015. As Figure 3.3 illustrates, government transfers as a share of City operating revenues, peaked at 16.9% in 2013, but have slowly declined from that amount in 2015.

The predominant source of government transfers that the City receives comes from the Government of Saskatchewan's Municipal Revenue Sharing (MRS) Program.³⁷ For its 2015 Operating Budget, the City of Saskatoon received \$47.4 million from the program. The remaining funds came from special purpose, or conditional grant programs for services, such as affordable housing, transit assistance for persons with disabilities, and low income transit assistance.

The MRS is an unconditional grant provided to all incorporated Saskatchewan municipalities. It is based on the equivalent of 1% of the Provincial Sales Tax (PST) revenues, and is then distributed to municipalities based on a formula set by the provincial government, in consultation with municipalities.

Because the program is linked to PST, it will fluctuate with the ups and downs of the provincial economy. So, if PST revenues increase in a fiscal year, then the City will typically see an increase in its revenue sharing transfer. However, the converse is also true: if PST revenues decline in a fiscal year, then the City will see a decrease (based on the previous year) in revenue sharing.³⁸

While declining PST revenues pose a potential risk to the MRS program, so does the overall fiscal situation facing the provincial government. Because the MRS is under the control of the provincial government, it has the ability to alter the program to serve the broader fiscal needs of the province.³⁹

For example, suppose the goal of the provincial government is to produce an annual budgetary surplus. If the revenues and expenditures do not meet the government's fiscal projections, resulting in a budgetary deficit, then the government has the ability to limit or even reduce its transfer payments—including revenue sharing—as a way to reduce expenditures and avoiding

³⁷ For more information on the Municipal Revenue Sharing program see <http://www.saskatchewan.ca/government/municipal-administration/funding/programs/municipal-revenue-sharing>.

³⁸ In fact, for its 2014 Operating Budget, the City of Saskatoon saw a decline in its revenue sharing amount relative to its 2013 Operating Budget, by about \$1.3 million. However, this was largely due to accounting changes that the province was required to make to PST revenues.

³⁹ There is no indication that the revenue sharing program is at risk of being altered; however, the provincial fiscal situation has resulted in some musings about the program. For instance, see <http://www.cbc.ca/news/canada/saskatoon/premier-brad-wall-says-changing-revenue-sharing-last-resort-1.2940771>.

a budgetary deficit. Thus, the City needs to be cautious in relying on this program to fund its growing operating expenditures.

One question that emerges from this discussion is: What is the role of government transfers to municipalities? Well, when it comes to operating programs and services, unconditional grants are appropriate to help address a fiscal gap—meaning the difference between revenue raising abilities and expenditure responsibilities of the City. They are also useful in assisting the City to provide services to which there is some shared or dual provincial role, but best delivered at the local level. Finally, they can have an “equalizing effect,” in that they help municipalities provide comparable levels of service at comparable tax rates.

Conditional grants also play an important role in that they help the City to deliver a service where there is a defined provincial interest (e.g., affordable housing). More importantly, conditional grants from the provincial government serve to reduce the financial burden on low income individuals to help them afford specific services (e.g., public transportation). In fact, the economic literature is very supportive of this idea, indicating that “the financial burden on low income individuals should be addressed through income transfers from a senior level of government...it is far more equitable to handle income distribution issues through income transfers than to tamper with fees to accommodate these concerns.”⁴⁰

⁴⁰ See supra note 3 at 43 and supra note 12, Chapters 8 and 9.

Section 4: Concluding Observations

The primary objective of this paper is to elaborate on how the City of Saskatoon (the City) does, and should, fund its operating expenditures. It attempts to accomplish this by providing an overview of the different, principles, concepts, issues, and ideas related to municipal public finance. The impetus for this paper was generated by a recent report conducted on behalf of the City that found, amongst other things, the City's growing reliance on the property tax is partially the result of slower growth in the City's own-source, non-tax revenues. An additional motivation is to provide City Council and the public with perhaps a better understanding of the different types of services that the City provides, and the most optimal ways in which the City should pay for them.

Section 1 of this paper, described the legislative framework that provides the City of Saskatoon with the authority to deliver services and fund those services. It showed that this legislative framework provides the City with limited revenue raising abilities, especially when it comes to raising revenues through taxation. The City has one major tax source, property tax, and is unable to levy a tax on income, retail sales, and fuel consumption, like federal and provincial governments can. However, the City does have the authority to charge a fee for service. The fact that the City cannot pass a budget surplus or a budget deficit also limits its financial flexibility at times.

Section 2 provided an overview of the City's major operating expenditures to illustrate the different types of services that the City of Saskatoon provides. It did not describe each individual service, but instead addressed the distinguishable characteristics that some of these services possess.

As this section highlighted, the City provides services that can be characterized as a having public good characteristics, private good characteristics, and services that have a blend of the two, often called merit goods/services. The major distinctions between those services that have public good characteristics and those that have private good characteristics are whether or not

- a specific beneficiary can be identified;
- a person can be excluded from using the service; and
- a person consuming the service will prevent another person from consuming it at the same time.

If these conditions exist, then the service is said to have private good characteristics. If they do not exist, then the service is said to have public good characteristics. This is an important distinction to make because, as the economic literature suggests, services that have private good characteristics should be paid for in different ways than those with public good characteristics.

In addressing how to pay for City services, Section 3 provided a high-level overview of the different revenue sources the City uses to fund its operating budget to pay for the services and programs contained within. It shows the City's operating revenues come from its own sources (tax and non-tax) and external sources (government transfers). The City has control over its own-source revenues, but no control over its external sources.

With respect to the City's own-source revenues, property tax accounts for about 45% of the operating revenues, but the City's reliance on property tax to fund operating programs has been growing in recent years. Despite the criticisms of it, the property tax is a good local tax to pay municipal services that provide collective benefits to the community (police protection), or to

help subsidize those services that provide a mix of individual and societal benefits (public transit). Provided that property tax pays for those services that elicit these features, then a growing reliance on property tax is not a major issue. The problem arises when property tax is used to pay for those services that benefit specific individuals.

Section 3 also noted that services that benefit specific individuals (or households) should be paid for by user fees. When priced correctly, user fees are a fair and efficient revenue instrument to pay for specific City services.

Accordingly, "...user fees that are carefully designed to cover the costs for services consumed are fair in their impact on users—those benefiting from a service pay for it."⁴¹ Moreover, "user fees should be adopted wherever possible for financing local services. In general it makes considerable economic sense to fund all water and sewer systems in this way, solid waste collection and disposal..."⁴² and partially the costs for public transit, recreation, and libraries.

The issue that often emerges with user fees is that they are alleged to be regressive in that they are perceived to consume a higher percentage of lower income individuals or households income relative to higher income individuals or households. While this is an important issue, there is a strong consensus in the economic literature that these concerns should be addressed through government transfers, rather than reducing the price of a municipal service that is to be funded by user fees.

So given this analysis, what is the path forward? In consideration of the benefits received model of public finance, and based on the principles of public of finance articulated in Section 3 of this paper, the City of Saskatoon should consider:

- developing a user fees and subsidies policy that clearly articulates how municipal services should be paid for;
- funding those services that provide collective benefits to the community through property taxes;
- funding those services that provide benefits to individuals or households through user fees;
- funding those services that provide both individual and collective benefits through a combination of taxes and user fees; and
- reducing its reliance on government transfers to help offset the full costs of providing a good service that elicits a benefit to individuals.

Whether or not these considerations will help to reduce the City's growing reliance on property tax remains to be seen. This will ultimately depend upon the service levels and expenditures associated with providing those services funded by the property tax. However, by using the appropriate revenue instruments to pay for the right types of City services, there is the potential opportunity to ensure that the City's non-tax revenues will, at the very least, keep pace with the costs associated with delivering its operating programs and services.

⁴¹ See Kitchen supra note 3 at 43.

⁴² Ibid, 31.

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**2016 BUDGET ISSUES & OPTIONS:
 VEHICLE PERMIT FEES**

[1] Issues:

- Vehicle permits are issued in accordance with Bylaw 7200: The Traffic Bylaw and Council Policy C07-019: Traffic Bylaw Special Permits.
- The issuance of permits is currently supported by the mill rate.

[2] Recommendation:

The Administration recommends that an administrative fee of \$50 be implemented for blanket annual vehicle permits, and a fee of \$30 for daily permits effective January 1, 2016.

[3] Background/Analysis

- Overweight and over-dimension vehicle permits are issued on a case-by-case basis to companies hauling loads in excess of the size and weight limits set out by Schedules 7 and 8 of Bylaw 7200: The Traffic Bylaw.
- Blanket permits are issued to those companies that regularly move through the city, and may include unlicensed and self-powered vehicles such as construction and farm equipment.
- Vehicle permits are issued to regulate the travel of overweight and over-dimension vehicles throughout the city to protect infrastructure.
- The administrative cost of processing and approving crossing vehicle permits is supported by the mill rate.
- In 2013, the increasing numbers of permit requests resulted in the creation of a temporary position to directly support this service. Permits are available Monday to Friday from 8 a.m. to 5 p.m.
- On average, there are 400 annual blanket permits issues each year.
- Between January 1 and July 31, 2015, 800 daily permits were issued. It is expected that approximately 1,500 daily permits will be issued in 2015.
- Most municipalities in Western Canada charge an administrative fee for overweight and over-dimension vehicle permits ranging from \$20 to \$196 for an annual blanket permit, and \$6 to \$300 for a daily permit.

[4] Strategic Direction:

- Implementing a fee for service supports the Strategic Goal of Asset and Financial Sustainability by increasing revenue sources and reducing the reliance on residential property taxes.

[5] Implications**[5.1] Service/Business Line Implications:**

- Review and approval for vehicle permits is included in the Transportation Services service line within the Transportation Business Line.

[5.2] Financial Implications:

- Reviewing and processing vehicle permits requires approximately one full time equivalent (FTE) position at a cost of \$60,600. This is currently funded by the mill rate.
- An administrative fee of \$50 per blanket permit and \$30 per daily permit would ensure that the cost of processing permits was fully recovered from those benefitting from the service.
- Implementing an administrative fee for this service would ensure the issuance of vehicle permits is fully cost recovered, reducing the mill rate by approximately \$60,600.

[5.3] Other Implications:

- If approved, the temporary position could be made permanent with no impact to the mill rate as a fully cost-recovered service. Having a dedicated resource to support this service ensures a high level of customer service to the industry.
- As the demand for permits increases or if there is a desire to expand the service to enable permits to be issued after regular office hours or on weekends, additional resources can be added at no impact to the mill rate.
- Charging fees for these permits may create additional work to process the payments, but this has not been quantified.

[6] Options to the Recommendation:**Option 1: Maintain the Status Quo**

Maintaining the status quo would maintain the practice of the costs of this service being supported by the mill rate. As the demand for permits increases, or if the service level is expanded, additional mill rate supported resources would be required.

Option 2: Variable Fee Based on Size/Weight of Vehicle

The Administration is currently quantifying the impact of allowing overweight vehicles to travel on the city's transportation network. It is anticipated that recommendations will be brought forward to introduce a variable permit rate similar to other municipalities. This is expected to be in place for 2017. The Administration does not recommend a variable rate until further research is conducted.

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**2016 BUDGET ISSUES & OPTIONS:
 RIGHT OF WAY PERMIT FEES**

[1] Issues:

- Right of way (ROW) permits are approved as part of the commercial building permit process, and in residential areas where crossings are controlled.
- The City of Saskatoon reviews and issues permits for use of ROW in accordance with Bylaw 2954: Use of Street.

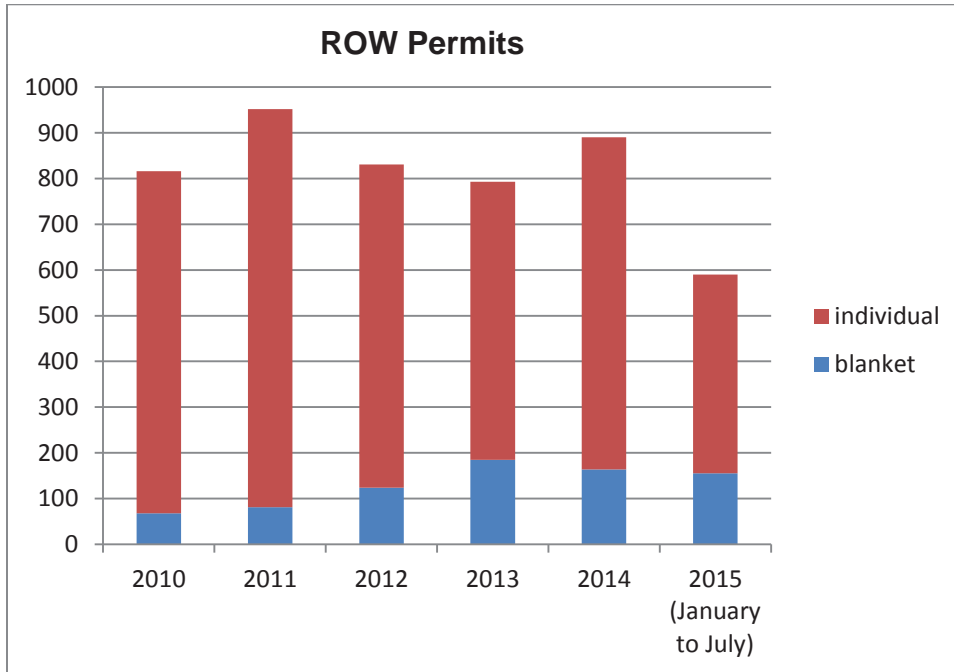
[2] Recommendation:

The Administration recommends that an administrative fee of \$150 per blanket permits, and \$40 per individual ROW permits be implemented effective January 1, 2016.

[3] Background/Analysis

- ROW is public space intended for use by pedestrians, bicycles, and motor vehicles. Any disruption and/or restrictions to these spaces results in public inconvenience, and more importantly, presents potential safety risks. Several Canadian municipalities currently charge for the use of ROW, not only to ensure that they are being properly and safely utilized, but also to minimize the inconvenience to the public both in-scope and duration.
- City of Saskatoon allows the use of ROW free of charge. A permit (either a blanket permit or a single location permit) is required to use any portion of the public ROW for private use for any length of time. The permit sets out all the terms and parameters for use of ROW.
- Blanket ROW permits are typically requested by contractors who work at various locations throughout the city. They are required to advise the City of their changes in location. Approximately 30% of all permits issued are blanket permits.
- Individual location ROW permits may be requested for the placement of garbage containers, closure of a portion of the street for development purposes, installation of private water and sewer connections, etc. The majority of permits issued are individual location permits, accounting for approximately 70%.
- A bylaw inspector is assigned to address complaints about improper use of ROW.
- Over the past five years, the total number of ROW permits issued has averaged 856 per year. The projected number of permits for 2015 is approximately 900.

- The administrative cost of processing, approval, and inspection of ROW permits is partially supported by the mill rate and partially charged to contractors when the City is required to set a lane closure.
- Most municipalities in Western Canada charge both an administrative fee plus an additional fee based on the amount of ROW used. The administrative fee ranges from \$17.50 to \$300.



[4] Strategic Direction:

- Implementing a fee for service supports the Strategic Goal of Asset and Financial Sustainability by increasing revenue sources and reducing the reliance on residential property taxes.

[5] Implications

[5.1] Service/Business Line Implications:

- Review and approval for ROW permits is included in the Transportation Services service line within the Transportation Business Line.
- Inspection and enforcement of ROW permits is included in the Bylaw Compliance service line within the Urban Planning and Development Business Line.

[5.2] Financial Implications:

- Reviewing and processing of ROW permits requires the equivalent of a 0.5 full time equivalent position (FTE) at a cost of \$33,000. This is partially funded by the mill rate (75%), with approximately 25% directly charged to contractors requiring lane closures.

- Inspecting and enforcement of ROW permits and improper use of ROW requires the equivalent of 0.25 FTE at a cost of \$19,600, which is fully funded by the mill rate.
- Implementing an administrative fee for this service would ensure these services are fully cost recovered, reducing the mill rate by approximately \$44,350.
- An administrative fee of \$150 per blanket permit, and \$40 per individual permit would ensure that the costs to review, approve, and inspect the ROW permits were fully recovered from those benefitting from the service.

[5.3] Other Implications:

- As the demand for permits increases, or if there is a desire to expand the service to enable permits to be issued after regular office hours or on weekends, additional resources can be added at no impact to the mill rate.
- There is the potential that introducing a fee may result in property owners not obtaining a ROW permit. Part of the bylaw inspector's role is to identify locations where ROW is being restricted without proper permits and enforces the bylaw when required.
- Charging fees for these permits may create additional work to process the payments, but this has not been quantified.

[6] Options to the Recommendation:

Option 1: Maintain the Status Quo:

Maintaining the status quo would maintain the practice of the costs of this service being supported by the mill rate. As development increases, additional mill rate supported resources would be required.

Option 2: Variable fee based on amount of ROW required

The Administration is currently investigating the feasibility of charging a fee based on the amount and length of time ROW is required. Most municipalities have a similar fee in addition to an administrative fee. By implementing a fee for ROW usage, contractors (or those requiring the use of the ROW) will be encouraged to not only minimize the amount of ROW for their projects, but will also be encouraged to complete the projects in a timely manner thus reducing the negative impact on pedestrians, cyclists, motorists, and the public in general. This is expected to be in place for 2017. The Administration does not recommend a variable rate until further research is conducted.

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**2016 BUDGET ISSUES & OPTIONS:
 SIDEWALK CROSSING PERMIT FEES**

[1] Issues:

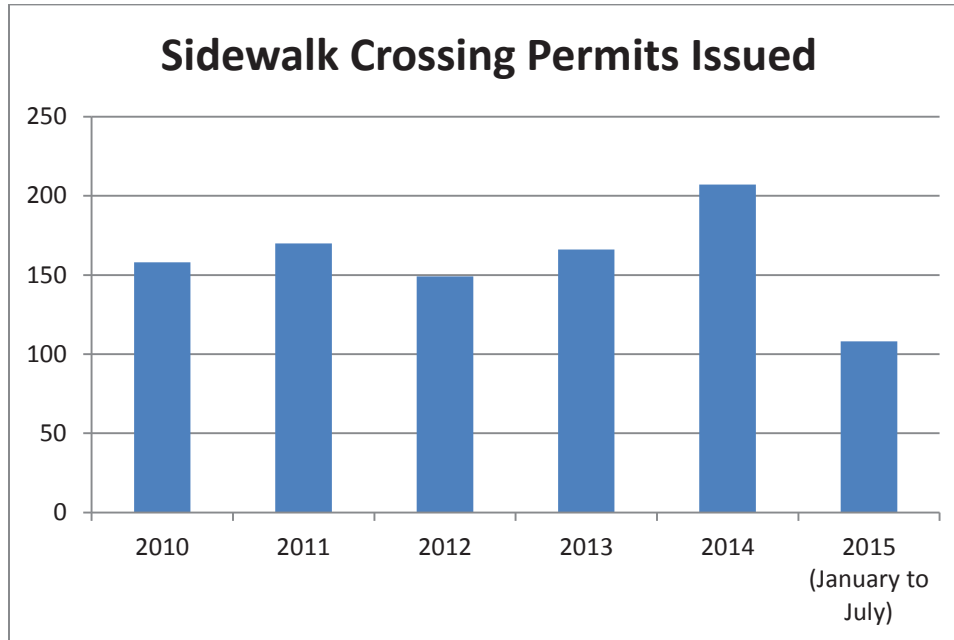
- Sidewalk crossings are approved as part of a commercial building permit process, and in residential areas where crossings are controlled.
- The City of Saskatoon reviews and issues permits for sidewalk crossings in accordance with Bylaw No. 4785.

[2] Recommendation:

The Administration recommends that an administrative fee of \$375 be implemented for sidewalk crossing permits effective January 1, 2016.

[3] Background/Analysis

- Sidewalk crossings are controlled through curb design in residential areas. Properties with rolled curb do not require permits; whereas, properties with vertical curb require permits to modify the existing sidewalk to create a crossing.
- All commercial building permits require formal approval of sidewalk crossings with the issuance of a sidewalk crossing permit.
- A sidewalk crossing permit ensures that the impact to traffic flow is minimized, and the infrastructure is built to City of Saskatoon standards.
- A construction inspector is assigned to oversee the construction of all sidewalk crossings.
- Over the years, the number of permits issued has increased from 158 in 2010 to 207 in 2014. The projected number of permits for 2015 is approximately 210.
- The administrative cost of processing, approval, and inspection of sidewalk crossing permits is fully supported by the mill rate.
- Other municipalities that charge an administrative fee directly for sidewalk crossing permits and inspections range from \$205 to \$260.



[4] Strategic Direction:

- Implementing a fee for service supports the Strategic Goal of Asset and Financial Sustainability by increasing revenue sources and reducing the reliance on residential property taxes.

[5] Implications

[5.1] Service/Business Line Implications:

- Review and approval for sidewalk crossing permits is included in the Transportation Services service line within the Transportation Business Line.
- Inspection of construction of sidewalk crossings is included in the Engineering service line within the Transportation Business Line.

[5.2] Financial Implications:

- Reviewing and processing sidewalk crossing permits requires the equivalent of a 0.5 full time equivalent (FTE) position at a cost of \$33,000. This is currently funded by the mill rate.
- Inspecting the construction of sidewalk crossings requires the equivalent of a 0.5 FTE at a cost of \$44,000, which is fully funded by the mill rate.
- Implementing an administrative fee for this service would ensure these services are fully cost recovered, reducing the mill rate by approximately \$77,000.
- An administrative fee of \$375 per permit would ensure that the costs to review, approve, and inspect sidewalk crossings were fully recovered from those benefitting from the service.

[5.3] Other Implications:

- As the demand for permits increases, or if there is a desire to expand the service to enable permits to be issued after regular office hours or on weekends, additional resources can be added at no impact to the mill rate.
- There is the potential that introducing a fee may result in property owners not obtaining a sidewalk crossing permit. Part of the construction inspector's role is to identify locations where sidewalk crossings may be built without permits and coordinate with bylaw inspectors to ensure compliance.
- Charging fees for these permits may create additional work to process the payments, but this has not been quantified.

[6] Options to the Recommendation:

Option 1: Maintain the Status Quo:

Maintaining the status quo would maintain the practice of the costs of this service being supported by the mill rate. As development increases, additional mill rate supported resources would be required.