Mayor's Briefing Issues Note

New Revenue Generation Options for Cities
Based on Recommendations from Enid Slack, Institute on Municipal Finance and Governance University of Toronto to BCMC

November 30, 2017

BACKGROUND INFORMATION:

The City of Regina relies disproportionately on property taxes (a regressive form of taxation) to fund and maintain infrastructure and deliver services to its citizens. The revenues generated through property taxes are insufficient to keep pace with growth and increasing demands on services. Municipalities throughout Canada are seeking additional alternative revenue sources to help meet commitments for providing quality services to the public.

In terms of options for generating additional revenue for municipalities, taxation is the preferred revenue option due to its ability to generate significant revenue. Analysis shows that the greatest revenue can be generated through the introduction of a Municipal Sales Tax, sharing of the Personal and Corporate Income Tax, and a Business Tax.

Specifically, for Saskatchewan municipalities, we may benefit from asking the Government of Saskatchewan for 1% of the PST (which we currently receive), rather than 1% of the PST (MRS), distributed through an allocated formula (which is skewed towards rural areas). This would not cost taxpayers or the Government more; however, it would eliminate the ability for the Government to control how the funding is allocated, by the elimination of the MRS allocation formula. As such, it would be unlikely for the Government to provide approval or authority to proceed with this request.

An additional concern would be that if the Government loses the ability to distribute the PST as they choose to, through the MRS formula, there may be an appetite to use the federal Infrastructure programs (Phase II) to backfill and provide additional dollars to the rural areas vs the urban areas. In fact, the Province's lack of contributions to the Public Transit Infrastructure Fund, which was only applicable to urbans, is an example of this. It would be important in any new ask that we maintain the same (or more in the case of PTIF funding) access to the Phase II infrastructure funds.

Further analysis on this option will be done through the MRS Working Group, as it has been identified as a potential option.

Ms. Enid Slack provided an options paper to the Federation of Canadian Municipalities (FCM), Big City Mayors' Caucus (BCMC), Economic Summit in Toronto, ON on November 30, 2017. The options presented by Ms. Slack have, for the most part, all been previously analyzed by the City of Regina in 2011. The findings are below:

Options and analysis:

1. **Road pricing and parking levies:**
   Road Pricing: Currently, the City of Regina dedicates approximately 1% of the increase each year to property tax as a residential road infrastructure charge. However, Ms. Slack is likely referring to "toll roads" as road pricing. It may be possible to charge a toll when entering the City to use the local roads, although this would likely be criticized as a tax grab, and would come with expectations to have significantly and consistently upgraded roads (which may cost more than the toll fees).

   Major roads, such as the Bypass and Highways are not owned by the City; as such, any toll fees would be authorized, collected and allocated by the Government of Saskatchewan, which is not a likely scenario.

   Parking levies: The City of Regina does not have the same issues as larger urban centres in terms of housing density, creating a lack of on-street parking. In larger centres, some cities do charge fees (permits) to park on residential streets (i.e. in Toronto, there is a $25.00 per week permit charge for parking in a residential area). However, other than in Harbour Landing, the City of Regina does not have major issues with density, creating parking complaints. This could be initiated in areas where density becomes a problem (again, Harbour Landing).

2. **Gas tax:**
   Both the federal and provincial governments levy fuel taxes. Since 2006, the federal government has been sharing a portion of its gas/fuel tax with Saskatchewan municipalities, and is committed to continuing to do so until 2024.

   Provincially, fuel tax is levied on the purchase, importation, exportation and sale of taxable fuel. The revenue generated is not shared with municipalities. A few cities do share in provincial fuel tax revenues, such as Vancouver, Victoria, Calgary and Edmonton.

   Using a rate/levy of 2 cents per litre (which translates to approximately 13% of the 15 cent litre at the pump), the City of Regina would generate approximately $13 million, which could be used for transit and roadway capital expenditures. Although implementation of this tax would be relatively easy, the City does not have the legal authority to levy a fuel tax. The provincial legislation and the City's bylaws would need to be changed in order to proceed with this proposal.

3. **Motor vehicle registration tax:**
   A motor vehicle registration fee is a levy on SGI policies issued on vehicles registered in a Saskatchewan municipality. Vehicles registered in Regina contribute to roadway infrastructure costs, as well as costs for policing, fire and protective services. The City of Regina could impose a tax on vehicles that are registered and operating in the city.

This option was analyzed in 2011, and at that time, no municipality in Canada levied such a fee. In Saskatchewan, the province charges a 1% on gross motor insurance premium collected in the province.

If the City were to impose a 5% fee on vehicle insurance premiums collected in Regina, based on 2009 data, using an assumed number of approximately 220,000 vehicles registered in Regina, the City would generate revenue of about $8.1 million annually. Another option could include a flat fee on every vehicle on the road. Vehicles registered in Regina contribute to roadway infrastructure costs, therefore it is fair to say that those who use the services should pay part of the cost.

4. **City Income Tax:**
Personal and corporate income tax sharing with the province, or an additional municipal surtax to the existing income tax, has the most potential to contribute a significant amount of revenue to the City. Based on rough estimates from 2011, the City could generate about $12.3 million annually, if the province were to share 2% of the personal and corporate taxes. The revenue generated is equal to approximately an 8% increase to the mill rate. The funds could be used for operational or capital expenditures, as a means to support and further develop economic growth in the region.

Implementation of this option would be relatively easy; it is fair and does not adversely affect the City's competitiveness. Provincial legislation and municipal bylaws would need to be amended.

5. **City Sales Tax:**
According to Mr. Kitchen and Ms. Slack, from previous discussions, they indicate that in the United States in 2011, 31 states and the District of Columbia levied general sales taxes. They further assert that "given the variety of local taxes used successfully in the developed world, Canadians interested in financing the growing needs of their municipalities would be wise to look beyond property taxes and user fees." As such, there is precedent that other jurisdictions in North America that would justify consideration of a Municipal Sales Tax (MST) in Regina.

Based on 2009 statistics, if the City were to levy 1% of the 6% provincial sales tax, approximately $35 million in revenue would be generated. The funds could be used for both operating and capital expenditures.

Implementation of this initiative would be relatively easy if the City were to piggyback the MST to the PST. However, the City would need provincial authority (change in legislation) to enact a MST.

It is important to note that as the Municipal Revenue Sharing is based on 1% of the PST, any further request for an additional MST may not be viewed favourably by the province.

6. **Hotel and motel occupancy tax:**
   Hotel room occupancy tax is an additional tax to the provincial sales tax imposed on hotel and motels. There are two different types of taxes and one type of voluntary fee being levied in Canada with respect to hotel accommodations. The first is an accommodation tax levied by the municipality under the authority of the Province, used for tourism related purposes. The second is an accommodation tax imposed by a Province, used to promote tourism. In addition to these taxes, there are also various destination marketing fees, collected voluntarily by hotel/motel operators.

   Recent analysis from 2017 estimates that based on 3,889 hotel/motel rooms in Regina at $120 average daily room rate and a 70% occupancy rate, a 3% tax would generate approximately $3,577,102. A 5% tax would generate approximately $5,961,837.

The City has also analyzed several other alternative revenue sources, including those that the City has the legislative authority to enact: (1) amusement tax; (2) infrastructure levy; (3) tax increment funding; (4) expanded property sub-classes; and (5) business improvement district levy. Alternative revenue sources analyzed that would require Provincial Government authority include: (1) hotel tax; (2) municipal sales tax; (3) fuel tax; (4) vehicle registration tax; (5) business tax; (6) land transfer tax; and, (7) third party sign tax.

Next Steps:

Mayor Fougere has requested analysis be completed on Ms. Slack's options. Based on the analysis completed, it is likely that Mayor/Council and ELT will discuss further with respect to the City's 2018 budget preparation and deliberations.