

# Review of Municipal Affairs “Review and Analysis of Municipal Property Tax Tools”

Final Presentation

August 22<sup>nd</sup>, 2012



# Aims Today

- Summarize MA property tax review, analysis and conclusions.
- Provide critical review.
- Summarize case study work.
- Next steps.
- Question & answer.

# Summarize Municipal Affairs Report

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# Opening Statements

- “Saskatchewan municipal governments enjoy considerable authority, autonomy and flexibility in establishing property tax policies that reflect local circumstances. This extensive authority carries with it the expectation of even greater accountability and responsibility to the public that municipal councils serve and to the provincial government.”

## Message:

Municipalities are accountable for their municipal tax decisions.

# Opening Statements

- “Over the years, various sectors have raised concerns about unlevel playing fields for various property classes and the amount of property taxes being paid relative to other property types and other municipalities. This report reviews and analyzes the use of municipal property tax tools for the year 2010.”

## Message:

Some sectors don't find the current allocation consistent or fair. They point to wide variability across both property classes and municipalities as evidence. So MA has taken a look at this.

# What follows...

- A lot of statistics, tables and graphs that illustrate the variability in property tax allocation across:
  - Cities
  - Towns
  - Villages / Resort Villages
  - Rural Municipalities
  - Northern Town and Village
  - Northern Hamlet
  - NSAD (Northern Saskatchewan Administration District)

# What follows...

- From all of these statistics, tables and graphs:
  - It appears that allocation of taxes is variable across comparable cities, towns, etc., as well as across property classes (agricultural, residential, industrial/commercial).

# MA summary of tax tools

- Mill rates: Rates applied to assessed value of property in the process of determining taxes.
- **Current municipal tax tools include:**
  - Mill rate factors: Factors applied to mill rates across property classes to vary proportional contributions.
  - Minimum tax: If assessed tax less than minimum tax, then pay minimum tax.
  - Base tax: Base amount assigned regardless of property value. Can vary by property class.
  - Property tax phase-in (Cities only): Allows for gradual change in taxes where property values suddenly “spike.”

# MA summary of tax tools

- Summary and review of tax tools leads to calculation of *Effective Mill Rate* (by property class) and *Total Effective Mill Rate* by type of municipality (cities, towns, RMs, etc.)

# MA summary of tax tools

- Effective mill rate
  - *(e.g., residential) = municipal residential taxes paid / taxable residential property value*
  - Illustrates variability in taxable contribution by property class.
  - Argues, on average, that commercial & industrial paying relatively more taxes than residential or agricultural property classes (although this is NOT a consistent result across all types of municipalities).
- Total effective mill rate
  - *(ALL property classes combined) = total municipal taxes paid / total taxable property value*
  - Provides the “average” effective mill rate across all property classes for each type of municipality (cities, towns, RMs, etc.).

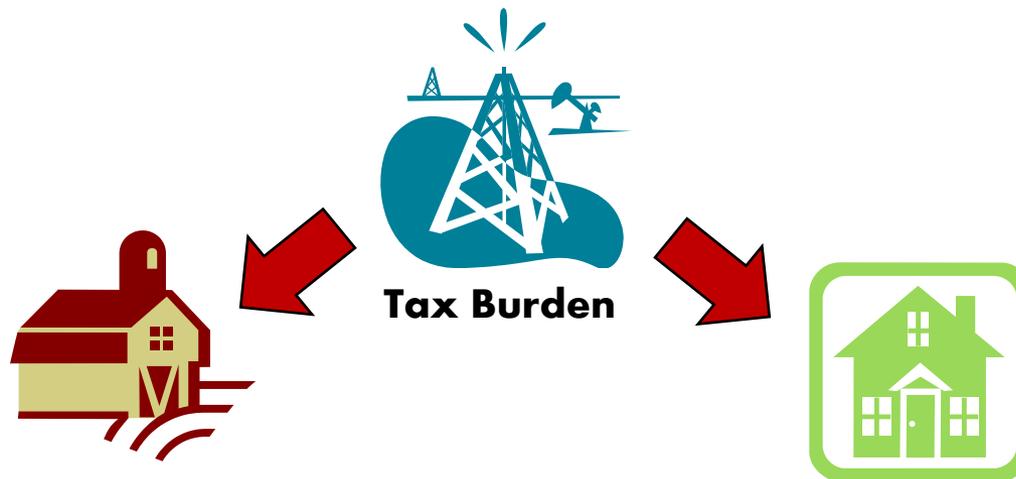
# Example

**Table AK: 2010 Rural Municipality Municipal Tax Analysis**

	Agriculture	Residential	Commercial & Industrial	Total
<b>Taxable Assessment (\$)</b>	<b>9,898,461,504</b>	<b>3,133,225,490</b>	<b>8,989,591,279</b>	<b>22,019,278,273</b>
<b>Tax Levies (\$)</b>	<b>119,638,723</b>	<b>30,194,179</b>	<b>149,148,298</b>	<b>298,981,200</b>
<b>Effective Mill Rates</b>	<b>12.0890</b>	<b>9.6368</b>	<b>16.5912</b>	<b>13.5782</b>
% of Levies - Property Class	40.0155%	10.0990%	49.8855%	100.0000%
% of Assessment - Property Class	44.9445%	14.2295%	40.8260%	100.0000%
Effective Mill Rate Ratio	0.89	0.71	1.22	1.00

# Basic “punchline”

- IF:
  - All property classes paid the SAME effective mill rate (equal to the TOTAL effective mill rate by type of municipality),
- THEN:
  - A proportion of the current municipal tax burden would shift, on average, from the “Commercial & Industrial” property class to the “Agricultural” and “Residential” property classes.



# Key numerical results

Table BBB: All Municipal Types - Net Property Tax Shift - No Tax Tool - Summary

	Agriculture (\$)	Agriculture % of Total	Residential (\$)	Residential % of Total	Commercial and Industrial (\$)	Commercial and Industrial % of Total
City	(10,288)	-0.059%	24,448,079	79.22%	(24,435,811)	50.64%
Town	(9,878)	-0.057%	1,475,897	4.78%	(1,468,019)	3.04%
Village/Resort Village	54,399	0.313%	(434,211)	-1.41%	379,812	-0.79%

## Message:

If special tax tools were removed and municipalities imposed uniform mill rates, municipal taxes – on average – would shift proportional tax burden from “Commercial & Industrial” to “Agriculture” and/or “Residential.”

## 2010 municipal taxes

Municipal Category	Agriculture (\$)	Residential (\$)	Commercial and Industrial (\$)	Total (\$)
City	188,194	262,668,586	123,724,596	386,581,376
Town	344,982	70,204,943	20,719,222	91,269,147
Village/Resort Village	286,214	26,065,075	4,327,032	30,678,321
Rural Municipality	119,638,723	30,194,179	149,148,298	298,981,200
Northern Town and Village	2,992	3,815,467	1,463,848	5,282,307
Northern Hamlet	0	65,926	15,093	81,019
NSAD	1,061	291,637	2,528,843	2,821,541
<b>Total</b>	<b>120,462,166</b>	<b>393,305,813</b>	<b>301,926,932</b>	<b>815,694,911</b>

# Difference in municipal taxes paid

Municipal Category	Agriculture (\$)	Residential (\$)	Commercial and Industrial (\$)
City	-10,268	24,446,079	-24,435,811
Town	-9,878	1,475,897	-1,466,019
Village/Resort Village	54,399	-434,211	379,812
Rural Municipality	17,360,799	5,202,484	-22,563,284
Northern Town and Village	0	101,981	-101,981
Northern Hamlet	0	-11	11
NSAD	144	67,762	-67,906
<b>Total</b>	<b>17,395,196</b>	<b>30,859,981</b>	<b>-48,255,178</b>

# Difference in percentage terms

Municipal Category	Agriculture (\$)	Residential (\$)	Commercial and Industrial (\$)
City	-5.46%	9.31%	-19.75%
Town	-2.86%	2.10%	-7.08%
Village/Resort Village	19.01%	-1.67%	8.78%
Rural Municipality	14.51%	17.23%	-15.13%
Northern Town and Village	0.00%	2.67%	-6.97%
Northern Hamlet	n/a	-0.02%	0.07%
NSAD	13.57%	23.24%	-2.69%
<b>Total</b>	<b>14.44%</b>	<b>7.85%</b>	<b>-15.98%</b>

- On average, under a “uniform” effective mill rate:
  - Agriculture class would pay about 14% *more* taxes,
  - Residential class would pay about 8% *more* taxes, and
  - Commercial and Industrial class would pay about 16% *less* taxes.

# Conclusions reached by MA

- “Based on the detailed results of this review and analysis, government will want to decide:
  - Whether in its view municipal tax policy decisions line up with provincial economic and social policies,
  - Whether there are instances where municipal property tax tool use is inconsistent with the province’s own objectives, and
  - Whether such instances, if any, warrant legislative attention, such as setting limits on the application of the tax tools, possibly removing certain tax tool authorities, or implementing new alternatives.
- Local governments may also wish to reevaluate the overall impacts of their collective decisions relating to property tax tool use.”

# Critical Review by VEMAX

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# Two main issues with report

- WHY?
  - MA summary of municipal taxes never asks WHY there is variability in tax assessment across property classes.
    - Maybe there is good reason for this.
- Missing “Principles”
  - If municipalities are to “reform” their tax structure, on what PRINCIPLES should this reform be based on?

# WHY?

- The MA report is full of statistics illustrating the variability in tax assessment across differing municipal entities and property classes.
- But it never asks the question: WHY might tax assessments vary?
  - Do different municipalities have different needs?
  - Does the “consumption” of municipal services vary across entities and property classes?
  - Might a “primarily agriculture” municipality face different challenges than, for example, a “primarily industrial” municipality?
  - In general, is there a logic here we are unaware of?

# WHY?

- Whether or not there is a defensible logic underlying the variable assessments, you must ask and answer the question “WHY?” before you jump to conclusions.
  - Since the MA report doesn’t do this, it provides limited guidance for provincial and municipal authorities alike.
  - A lot of data and analysis, but little insight of use for the purpose of decision-making.
- To be sure, there are some interesting statistics derived in the report, but – absent a meaningful and defensible *context* for decision-making – it can’t help much.

# Missing “Principles”

- The MA report concludes with:
  - “Local governments may also wish to reevaluate the overall impacts of their collective decisions relating to property tax tool use.”
- But on what *principles* is this “reevaluation” meant to be based on?
  - User pay?
  - Equitability?
  - Ability to pay?
  - Financial need?
  - Costs and benefits?
  - Some mix of all or some of these (or something else entirely)?

# Missing “Principles”

- Absent a set of “approved” and defensible principles, what are local governments meant to do?
  - E.g., If one municipality moves forward on one set of principles, and another municipality moves forward on a different set of principles, how will that be interpreted by the provincial government? Will they both prove acceptable? Will one prove acceptable, but not the other? Will neither of them prove acceptable?
- In effect, municipalities are stuck until guidance is provided by provincial authorities.
  - Despite extensive analysis, the current MA report doesn't provide that guidance.

# Ball in the Province's court

- If the MA report provided concrete and defensible principles to help municipalities move forward, then the ball would be in the court of the municipalities.
- But since it doesn't, municipalities are “between a rock and a hard place.”

# Ball in the Municipal Court

- After discussion with Minister Tim McMillan, it was implied that it was up to Municipalities to move forward on this subject.
  - Government would not be offering additional guidance / clarification of the tax tool document.
  - Municipalities should determine what tax tools they will use.
    - However, they should be prepared to substantiate the rationale behind the tools that they are using.

# Costs, Taxes and Pricing

# What's the money for?

- Why do municipalities need to collect monies from citizens and others?
  - To cover the costs of services provided.
- BUT, what are the *true* costs of service provision?
  - Initial capital, PLUS
  - On-going operations and maintenance, PLUS
  - Periodic repair and renewal.
    - All over the *service life* of the supporting (physical) assets.
  - We call this the “Life Cycle Costs” of service provision.
    - If you're not collecting sufficient monies to cover your life cycle costs, you can wind up in hot water in future.

# How do we collect the money?

- Assuming municipalities are prepared and organized to collect the monies needed to cover the true Life Cycle Costs of service provision from users, HOW are they going to do it?
  - To answer this question, we need to consider 3 interrelated principles / mechanisms:
    1. Cost allocation by consumption
    2. Pricing
    3. General taxation (e.g., property taxes)

# Example 1 – Water and Sewer

- Life cycle costs of water and sewer provision.
  - Fully metered and “priced” service.
  - Full cost allocation by consumption on a household-to-household (or business-to-business) basis.
  - No need for contributions from general taxes.

# Example 2 – Emergency Services

- Life cycle costs of emergency services.
  - No “pricing” involved.
    - Fire Chief not looking for your credit card if your house is on fire.
  - None/little cost allocation by consumption.
    - You might never have a fire, but you contribute nonetheless.
  - Costs fully covered by general tax mechanisms.

# Example 3 – Roadway Services

- Life cycle costs of municipal roadway services.
  - Typically, no pricing mechanism in-place.
    - (Although a well-structured permitting system or maintenance agreement can take advantage of this option.)
  - Partial cost allocation by consumption.
    - Some variability in tax payments across property classes.
  - Typically, costs fully covered through general tax mechanism.

Cost Allocation by Consumption						
		FULL	PARTIAL	LITTLE / NONE		
ALL	Metered water consumption				NONE	Tax

Message:

You are already fitting service provision into one of these 9 boxes, whether you do it explicitly or implicitly. By doing it explicitly you can rationalize where you are and why you might move to a different box.

# Is there a “perfect” solution?

- Across the wide range of services provided by municipalities, is there a “perfect” mix of cost allocation, pricing and taxes?
  - Doubtful! Not many “silver bullets” out there.
  - But municipalities **MUST** raise the monies needed to fully fund the life cycle costs of services over the long-run.
    - And the cost allocation by consumption can vary from “little / none” (reflecting, for example, social commitments to universality and/or the random nature of service consumption) to “full” (reflecting the principle of *user pay*).
  - Pricing & tax mechanisms are options for doing this.
    - But the best anyone can do is come up with a sensible “mix” based on needs, equity, incentives and cost-effectiveness.

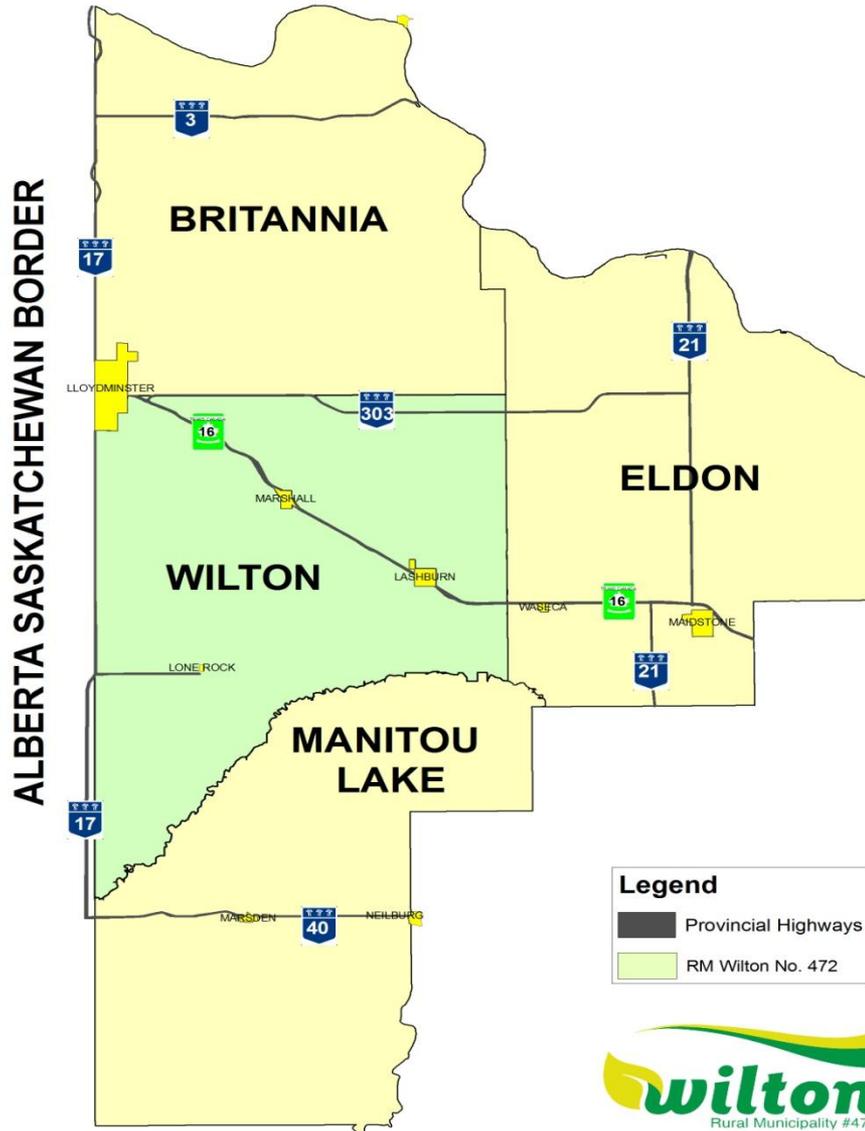
# Funding “scenarios”

- So instead of pretending there are “silver bullets” out there, let’s look at some funding scenarios that are workable.
  - But some might work better than others.
- We will use the RM of Wilton as our *Case Study*.
  - We can leverage our work for the RM of Wilton to advantage in this project.

# Review a Series of Funding Scenarios

1. Elimination of all tax tools for the RM of Wilton  
(uniform effective mill rate).

# Where is Wilton



**Legend**

- Provincial Highways
- RM Wilton No. 472



# RM of Wilton Background

- Background
  - Population: 1,560
  - First oil well: 1947
  - Oil wells: 2,800
  - Oil Production Companies: 28
  - Oilfield area: 6,500 acres, 5x5 km
  - Kilometers of active road: 760
  - Kilometers of Primary Corridor Road: 180
  - Organized Hamlet: 1
  - Employees: 50 summer 30 winter

# RM of Wilton

- Major Business
  - Viterra & JRI (Pioneer)
  - Heartland Livestock
  - Husky Oil
    - Upgrader, Ethanol, Rail diesel, CoGen, CO<sub>2</sub>, Sand Cavern Ops
  - RMI (engineering firm)
  - B & R Eckels and numerous trucking and service companies
  - WYWRA (regional waste and recycling, logistics)
  - CCS (industrial landfill)
  - Altex Energy

# RM of Wilton Tax Tools

- Mill Rate Factors.
- Minimum tax on properties in specific locations (i.e. hamlet).

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<b>RM of Wilton (2012)</b>	<b>682,445</b>	<b>181,348</b>	<b>15,903,519</b>	<b>16,767,312</b>

# Difference in municipal taxes paid

Municipal Category	Agriculture (\$)	Residential (\$)	Commercial and Industrial (\$)
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<b>Total</b>	<b>17,395,196</b>	<b>30,859,981</b>	<b>-48,255,178</b>
<b>RM of Wilton (2012)</b>	<b>1,942,470</b>	<b>1,048,313</b>	<b>-2,990,783</b>

# Difference in percentage terms

Municipal Category	Agriculture (\$)	Residential (\$)	Commercial and Industrial (\$)
City	-5.46%	9.31%	-19.75%
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<b>Total</b>	<b>14.44%</b>	<b>7.85%</b>	<b>-15.98%</b>
<b>RM of Wilton</b>	<b>284.63%</b>	<b>578.07%</b>	<b>-18.81%</b>

- For Wilton, under a “uniform” effective mill rate:
  - Agriculture class would pay about 285% *more* taxes,
  - Residential class would pay about 578% *more* taxes, and
  - Commercial and Industrial class would pay about 19% *less* taxes.

Using an  
Uniform  
Effective  
Mill Rate

		Cost Allocation by Consumption				
		FULL	PARTIAL	LITTLE / NONE		
Pricing	ALL				NONE	Taxes (e.g., Property taxes)
	PARTIAL				PARTIAL	
	NONE			All municipal services	ALL	

# Review a Series of Funding Scenarios

2.0 Cost Allocation by consumption – RM Roadway Services.

Roads

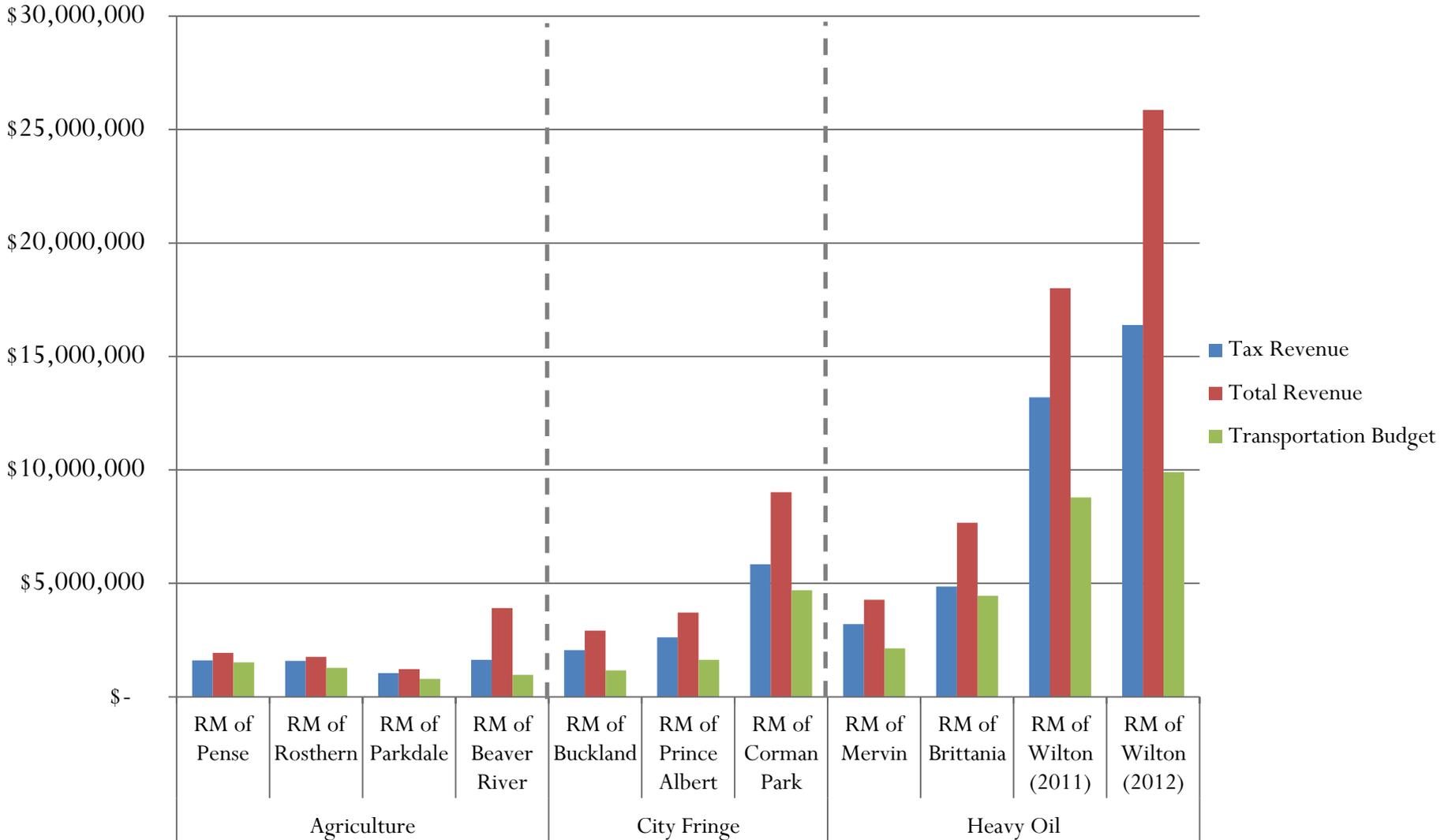
Example

		Cost Allocation by Consumption			
		FULL	PARTIAL	LITTLE / NONE	
Pricing	ALL				NONE
	PARTIAL				PARTIAL
	NONE		Roads		ALL
					Taxes (e.g., Property taxes)

# RM Variation

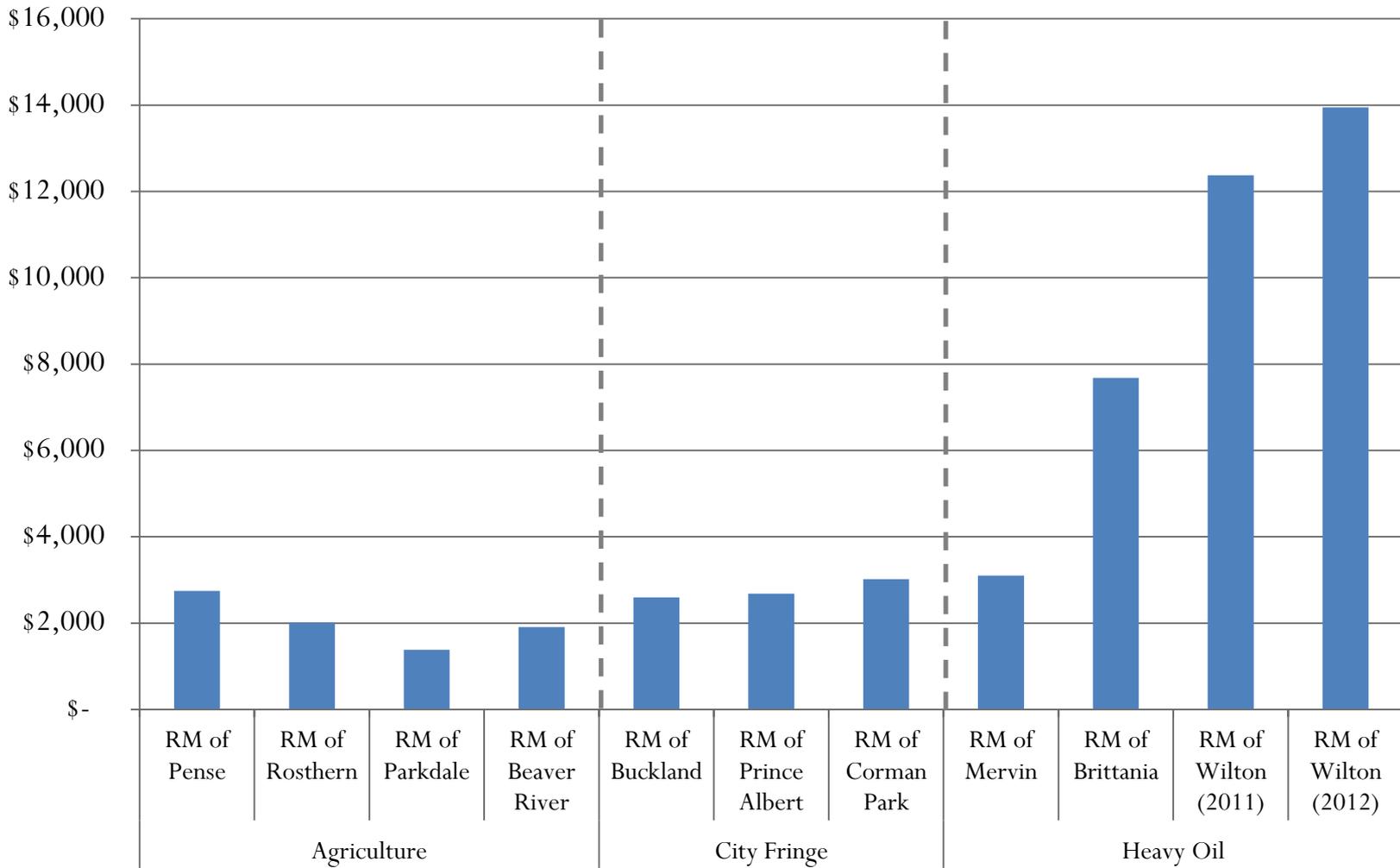
- There is a significant difference in the reality that RM's are operating in:
  - Economy
  - Classification (agriculture, oil, city fringe, etc.)
  - Location
  - Size
  - Services provided
  - Assessed value of different property classes
- There is also a significant difference in the RM's revenues and budgets.

# RM Financials by Type



# RM Transportation Budgets by Kilometer of Road

**\$/km**

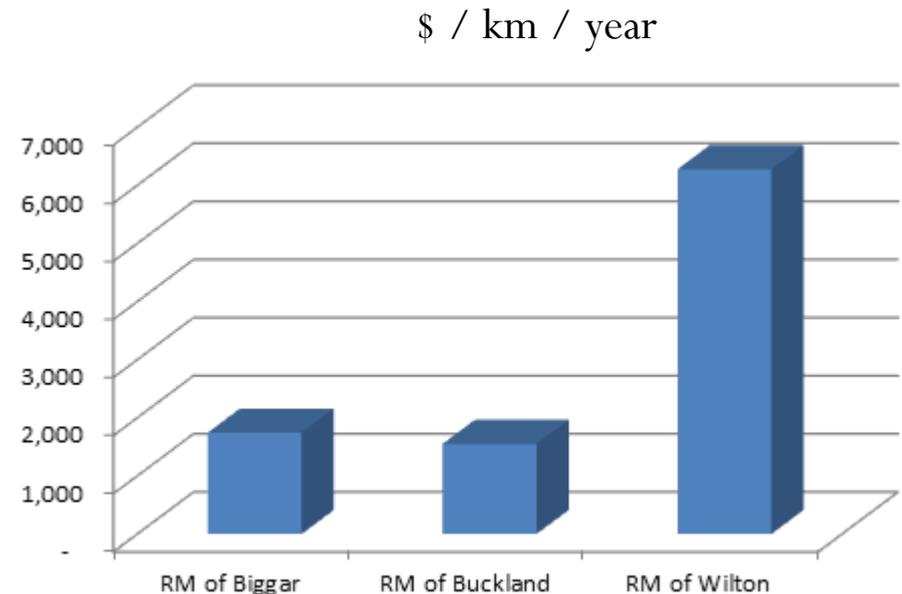


# Variation in Staff Costs

- RM of Buckland
  - $\sim \$20.00 / \text{hr} * 2000 \text{ hr} = \$ 40,000 / \text{yr}$
- RM of Cutknife
  - $\sim \$19.00 / \text{hr} * 2000 \text{ hr} = \$ 38,000 / \text{yr}$
- RM of Mervin
  - $\sim \$20.00 - \$24.54 / \text{hr} * 2000 \text{ hr} = \$ 44,540 / \text{yr}$
- RM of Britannia
  - $\sim \$20.00 - \$30.00 / \text{hr} * 2000 \text{ hr} = \$ 50,000 / \text{yr}$
- RM of Wilton
  - $\sim \$26.72 - \$29.72 / \text{hr} * 2000 \text{ hr} = \$ 56,440 / \text{yr}$

# Costs to Operate and Maintain MFA

- Main Farm Access Class of Road
  - blading, grading, gravel addition, etc.
- RM of Biggar (Agriculture)
  - ~\$1,745 per km per year
- RM of Buckland (City Fringe)
  - ~\$1,550 per km per year
- RM of Wilton (Heavy Oil)
  - ~\$6,277 per km per year



# RM of Wilton Example

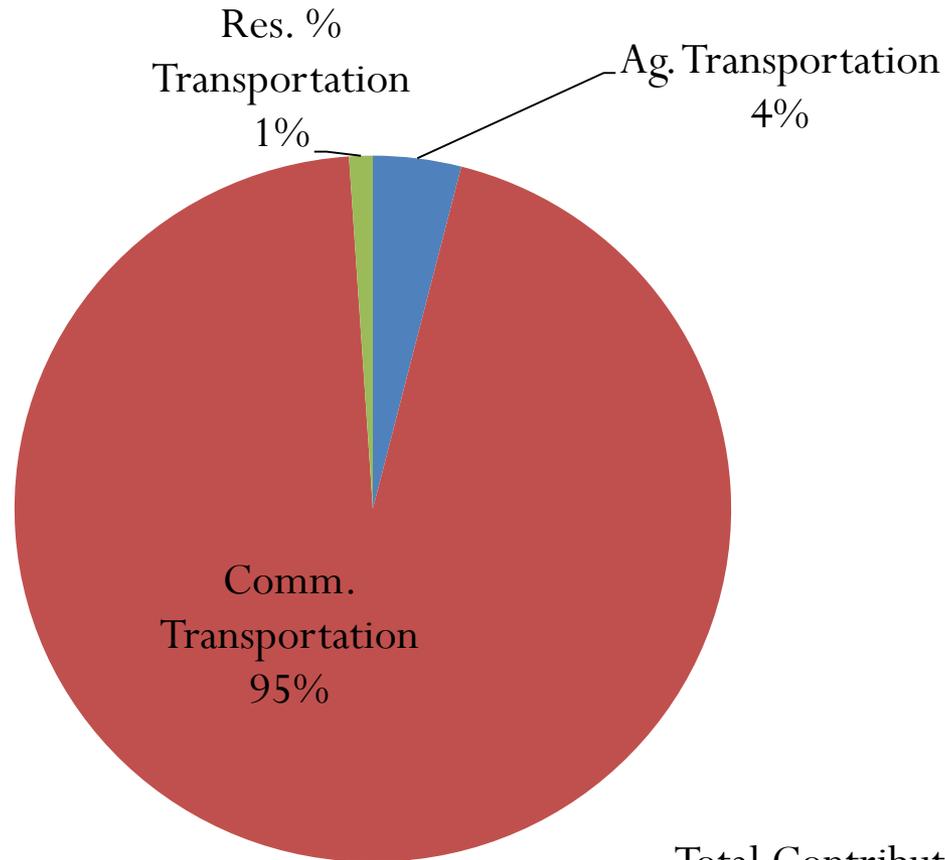
- What is the tax collected by the various sectors of the RM of Wilton
  - Residential ~\$167,000 (1% of total)
  - Agriculture ~\$668,000 (4% of total)
  - Commercial ~\$15,865,000 (95% of total)

# RM of Wilton Example

- RM of Wilton transportation budget
  - 2012 budget - \$9,904,920

# Transportation Budget Contribution by Taxes

**RM of Wilton**



Total Contribution - \$9,904,920

Contribution by Ag. - \$ 393,300

Contribution by Comm.- \$ 9,406,418

Contribution by Res. - \$ 105,202

# RM of Wilton Example

- The biggest budget items for RM's is transportation
- The largest impact on roads is from heavy trucks
  - The impact of residential traffic is negligible
- Using average values we can estimate the annual tonnes from both the oil sector and the agriculture sector

# RM of Wilton Example

- Agriculture (2011)
  - Land area = 257,730 acres
  - Assume 95% agriculture land
  - Assume 0.59 tonne per seedable acre\*
    - Production of 143,432 tonnes per year

\*Based on Statistics Canada data

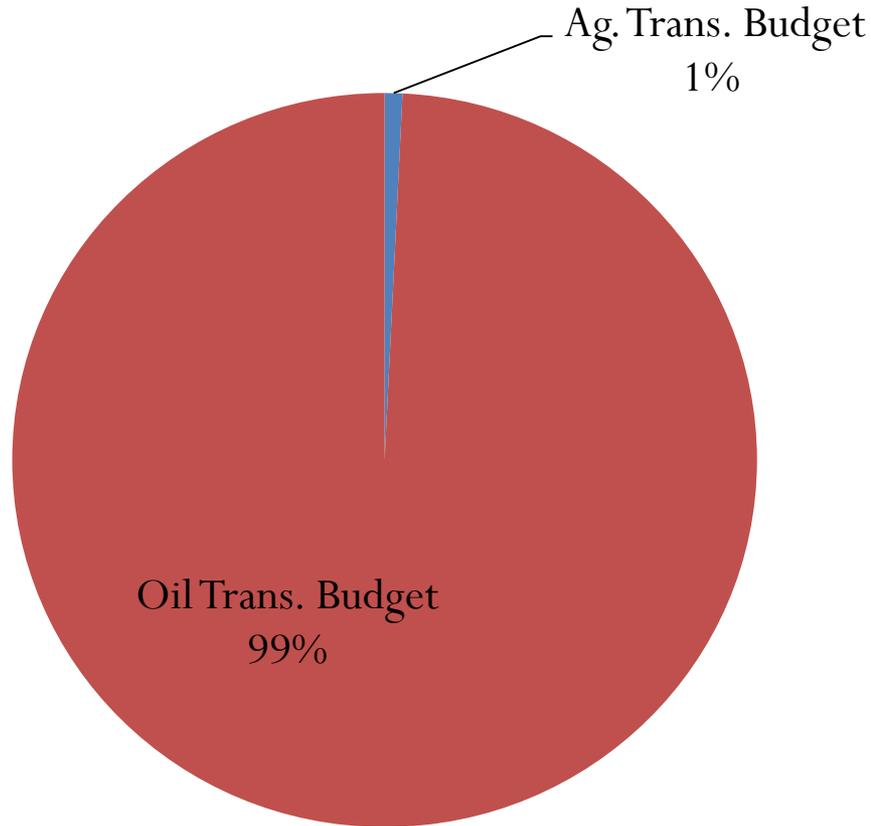
# RM of Wilton Example

- Oil Industry (2011)
  - Oil – 1,176,981 m<sup>3</sup>
  - Injection Water – 9,907,120 m<sup>3</sup>
    - Production of 10,917,239 tonnes per year

\*Based on data provided by RM of Wilton

# Transportation Budget Consumption by Tonnes

**RM of Wilton**



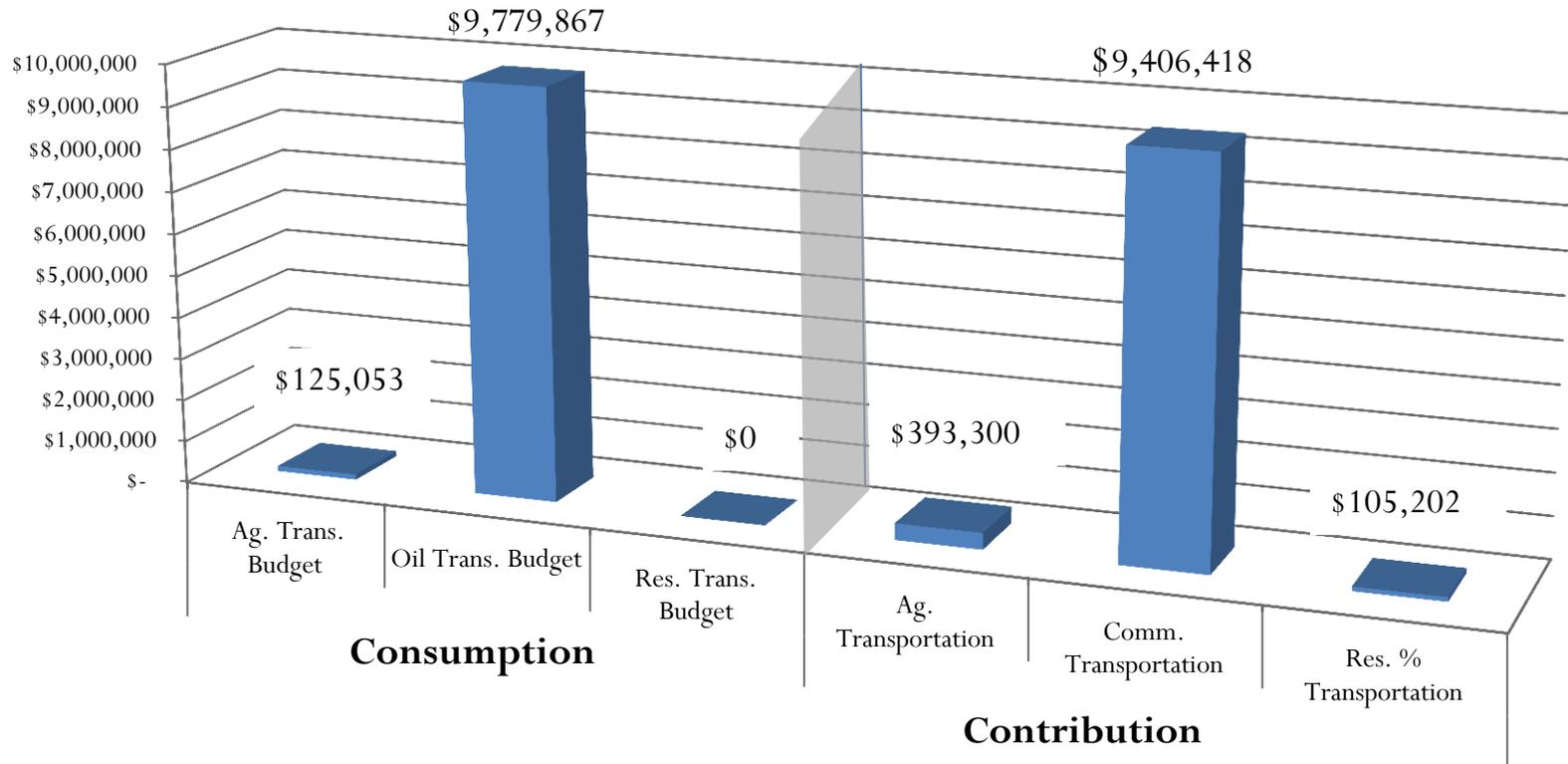
Total Budget - \$9,904,920

*This does not include other commercial traffic*

Consumption by Ag. - \$ 125,053  
Consumption by Oil - \$ 9,779,867

# RM Transportation Budget Contribution and Consumption

## RM of Wilton



# Message

- Transportation is 74% of expenses (2012 budget-excluding reserves) for the RM of Wilton. Reviewing consumption of the budget based on tonnes hauled shows that these costs are virtually all being driven by the commercial sector use of the service.
- We have:
  - Reviewed the elimination of tax tools.
  - Reviewed the use of consumer based allocation.
- Which has shown:
  - There is rationale behind the variability in tax assessment across property classes from the standpoint of service consumption.
- Benefit to using a combination of pricing and taxes to provide this service.
  - Lower user costs (increasing the success of commercial sector)
  - Lower transportation LCC costs for the municipality

Combination  
of Pricing  
and Taxes

		Cost Allocation by Consumption			
		FULL	PARTIAL	LITTLE / NONE	
Pricing	ALL				NONE
	PARTIAL				PARTIAL
	NONE				ALL

↑  
Roads

# Possible “Next Steps”

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# Next Steps

- The rationale behind tax allocation will likely be unique to each municipality.
  - The services won't be in the same boxes.
  - There are different needs, services, etc.
- Steps to Rational allocation of costs
  1. Understand costs (full LCC's).
  2. Determine which boxes your services are currently in?
  3. Review rationale behind which box those services are in.
  4. Review potential benefits of moving from one box to another.
    - Reduction of overall costs.
    - Benefit of industry, province and RM.

## Cost Allocation by Consumption

		FULL	PARTIAL	LITTLE / NONE	
Pricing	ALL	Metered water consumption by household			NONE
	PARTIAL		Road & bridge services (with pricing)		PARTIAL
	NONE		Road & bridge services	Emergency services	ALL

# Questions ??

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