

Calgary

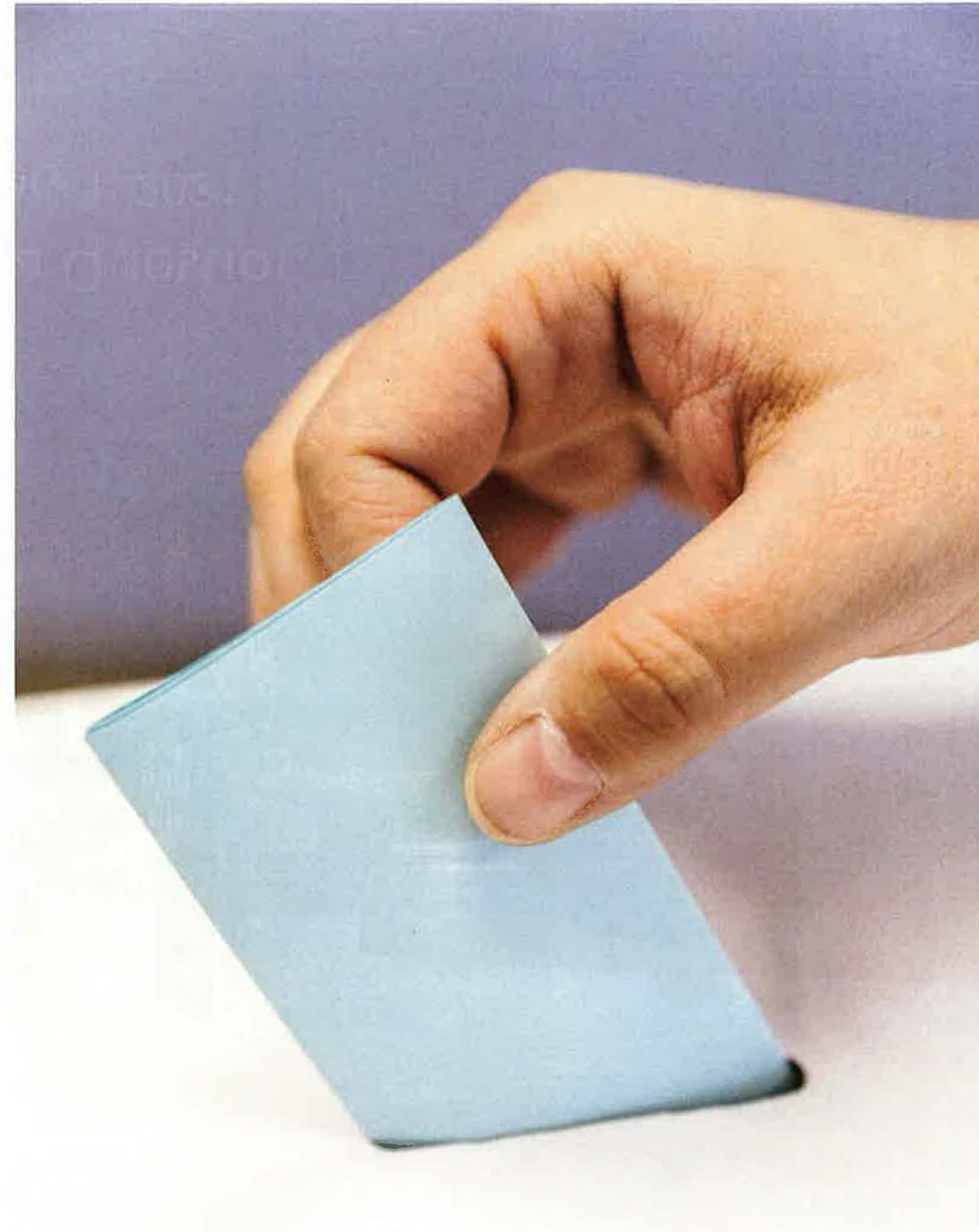


Fiscal Framework – Vote on a Question

Strategic Meeting of Council, February 1, 2021

Today's discussion

- The context
- The risks
- The recommendation
 - “That Council consider the information contained in this report [and presentation] when determining whether or not to pursue a Vote on a Question regarding The City’s fiscal relationship with the province.”





The provincial context: Seeking a “fair deal” in Canada

In 2019, the Government of Alberta committed to a referendum on Equalization

- To coincide with municipal elections
- Broad authority to add “any question specified by the...Minister”
- Non-binding, but as “leverage for federal action”

The Government continues to signal intent to go forward





The local context: Seeking a fair deal for cities

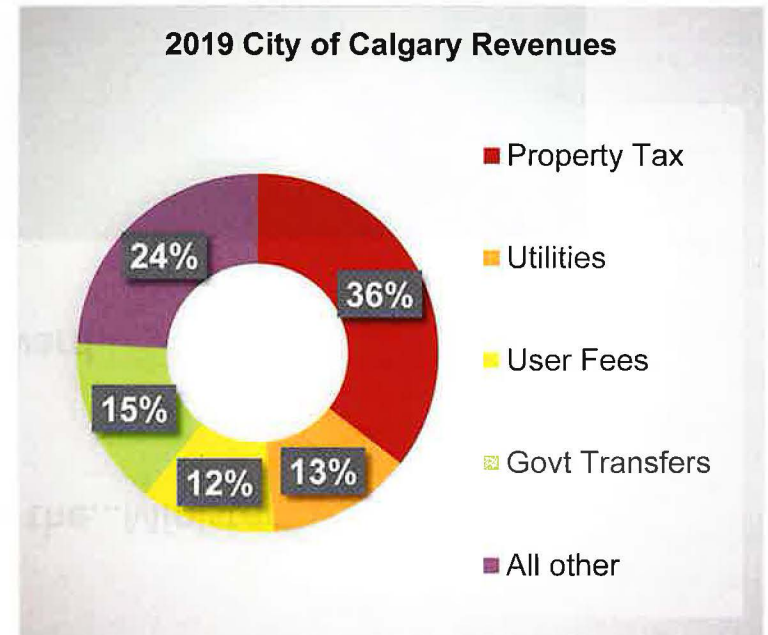
Mismatch of revenues and responsibilities (Annex A)

Fiscal imbalance makes cities reliant on unstable transfers (Annex B)

- Province revokes City Charter Fiscal Framework
- Un-proclaimed Local Government Fiscal Framework cuts funding for big cities

COVID-19 has “laid bare” these challenges for all to see (Annex C)

Like the province, The City continues to advocate for its own “new deal” (Annex D)





What about a question to parallel the provincial referendum on equalization?

The following slides consider several associated risks from a corporate perspective

- Legal
- Financial
- Reputational
- Strategic / Advocacy



Legal considerations

Clarity	Difficult to boil “fiscal fairness” down to a simple yes/no question
Jurisdiction	Definition of the fiscal framework is largely outside of The City’s control
Predisposition	A question about “fairness” or a “new deal” might suggest a “correct” answer

Risk:
Moderate

Impact:
Moderate



Financial considerations

Entrenching the status quo

A “no” vote on a question for change could be (mis)construed as support for existing cuts

Tying The City’s hands

A “yes” vote for change could compromise the ability to advocate or capitalize on other opportunities for change

Legal costs

Some financial risk associated with a court injunction

Risk:
Moderate

Impact:
High

Reputational considerations

Compromised relationships

Trade-offs inherent in a question could put The City offside with its partners (e.g. school boards; other municipalities)

Risk:
Moderate

Remaining neutral

Although required to remain neutral in the debate, The City has not been agnostic to date. Any information provided could be accused of bias

Impact:
Moderate

(Note: The province is not similarly compelled)



Strategic / Advocacy considerations

Narrowed options Support for a narrow option could limit pursuit of broader change

Missed opportunities Support for a new relationship with the province could limit ability to engage the Government of Canada

Marginalizing existing direction The suite of recommendations endorsed by the Financial Task Force (and others) could take a back-seat to the vote on a question

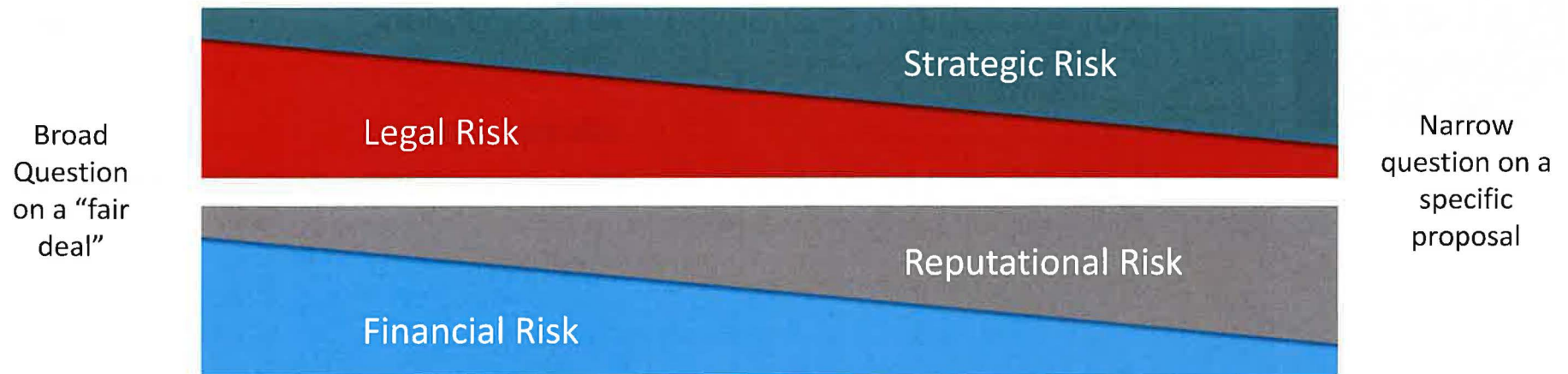
Likelihood:
Moderate -
High

Impact:
High

Risk Mitigation?

Some risks could be mitigated through question design.

But many simply trade one risk for another, without eliminating any one risk altogether.



Recommendations

“That Council consider the information contained in this report [and presentation] when determining whether or not to pursue a Vote Question regarding The City’s fiscal relationship with the province.”

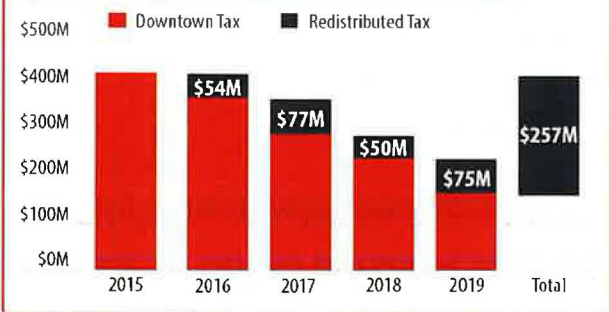




Annex A: Challenges with the property tax

1. Internal volatility (e.g. Tax Shift)

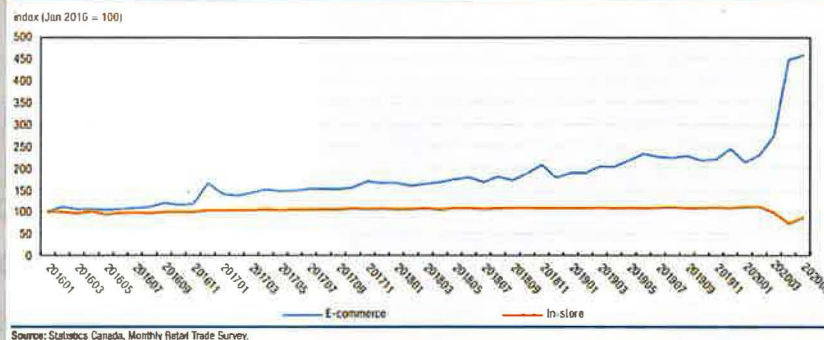
Figure 15: Magnitude of the Downtown Tax Shift



The tax shift in Calgary could become a national problem as downtowns hollow-out with changes in work patterns

2. “Bricks and mortar” tax can’t capture new economy

Indexed monthly retail e-commerce sales vs. in-store sales



The trend toward a knowledge economy and online sales may also mean that economic success generates little or no commercial property taxes paid to cities

3. Fails to capture economic growth for the local government

Property tax revenues don't naturally grow with the economy, providing few options to pay for growth absent rate increases

Limits the ability of a government to use debts or deficits to fund shortfalls – there's no way to “grow back”

4. A regressive tax

Lower income households pay a greater percentage of income to property tax than higher-income households

The property tax doesn't provide an opportunity to capture extreme wealth

5. Unforgiving

Property taxes are not immediately correlated to losses of personal or business income

6. Limited ability for cities to provide targeted tax relief

The property tax doesn't permit for the creation of a diversity of subclasses to create targeted relief

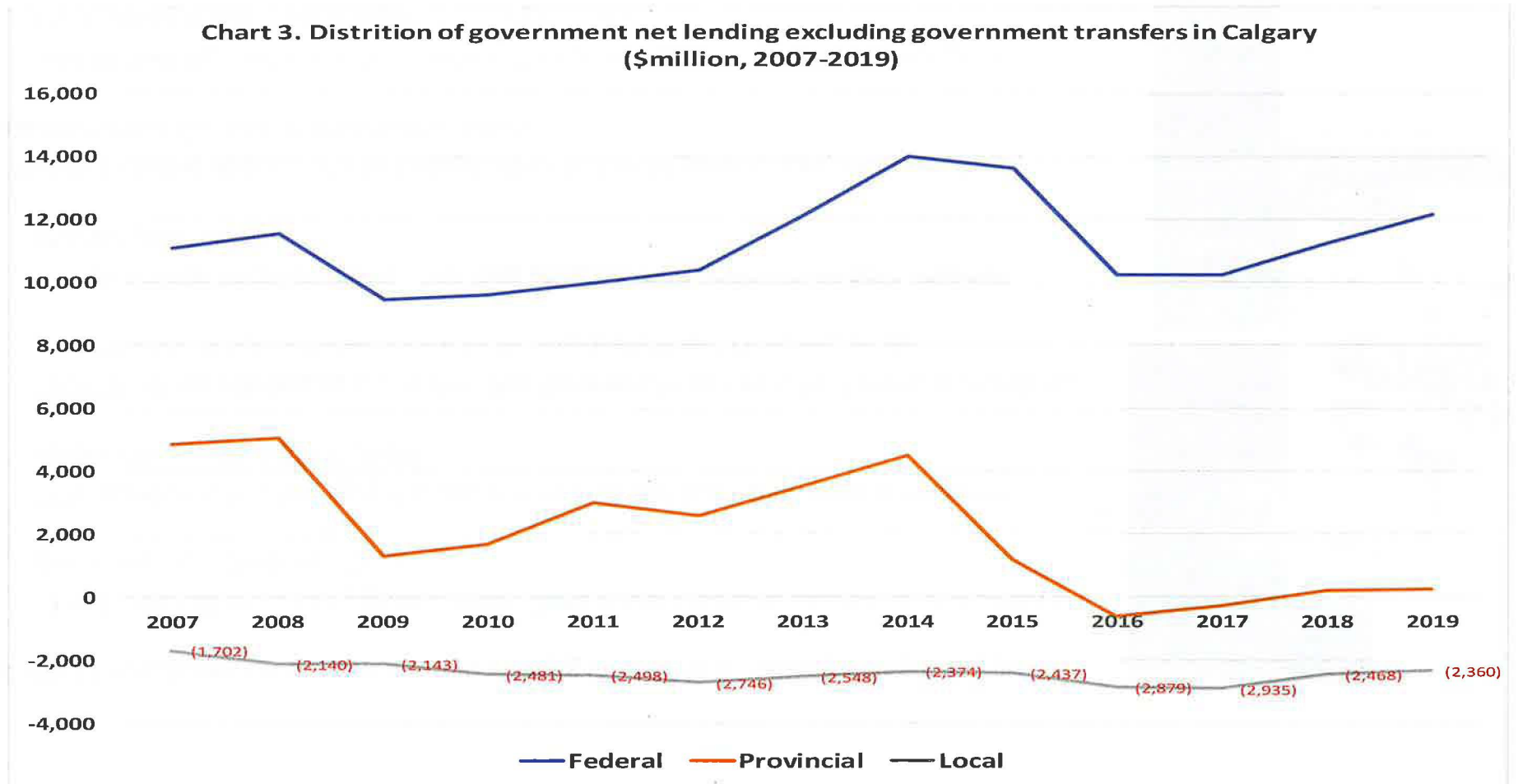
There are also difficulties ensuring property owners pass on any relief to the business owners themselves

7. Absence of link to service use / provision

Not correlated to the types of services provided in today's big cities

Subsidizes service use of non-residents

Annex B: The Municipal Fiscal Imbalance



Annex C: COVID-19 and the fiscal framework

COVID-19 has drawn others' attention to existing inequities in municipal finance

- “The COVID-19 crisis has exposed major flaws in the financing capacities of municipal governments” (Deloitte, 2020)
- “The pandemic has laid bare the precarious financial footing of city governments across the country” (IRPP, 2020)
- “COVID-19 has reinforced the reality that Toronto’s fiscal capacity, funded primarily by property tax, is not commensurate to its responsibilities” (Toronto, 2020)
- “Cities’ unique fiscal structure...has long affected their ability to smooth revenue shocks” (RBC, 2020)

Presents a unique opportunity to engage other orders of government, including the Government of Canada, in meaningful reform

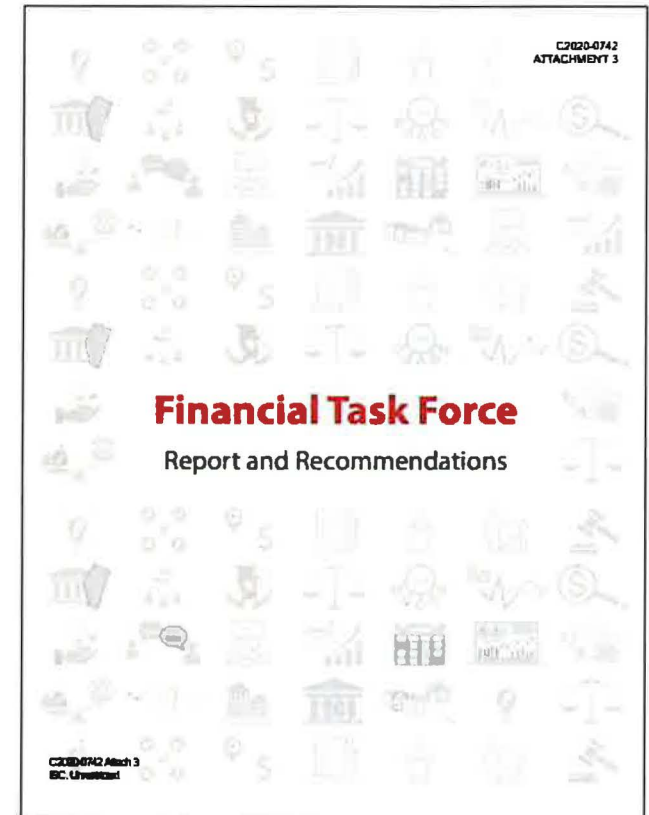
- Safe Restart Agreement and Municipal Operating Support Transfer are recognition of the challenge, but merely paper over larger cracks



Annex D: Ongoing advocacy for a “new deal”

The City of Calgary and its partners have ramped-up advocacy for broad reforms

- COVID-19 Advocacy Priorities
 - Call for long-term economic resilience and a new deal for cities
- Financial Task Force Recommendations
 - Canadian municipalities do not have sufficient and diversified own-source revenues. It makes it challenging to fund their expenditure responsibilities.
- FCM “Building Back Better Together”
 - Calls on Government of Canada to commit to a national dialogue, including steps to modernize municipal finances and authorities



A new deal for cities isn't necessarily about more money, but better aligning revenue with responsibility