2023 – 2026 Service Plans and Budgets

Administration's Response re: Revenue and Expenditure Reporting by Community

Administration's Response to Project Scoping Report

At the 2022 September 20 Strategic Council meeting, Administration was directed to:

Provide Council with a project scoping report that undertakes a comprehensive approach toward more directly attributing the taxes and user fees paid to cover expenditures by community - with a focus on outcomes, project scope, budget, and timelines - to be considered as part of the 2023-2026 budgetary discussions.

In addition, in response to an Administrative Inquiry on 2022 April 12, – Alignment of Statutory Development Plans, C*an administration please report to Council on what the costs are to deliver services in each individual communities as well as how much revenue is generated in each of those communities to determine where our greatest deficiencies exist so that we can focus our planning efforts to mitigate our financial deficiencies? Can administration advise what differential mill rates for individual areas might look like to even out the cost/revenue differential between communities?*

A copy of the response to the Administrative Inquiry on 2022 April 12 is provided on page 7.

Update for 2023-2026 Service Plans and Budget considerations:

Based on Administration's understanding of the intent of the direction, the following project phases are suggested. Most significantly, the outcomes and information discovered in Phase 1 is critical in determining the amount of work, timing and investment required for the following phases, as the articulation of desired outcomes and decision making will define the rigour and amount of effort required.

Phase 1	Understand Council's desired outcomes for the report including: • What does Council want to learn from this report? • What decisions will be made based on the information in the report? • When will those decisions need to be made? • What other information will be needed to make decisions (ie. what is out of scope for the report)? • What Council approvals will be needed to make those decisions? • What is reporting cycle, annual? Every 2 years? • Identification of types of information required. • Initial scan of internal information and assumptions. • Procedures will include interviews of Council and Administration, synthesis of feedback, report writing, attendance at Council and Administrative meetings.	Estimated internal and external costs $300,000-$350,000, Estimated schedule Q1-Q3 2023
Phase 2	Understand how the work could be completed, for example: • Understand key City of Calgary data sources, gaps and evaluate suitability, precision and allocation methodologies of existing data;	To be determined

	• Determine method of reporting, including system and system integrations and resources required for sustainable reporting; • Evaluate potential changes to systems, structures and processes; • Identify opportunities and risks. • Council report for permission and resources to proceed to next phase.	
Phase 3	Create report, including: • Gather data, populate reporting method and evaluate accuracy, completeness and reasonableness of reporting; • Identify high level (order of magnitude) costs of on-going maintenance & reporting.	To be determined
Phase 4	Report with recommendations to Council.	To be determined
Phase 5	Recommendations on master data changes, automation and use of technology for a repeatable and efficient reporting.	To be determined

Funding is not included in the 2023 – 2026 Service Plans and Budgets.

UNI-CITY Model

Currently, City service delivery is not based on community-by-community revenue generation and expenditures where if one community generated more revenues, they would receive more services and vice-versa. Instead, The City works off a uni-city model, where revenues are collected across the entire city, and service delivery is prioritized city-wide and the goal is to provide equitable service delivery across the entire city. A Calgarian's level of services is not dependent on the assessed value of their home or other properties in their community. As property taxes is based on market value of property, like income tax, property tax paid is not tied to level of services.

The following summarizes, at a high level, the types of City revenues and expenditures. For the most part, other than property tax revenue, revenues and expenditures are not collected in The City's financial reporting system, Peoplesoft, by community. An allocation methodology and reporting system would need to be developed to produce the report to Council. The allocation methodology and reporting would depend on completion of Phase 1 and Phase 2 above.

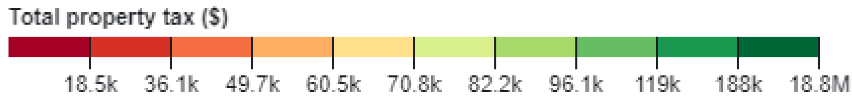
Revenues

Property Tax (46% of total revenues in 2021)

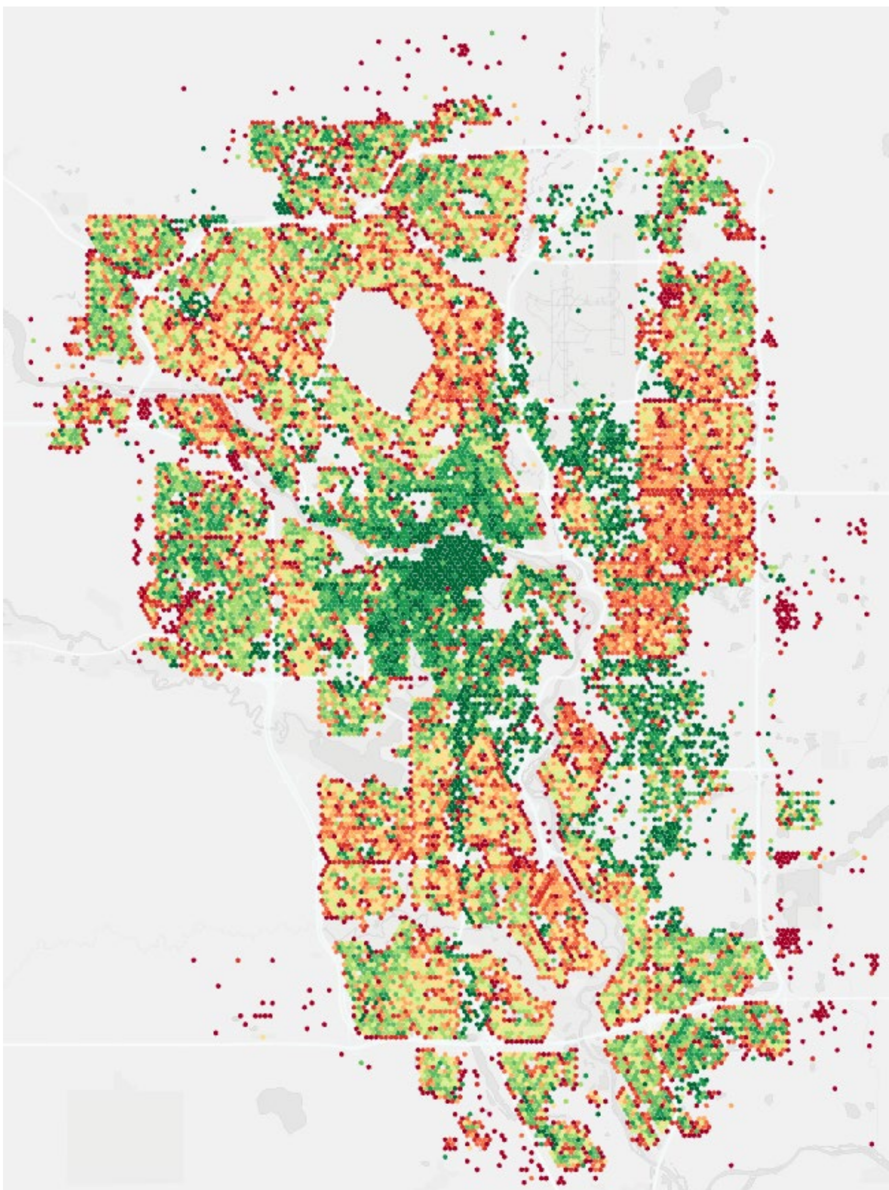
Relative property tax revenues are mainly dependent on the different tax rates applied between residential and non-residential properties and the market value of property. Some properties are exempt from property taxes and would generate no tax revenues like schools, universities, and hospitals.

The map below (EC2022-0649, Attach 2) shows dollars of tax generated by a given area from red (lowest decile) to green (highest decile).

Figure 1 Tax productivity by area in 2021



Mapping the relative tax productivity (both residential and non-residential) of areas across the city in 2021. Each residential and non-residential account was assigned a representative point based on its location, and the taxes were calculated based on 2021 assessed values and tax rates. Each point on the map aggregates the total taxes for a .1km radius hexagon (about .026 km2 or 26,000 m2 or 2.6 hectares or 6.4 acres). The darkest red areas produced tax revenue up to $18,500, and the darkest green produced tax revenue over $188,000 (up to $18.8M). The median hexagon in this analysis produced $71,000 in property taxes, or about $11,000 per acre or $27,000 per hectare.



The general trends observed in this map are:

- Non-residential properties (e.g., downtown, industrial northeast and southeast) contribute the most per acre because the value of the land and buildings is much higher, and the non-residential tax rate is higher than the residential tax rate.
- More intense uses (i.e., multi-story buildings with high site coverage) are much more productive than less intense uses (vacant land).
- The value of buildings on the periphery helps with tax productivity, meaning that newer communities with more valuable buildings tend to contribute more than the average community.
- The least productive areas are those areas where land values are lower and buildings have depreciated in value. Typically speaking, these are communities that are 30 – 70 years old.
- Roads, parks and post-secondary institutions are exempt from tax and they are clearly visible on the map.

This map should only be interpreted as a high-level view of the distribution of tax revenues throughout the city. Further work on this should is required before being relied on for decision-making.

Residential (24% total revenues in 2021)

As property tax revenue is based on market value, residential communities that have higher property values, will produce more tax revenues. Additionally, communities with higher property values, typically have higher household incomes. Also, as property tax revenue is not directly based on density, it is entirely possible to have two identical bungalows in two different communities and generate very different tax revenues. Legislatively, Council has broad discretion to create assessment subclasses based on property characteristics which can be used to apply different residential tax rates provided that the criteria is not discriminatory.

Non-Residential (22% total revenues in 2021)

Communities with more non-residential properties will generate more tax revenues than communities with less non-residential properties because of the higher rate applied. Non-residential properties tend to cluster together in office and industrial parks, shopping centres, and along corridors based on need for different amenities such as proximity to major transportation infrastructure for industrial to move goods or close access to labour and mass transit for office towers downtown. Currently, there is no legislative ability to create non-residential subclasses based on geography.

Sales of goods and services (~29% of total revenues in 2021)

Sales of goods and services primarily includes revenues from water and sewer, waste disposal, public transit, real estate, recreation and other sources. These types of revenues are primarily Calgarian (customer) specific, are charged in accordance with financial policies and are based on usage. For example, paying a fare to ride the bus or for access to a recreation centre.

Other revenue (~25% of total revenues in 2021)

Other revenue sources include franchise fees, licenses, permits, fines, investment income and miscellaneous revenue. Fees, licenses and permits are a fee for service type of revenue whereas investment income is general revenue.

Expenditures

Expenditures include salaries, wages, benefits, contracted services, maintenance, materials, equipment and supplies, fuel, utilities, interest charges, day to day programs or all necessary expenditures to ensure The City can provide daily services that are expected and required. For the New Community operating cost model Administration identified applicable cost categories: incremental direct and indirect costs, maintenance and lifecycle, and ancillary costs. However, understanding phase 1 would aid in determining if that is an appropriate city-wide method and how best to categorize and allocate expenditures.

Currently expenditures are incurred by individual business units based on the service provided. As business units and services are unique, how the expenditure is invoiced and tracked is also unique and in most cases is not tracked by location/community but rather based on the work completed or hours serviced.

Risks – Phase 1

The requirements of the request for proposal and internal work may be greater than expected and will constrain Administration resources, other deliverables will need to be re-prioritized and timelines may alter as a result.

Response to an Administrative Inquiry – Alignment of Statutory Development Plans, on 2022 April 12:

Can administration please report to Council on what the costs are to deliver services in each individual communities as well as how much revenue is generated in each of those communities to determine where our greatest deficiencies exist so that we can focus our planning efforts to mitigate our financial deficiencies? Can administration advise what differential mill rates for individual areas might look like to even out the cost/revenue differential between communities?

Currently, City costs to deliver services and revenues such as property taxes, user fees, & other revenues are neither tracked nor reported by geographic area. While it would be a manual and resource intensive task to report property tax revenues by community, allocating revenues from user fees and allocating cost of services by community would be a very difficult exercise, requiring a significant number of assumptions that will impact the reliability of the results. To highlight one difficulty of reporting cost of services and revenues by community, it would not be representative to allocate all operating costs, or user fees of regional amenities to the community it happens to reside in or around. These amenities are accessed by all Calgarians (i.e. Village Square Leisure Centre, C-Train, Whitehorn Multi-Services Centre). To track and report this information would require significant additional staff and financial resources as well as the reprioritization of existing and planned work. In considering allocating taxes based on cost/revenue differential, it is important to state that property taxes are based on the market value assessment of property. Like income tax, property tax paid is not tied to level of services unlike user fees. A homeowner living in a home worth $5 million, may not consume ten times the services as a homeowner living in a home worth $500,000. This method of allocating tax responsibility by service usage is contrary to The City's public service culture "One City, One Voice' in prioritizing investments city-wide and may create inequitable service delivery and tax treatment across the city. It should be noted that assessment subclasses can be used to establish differential mill rates in accordance with the Municipal Government Act and regulations. Council could establish residential subclasses on any basis it considers appropriate based on property characteristics, provided the subclass criteria are not discriminatory. However, The City's ability to create non-residential subclasses is very limited and does not extend to geographic location. Administration has existing direction to investigate and pursue broader changes to subclasses

Any consideration of subclasses based on cost/revenue differential, would need to address system changes, frequency of updates and changes to the rates, and significant ongoing resource needs. When coupled with the earlier discussion on tracking and reporting service expenditures, this overall system would be challenging and resource-intensive to administer and would require supporting communications, programs, and materials to explain tax variability among communities. Administration continues to progress understanding the cost and revenues related to tax supported city services, as shown in the recent briefing Financial Impacts of Growth: New Community Operating Cost Model Update (IP2022-0196). Administration has prioritized evolving the understanding of the financial impacts of a growing city, to help inform decision making and understanding of the return on investments The City makes and how to best drive value from these investments, through the Financial Impacts of Growth work in the City Planning and Policy Roadmap (IP2022-0053 – Attachment 3). Administration strives to continuously improve the financial sustainability of The City and return on investments. Should Council wish Administration to undertake further work toward more directly attributing, by community, taxes and user fees paid to service expenditures, Administration suggests Council direct Administration to provide Council with a project scoping report, including outcome, project scope, budget, and time. Administration notes to generate this scoping report it would require the re-prioritization of existing work.