CITY OF FORT SASKATCHEWAN

Residential Property Rebates – Implementation Strategy

Purpose:

To present an implementation strategy to take $1,000,000 from the 2016 operating surplus and distribute a rebate evenly to all residential properties within the City.

Background:

At the April 25, 2017 regular Council meeting, Council was provided an update on the 2016 operating surplus. The annual operating surplus of $4,956,680 was allocated equally between the Self Financing Infrastructure Reserve, the Land Purchases Reserve, and the Financial Stabilization Reserve.

At the May 23, 2017 regular Council meeting, Council directed Administration to create an implementation strategy to take $1,000,000 of the total 2016 surplus funds (which had been added to reserves) and distribute a rebate evenly to all residential properties in the City of Fort Saskatchewan. The implementation strategy was to be prepared and presented at the June 13, 2017 regular Council meeting.

On May 23, 2017, the City finalized its 2017 property assessment roll and mailed 10,124 Assessment and Property Tax Notices to residential property owners. A breakdown of the tax notices by residential property type is as follows:

- Single and multi-family housing units: 7,475
- Condominium units: 1,547
- Condominium parking stalls: 576
- Vacant residential properties: 453
- Apartment complexes: 50
- Farm residences: 23

Implementation Strategy:

<u>Determination of Eligible Residential Properties</u>

The first step in the implementation strategy is to determine which residential properties would be eligible to receive rebates. This is a critical step in the implementation strategy because it establishes who would be entitled to receive a rebate, and it helps determine the amount of rebate.

Based on Council's discussion and debate at the May 23, 2017 regular Council meeting, it was suggested that condominium parking stalls and apartment complexes be excluded from the list of eligible residential properties. The argument to exclude condominium parking stalls recognizes the fact that parking stalls are not occupied by a resident. Furthermore, condominium unit owners would already be entitled to a separate rebate under the building's assessment. The argument to exclude apartment complexes recognizes the fact that apartment buildings are operated as businesses, and the fact that renters do not pay property taxes specific to their units.

Administration also gave consideration to exclude vacant residential property from the list of eligible properties. Vacant residential property consists of unoccupied residential land. Vacant residential property should be excluded from the list of eligible residential properties, because like condominium parking stalls, these properties are not occupied by a resident.

Administration recommends that separately assessed condominium parking stalls, apartment complexes and vacant residential properties be excluded from the list of eligible residential properties. Therefore, if May 23, 2017 is used as the effective date to determine eligibility, then a total of 9,045 residential properties would be eligible to receive the residential property rebate.

Effective Date

Establishing an effective date to determine rebate eligibility is another critical step in the implementation strategy. Since residential property ownership changes on a regular and recurring basis, it is essential that a timeframe for determining eligibility be established. Basically, there are two date options available: (1) May 23, 2017, or (2) a future specified date.

The City's property assessment roll would be used as the main information source to select eligible residential properties and to process the individual rebates. The property assessment roll was last updated on May 23, 2017 for the purpose of distributing the 2017 Assessment and Property Tax Notices.

Administration recommends using May 23, 2017 as the effective date to determine rebate eligibility, as opposed to a future date, for the following reasons:

- Rebate eligibility would not be impacted by changes in ownership after this date.
- The information required to process the rebates is readily available.
- Since all eligible residential property owners that received an Assessment and Property Tax Notice (mailed on May 23, 2017) would be entitled to a rebate, greater clarity and transparency is attained.
- Additional time and cost to reproduce the property assessment roll at a future date could be avoided.

Distribution Method and Related Costs and Timelines

In creating the implementation strategy, Administration reviewed several options for distributing the residential property rebates along with associated costs and timelines. Distribution options included the issuance of cheques and the application of credits to customer accounts. Under the cheque payment option, further consideration was given to whether it would be beneficial to outsource the cheque processing services to an external third party, or to process the cheques in-house.

Administration recommends that the rebates be distributed through the issuance of cheques with the services outsourced to an external third party. Several banks and cheque processing companies were contacted to determine whether they could provide the required cheque processing services and to obtain pricing information. The City's current provider for banking services, TD Canada Trust, would be chosen to provide the cheque processing services.

In developing the implementation strategy, Administration prepared a list of required steps. The key steps are outlined as follows:

- Register a separate City bank account to handle rebate cheques;
- Obtain cheque fraud protection services for an extended time period;
- Select eligible residential properties from the property assessment roll;
- Create a vendor file containing all pertinent cheque information;

- Prepare master list of cheques for control purposes;
- Implement cheque clearing and re-issuance procedures;
- Determine additional staffing requirements of impacted departments;
- Develop a communication and marketing strategy.

Administration estimates that the total cost of processing and distributing the residential property rebates to be approximately $64,000, or approximately $7 per eligible residential property. The timeline would involve a 9 to 11 week implementation period from the initial selection of eligible residential properties to the issuance of the last rebate cheque. Assuming that the implementation strategy commences June 14, 2017, a conservative estimate puts the timeline for issuing all rebate cheques at August 31, 2017.

Administration also considered the possibility of processing and distributing the rebate cheques in-house; however, this option is not recommended. The City currently processes about 7,000 vendor payments annually. Therefore, the City is not currently equipped to handle the recording and issuance of approximately 9,000 cheques at once. In order to accomplish this, significant additional resources in terms of staffing, time and equipment would be required. Also, certain projects to which staff are currently assigned to would be impacted.

Administration also considered the possibility of distributing the rebates through the application of credits to customer accounts. This option is not recommended for the following reasons:

- Due to timing and technical constraints, the rebates could not be applied to eligible property owners' tax accounts until after June 30, 2017, the date 2017 taxes are due; therefore, owners would not benefit from the rebates until the 2018 tax year;
- Applying rebates as credits to utility accounts would not be feasible as there is no direct correlation between property tax accounts and utility accounts;
- The anticipated high number of customers requesting credit payouts would be avoided;
- Cheques are typically the preferred payment method for rebates distributed en masse.

<u>Calculation of Individual Rebate Amount</u>

During Council's discussion and debate at the May 23, 2017 regular Council meeting, it was suggested that the individual rebate amount be calculated on a net basis after all related costs have been deducted. Administration concurs with this treatment.

Each eligible residential property would receive a rebate of $103.48 based on the implementation strategy outlined in this report. For further clarity, the rebate would be calculated as follows:

- $1,000,000 minus $64,000 estimated cost, divided by 9,045 eligible residential properties

<u>Impacts of Municipal Government Act and/or Other Legislation</u>

To determine what, if any, impacts the Municipal Government Act (MGA) and/or other legislation would have on the implementation strategy, Administration obtained an opinion from the City's legal counsel. The legal opinion suggests that the City has two alternatives under the MGA with which to distribute a set-value rebate to residents:

1. By resolution, Council could authorize an expenditure of $1,000,000 in residential property grants, to be funded by a transfer from reserve(s), and distributed to each property owner in

an amount to be determined. The grants must be in good faith and must be for a valid "municipal purpose". The MGA states that proper municipal purposes include:
   a. to provide good government,
   b. to provide services, facilities or things that, in the opinion of council, are necessary or desirable for all or a part of the municipality, and
   c. to develop and maintain safe and viable communities.
2. Under MGA section 347, Council may cancel, refund or defer the collection of property taxes with respect to a particular taxable property, business or class of taxable property if Council considers it equitable to do so.

Alternative #2 is not recommended as it does not fit with the intent of the implementation strategy- to distribute a rebate evenly to eligible residential properties funded from surplus – and raises concerns over the equitable distribution of the rebates.

Administration, therefore, recommends alternative #1 that Council, by resolution, authorize an expenditure of $1,000,000 in residential property grants to be funded by a transfer from reserve(s) and distributed evenly to eligible residential property owners, as outlined in this report.

Administration also considered whether or not the grant recipients would be subject to federal and provincial income taxes under the Income Tax Act (ITA). Based on our research and discussion with tax specialists, Administration believes that the grants would fall under the "windfall" section of the ITA, and therefore, would not be subject to income tax. However, to gain absolute certainty, the City could prepare and submit a request for ruling from the Canada Revenue Agency (CRA). The estimated cost to prepare this request would be $50,000, which consists of professional fees and an application fee. The process for requesting and receiving a ruling would take approximately 6 to 8 weeks. However, Administration believes this step to be unnecessary as the risk that the CRA would assess the grants as taxable is deemed to be unlikely.

Financial Implications:

Public sector accounting rules would not permit the residential property grants to be funded directly from the 2016 operating surplus, instead the grants would constitute a $1,000,000 increase in 2017 operating expenditures with the funding coming directly from reserves.

Pursuant to Council Resolution R89-15 (Council report April 25, 2017), the 2016 operating surplus was allocated equally between the Financial Stabilization Reserve, the Land Purchases Reserve, and the Self-Financing Infrastructure Reserve. Therefore, as the intent is to finance the rebate from the 2016 operating surplus, the rebates and the cost of issuing the rebates would be funded equally between these three reserves.

Internal Impacts:

Additional staff time is included in the estimated cost figure. The additional staffing would be necessary in order to complete the implementation and includes additional staff time dedicated to fielding and responding to queries. This would be most critical during peak operational times such as the days leading up to the June 30th tax deadline and subsequent to the cheques being issued.

Alternatives:

1. That Council approve the implementation strategy, as outlined in this report.

a. That Council authorize an expenditure of $1,000,000 in residential property grants, to be funded equally from the Financial Stabilization Reserve, Land Purchases Reserve, and Self-Financing Infrastructure Reserve, and distributed to each eligible residential property owner in the amount of $103.48, as outlined in this report, and
b. That the grants be issued for the municipal purposes of providing good government, and the promotion and development of a safe and viable community.

2. That Council not approve the implementation strategy.

Recommendation:

Administration recommends that Council not approve the implementation strategy and instead retain the $1,000,000 of the 2016 operating surplus in reserves.

The City uses operating surpluses to fund reserves as part of a sound financial system. Reserves provide for future funding requirements, stabilize operating and capital activities, provide contingency funding for emergencies and unforeseen expenses, lessen reliance on debt financing, and mitigate future spikes in taxes. Administration is currently in the process of preparing surplus and reserve policies for Council's approval.

The 10 year capital plan includes several major projects on the horizon such as expansion and modernization of the City's aquatics and ice facilities, construction of a second fire hall, and enhancements to the transfer station. Reserves provide Council with options to fund these future capital projects and ongoing operating costs, in a financially prudent manner to best meet the needs of the community.

The 2016 operating surplus primarily resulted from additional revenues from traffic fines, supplementary taxes and investment income, and lower than anticipated expenses due to warmer than expected weather conditions, staffing vacancies and lower courses, conferences and travel. The 2017 approved budget included measures to reduce future operating surpluses such as adjustments made to traffic fines and investment revenue, and courses, conferences and travel.

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