

**Report to Thompson City Council from the Finance & Administration Committee
on the Municipal Revenue Act
April 7, 2008**

Background

Our responsibilities as a Council of the City of Thompson include meeting the current needs of the community through the services we provide, and preparing for the provision of those services in the future.

When planning the priorities for each year through the budget process, Council and administration make trade-offs between the operating and capital budgets. The costs of wages, energy costs, and materials in the operating budget compete for resources (money) with equipment purchases, building renovations, and replacement of infrastructure such as water & sewer pipes, roads, sidewalks, and buildings in the capital budget. As a general rule, the more immediate needs in the operating budget have been met, while capital expenses such as replacing equipment, upgrading buildings have been deferred.

Ironically, as a result of deferring capital projects, it is widely understood that the cost of providing services has increased. Keeping equipment too long means it costs more every year to operate and maintain. The newest grader the city owns is 15 years old. The older your roads, and water & sewer pipes, the more time and money you need to spend on repairs.

There is a growing realization that delaying significant capital investment in water & sewer pipes, road & sidewalks, will result in significantly higher operating costs in the future. The cost of necessary replacement or upgrade of municipal infrastructure such as roads & sidewalks, water & sewer pipes, water and sewer treatment plants, transit, and community facilities is generally referred to as the *Infrastructure Deficit*. A recent report by the Federation of Canadian Municipalities (FCM) pointed out that most of Canada's municipal infrastructure was constructed between 1950 and 1970, and is in need of replacement. Since Thompson was largely built in the 1960's, virtually all of our infrastructure was built in this period. In addition, the speed of construction, and uncertainty about the longevity of the community at the time, may have contributed to the quality of infrastructure initially installed.

With respect to sewer and water, a good indicator of the condition of the pipes is the number of repairs needed annually to keep the system running. The following table compares our annual water and sewer repairs to other Manitoba communities.

Community	Three Year Average
Steinbach	20
Lynn Lake	35
Portage	60
Brandon	190
Thompson	338
Winnipeg	1400

Communities of Portage la Prairie and Steinbach, which are similar in population to Thompson, have significantly lower numbers of water and sewer repairs annually. Winnipeg, at approximately 40 times our population, handles only 4 times the number of repairs that Thompson does. Brandon has 4 times our population, but we have an 80% higher incidence of repairs. It is clear that we are spend a lot of time and money to patch the system, and need to do more to replace large sections of our infrastructure.

It is clear that we will need to spend more money replacing water & sewer pipes, roads, and sidewalks if we are going to ever get control of the costs of our infrastructure.

In addition, we are regularly being asked to improve services within Thompson. Enhancements to public safety, such as the sidewalk lighting program, brush clearing, low cost recreation, street and sidewalk clearing put pressure on our operating budget.

In our 2007 budget, the city made significant changes in the operating budget to move our spending from lower priority areas to higher priority such as public safety and infrastructure. For the first time, the city carried out some large scale replacement projects. The costs budgeted for these were \$500 thousand, which primarily came from operating revenues supported by property tax increases. We are not certain that this rate of replacement of infrastructure is sustainable with the increases we are facing in operating costs.

Like other municipalities, the City's control over its revenues has generally been limited to a few areas such as property & business taxation, fees for services, utility fees, grants, and debt. Likely a result of economic uncertainty in the past, the City of Thompson has tended to focus on property taxation to fund both its operations, and capital expenditures. This has placed a significant burden on property taxes, which many feel are an outdated and unfair form of taxation. With property taxation as the main limiting factor on revenues, we have tended to delay significant capital projects in favor of maintaining current services. Another problem is that the property tax base doesn't keep pace with quickly changing economic conditions. As an example, despite a booming local economy over the past two years, the property assessment in Thompson has only grown 4.75%.

To increase our rate of replacement of infrastructure, we need to find additional revenues. The City is currently actively pursuing or investigating the following sources:

- Increased contributions from Vale Inco
- Establishing a water & sewer utility that will charge for water use
- Moving to market pricing for land sales
- Increasing our fees for services provided by the city
- Municipal Revenue Act taxes on:
 - Restaurant meals
 - Hotel accommodation
 - Alcohol
 - Land transfer

Together, these represent a strategy to widen the City of Thompson's revenue base, and reduce our dependence on property taxes as a percentage of our total revenues.

Regarding the first two items on the above list, Council is aware that a proposal has been submitted to Vale Inco that we believe demonstrates good value for both the company, and the City. We are very hopeful that it will be approved by the company. Preparation for establishment of the water & sewer utility is being handled by the Director of Infrastructure & Asset Management, Ken Allard, and the Infrastructure and Operations Committee chaired by Councillor Sawh.

With respect to the Municipal Revenue Act, Council met on November 13, 2007 to review the act with staff from Manitoba Intergovernmental Affairs. The Finance and Administration Committee were asked to follow-up with provincial staff. The purpose of this memo is to outline the provisions of the Municipal Revenue Act, report on our discussions with Manitoba Intergovernmental Affairs staff, and to make recommendations to Council.

Municipal Revenue Act

The Municipal Revenue Act (MRA) gives municipalities the authority to tax the sale of hotel or motel accommodation, meals in a restaurant or dining room, alcohol, or the transfer of land. In order for a specific tax to come into effect under the act, it must be set out in a by-law that details:

- a) the rate or amount of tax imposed
- b) the product or service which is subject to the tax
- c) the manner of collecting the tax
- d) designation of persons as collectors and commissions to be paid, if any

The by-law may:

- a) prescribe exemptions from the tax

- b) prescribe penalties for violation of the provisions of the by-law
- c) authorize the municipality to enter into an agreement with the province for the collection of the tax

The MRA stipulates that a tax by-law will not come into force & effect until it is approved by the province of Manitoba.

To date, no municipalities in Manitoba have used the provisions of the act. The City of Winnipeg is implementing a hotel tax under the provisions of the City of Winnipeg Act.

General comments

- The taxes in the MRA present an opportunity to broaden the city's tax base, by both increasing revenues, and sharing the tax burden on more people who use our services and infrastructure.
- Three of the taxes (hotel, meals, and alcohol) are based on the consumption of products and services.
- The federal Goods and Services Tax was reduced 2% (1% on July 1, 2006 and 1% January 1, 2008). This presents two opportunities. First, a tax of 2% on these products and services will not increase the consumption tax burden above what it was on June 30, 2006. In addition, with the taxation taking place locally, we feel that consumers will be able to see greater value for the taxes paid as the resulting funds will be controlled, and directed locally.
- The MRA taxes would provide the city with sources of revenue which would track general economic conditions in the community.
- From discussions that we've had, it is clear that the province is most open to the hotel and meals taxes. Although the alcohol tax may be widely supported locally, we are unlikely to see provincial support for the alcohol tax if we don't proceed with these two.
- Provincial officials have indicated that the province is not prepared to enter into agreements to collect taxes for municipalities under the MRA.
- There is a concern with the prospect of new tax revenue being absorbed into the general revenues of the city, with no tangible benefit to residents and the community. It is the committee's view that should any taxes be implemented under the MRA, the revenues be dedicated to specific uses such as infrastructure renewal, or public safety.
- Another concern is with the handling of confidential information related about the sales of individual establishments. This implementation issue would need further discussion should Council choose to proceed with the meal or hotel taxes.

Hotel rooms

- These taxes are common in many communities across Canada and the proceeds are usually applied to tourism promotion or destination marketing initiatives.
- Projected hotel accommodation expenditures in Thompson are approximately \$9.3 million annually (300 occupied rooms per night, at an average price of \$85/night).
- At 2%, the tax on an \$85.00 hotel room would be \$1.70.

Meals

- Manitoba is the only province with legislation allowing for the taxation of meals by municipalities. These taxes are very common in the US.
- Based on information provided by the Canadian Restaurant and Foodservice Association, restaurant sales in Thompson are between \$16.5 and \$18.0 million per year.
- Information provided in a report by the CRFA showed a 7.3% decline in restaurant sales as a result of the introduction of the GST in 1991. The CRFA projects a 2% reduction in sales as a result of a 2% tax. The CRFA report did not indicate whether the recent reduction of the GST by 2% had produced a corresponding 2% increase in sales.
- At 2%, the tax on a \$7.00 breakfast would be 14 cents. The tax on a \$15.00 supper would be 30 cents.

Alcohol

- Based on Statistics Canada projections, expenditures on alcohol by Thompson residents are estimated at \$5,000,000 annually, however the actual numbers are not available to us as they are not public information.
- There is no question that this community bears a significant cost as a result of being the regional centre for the sale and distribution of alcohol. A large portion of the effort of our local RCMP detachment is related to the fallout of alcohol consumption. The contract for RCMP services is over \$3 million annually, and the contract price for by-law enforcement is \$500,000 for 2008.
- At 2%, the tax on a \$16.00 bottle of wine would be 32 cents.

Land transfer

- In July, 2007 Toronto became the first municipality in Canada to use a land transfer tax. The starting rate is 0.5% on the first \$50,000 and increases with higher value properties.
- Currently, there is a provincial land transfer tax that is paid as follows:
 - 0% on the first \$30,000
 - 0.5% on the next \$60,000
 - 1.0% on the next \$60,000
 - 1.5% on the next \$50,000
 - 2.0% on amounts over \$200,000
- Estimated value of property transfers in Thompson in the last year were over \$6 million in residential property sales in 2006. We will request actual land transfer data from the provincial land titles office, but estimate that an average year in land transfers would see at least \$20 million transferred.
- On the sale of a \$200,000 property, a 0.5% transfer tax would be \$1,000.

Recommendations

- 1) That Council consider implementing all four taxes under the Municipal Revenue Act using the following rates:

MRA Tax	Rate	Estimated Annual Revenue
Hotel Accommodation	2.0%	\$186,000
Meals	2.0%	\$330,000
Alcohol	2.0%	\$100,000
Land Transfers	0.5%	\$100,000

- 2) Council designate the funds collected from the Hotel and Meal taxes to the Infrastructure Reserve. By doing so, the city can link the payment of the taxes directly to infrastructure improvement projects to which the funds will be applied. Under the Municipal Act, reserve funds may only be used for their intended purpose, and even then may only be transferred from the fund by by-law. This will ensure a high degree of accountability and transparency with respect to these funds.
- 3) Designate funds from the Alcohol and Land Transfer taxes to a Public Safety Reserve, and the city's Capital Surplus account, respectively. The Public Safety Reserves would be used to offset current and future costs of providing public safety services such as policing and by-law enforcement. The Capital Surplus is for use on the land development requirements of the city.

Next Steps

- We ask that Council review the report and provide comments to the committee. In particular, there are still a number of questions surrounding how we would collect the taxes, the need for possible exemptions, and an appropriate process to follow from here forward, including public consultation.
- Following this feedback, the Committee will report to Council at the regular meeting on April 14th, and will seek direction at that time on whether or not to proceed with any or all of the taxes under the MRA. Council may choose to proceed with one or more of the MRA taxes at that time.
- Should Council decide in the meeting on April 14th to proceed with any of these, we would bring by-laws for first reading on April 21st. By-laws require three readings in two separate meetings of Council, and can be amended at any of those meetings. We support the commitment of City Council on March 31st to hold the three readings in three separate meetings of Council.
- Council should consider making the attached information sheet available to the public to outline the process being followed with respect to the Municipal Revenue Act.