

Report from Financial Management Services, Director

Date of Report: November 16, 2018

Date of Meeting: November 22, 2018

Report Number: FMS-B030-2018

File: 10.57.99

Subject: 2019 Non-Tax Revenue Projections

Recommendation

That the Budget Standing Committee (BSC) receive this report for information purposes.

Summary

This report provides information on the amount of non-tax revenues projected for 2019. These revenues are estimated to increase by \$126,000 from 2018. This report will provide the details for this increase.

Background

Each year as part of the budget process staff determine the amount of non-tax revenues expected to be generated during the particular budget year. The amount of non-tax revenues is deducted from the City's net expenditures to determine the amount of the net tax levy.

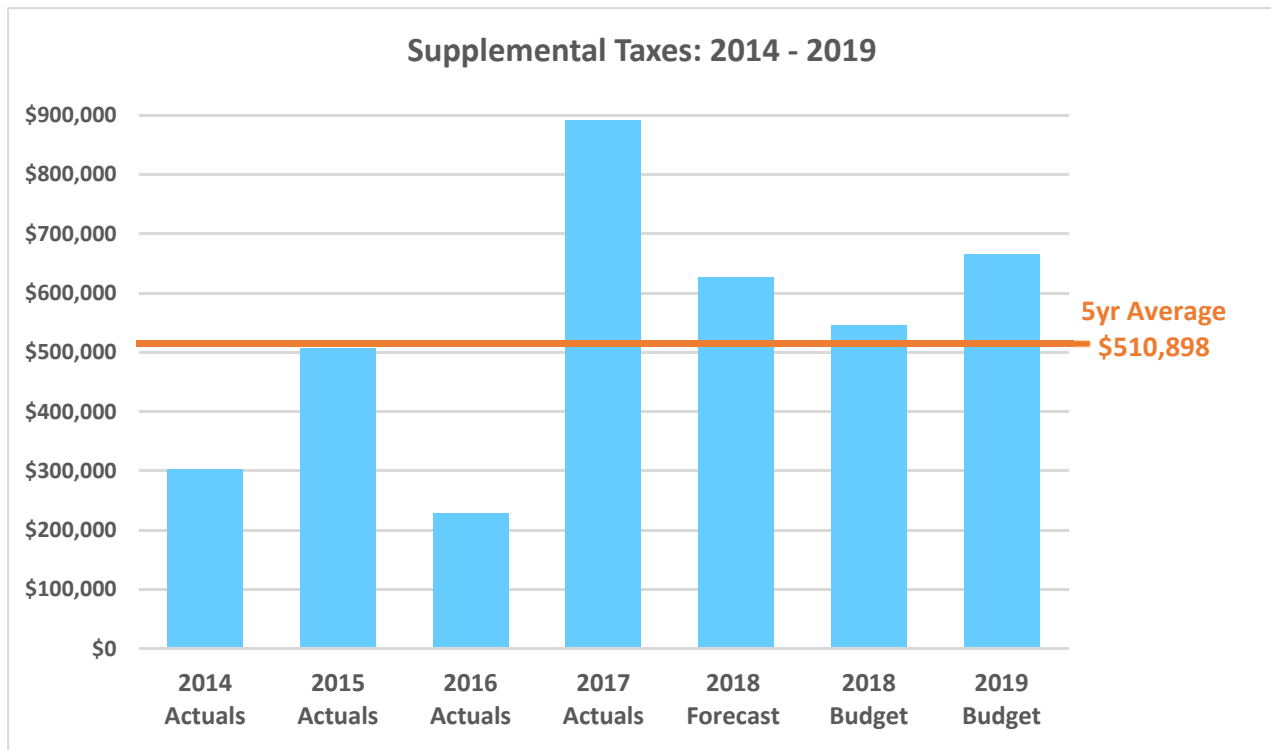
Report

In recent years, there were a number of decreases in non-tax revenues. In 2018 the trend of non-tax revenues beginning to stabilize occurred. There are a few increases forecasted in 2019 in the amount of \$910,000. This increase is offset by a decrease or reduction in non-tax revenues of \$784,000.

The following are the reasons for the increase in non-tax revenues estimated for 2019.

Supplemental Taxes

The average supplemental tax revenues for the last five years is \$511,000. The City continues to experience positive building permit activity in 2018, although slightly lower numbers than 2017. Therefore, supplemental tax revenues are expected to continue to increase in 2019 with the increase in new dwelling numbers in the past couple of years. The estimated supplemental tax revenue for 2019 is \$665,000, an increase of \$120,000 from \$545,000 in 2018. This has a positive impact on non-tax revenues.



Regular Hydro Dividend

Each year the City receives dividends related to its holdings in Alectra Utility Corporation. These are pass through dividends and not special dividends. Based on the Hydro's business plan for 2019 this pass through dividend is expected to increase by \$451,000 in 2019. This increase is reflected in the City's non-tax revenues for 2019.

Investment Income

During 2018 there have been three interest rate hikes by the Bank of Canada. These interest rate hikes resulted in increased investment income for 2018. Interest rates are expected to remain at least at this level in 2019; therefore, an increase in investment income of \$315,000 is estimated.

Fines

The City's share of fines from Provincial Offences (POA) from the Niagara Region is expected to increase by \$20,000 in 2019 from 2018. This is due to 2018 being the first year in several that the Niagara Region is expecting positive year end results for the POA. Therefore, the area municipalities who share in these revenues will see an increase in POA distributed in 2019.

Surplus

During the 2016 budget process this committee and Council approved the creation of a tax stabilization reserve and further that a maximum of 1% of the previous year's budget

be contributed to the following year's budget. One percent of the 2018 operating budget is equal to \$1,106,000. Any amount in excess of this amount would be transferred to the tax stabilization reserve. At this time staff are expecting a surplus from 2018 fiscal year to meet or slightly exceed \$1,106,000. Therefore, this amount has been included in the 2019 non-tax revenues as the surplus amount. Although the 2018 year is not yet complete, forecasts indicate that we can be relatively confident that the usage of \$1,106,000 as the surplus amount in the 2019 budget is a reasonable figure. This is an increase of \$4,000 from the amount of \$1,102,000 used in the 2018 budget.

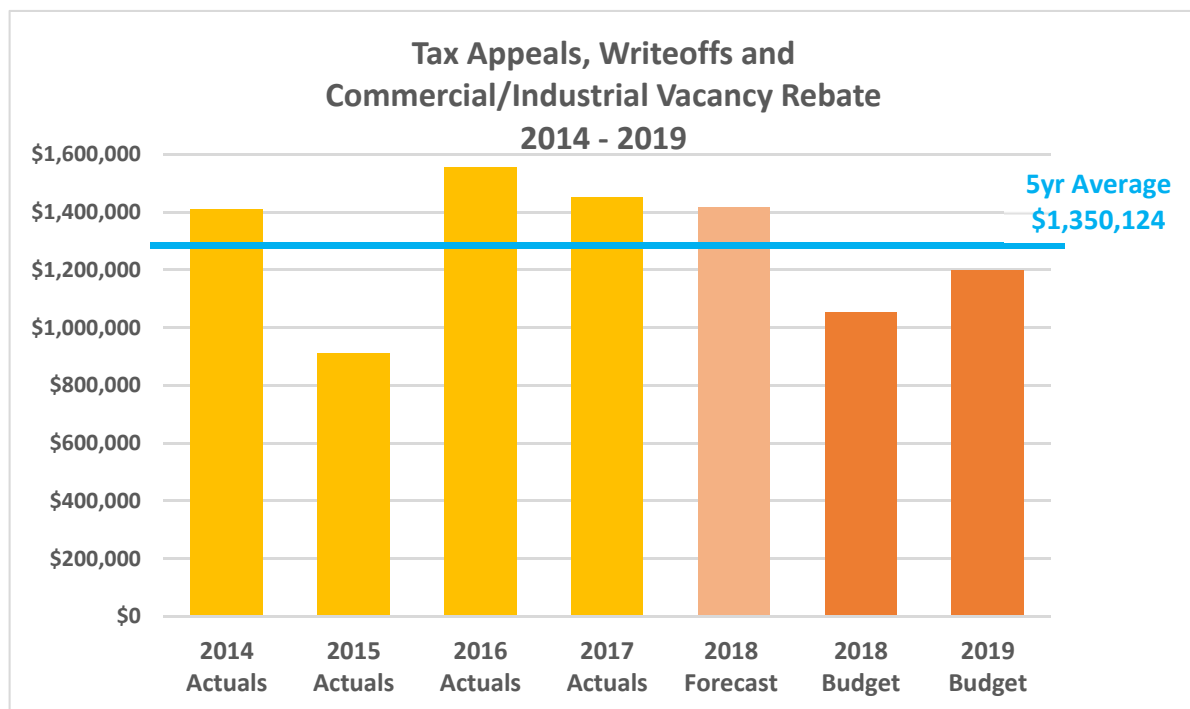
These increases in revenues are offset by declines in some revenues. The following are the details of revenue decreases expected in 2019.

Miscellaneous Revenues

In previous years, the New Experimental Experience Rating (NEER) for the city resulted in a payment being received by the City. However, this changed in 2017. The city's expected costs were less than the actual costs resulting in a NEER payable at the end of 2017. Since the NEER program is based on a three year rolling average and the city's current and future claims are expected to continue at the same level, it is likely that the City will be in a NEER payable position for the next few years.

Tax Appeals and Write-offs

As indicated in the 2018 third quarter report tax write-offs are expected to exceed the 2018 budget amount of \$1,055,000 by \$362,000. MPAC is continuing to work on its turnaround time for appeals, with improvements each year. In addition, in 2018 there was a new assessment appeal process introduced to expedite the appeals process,

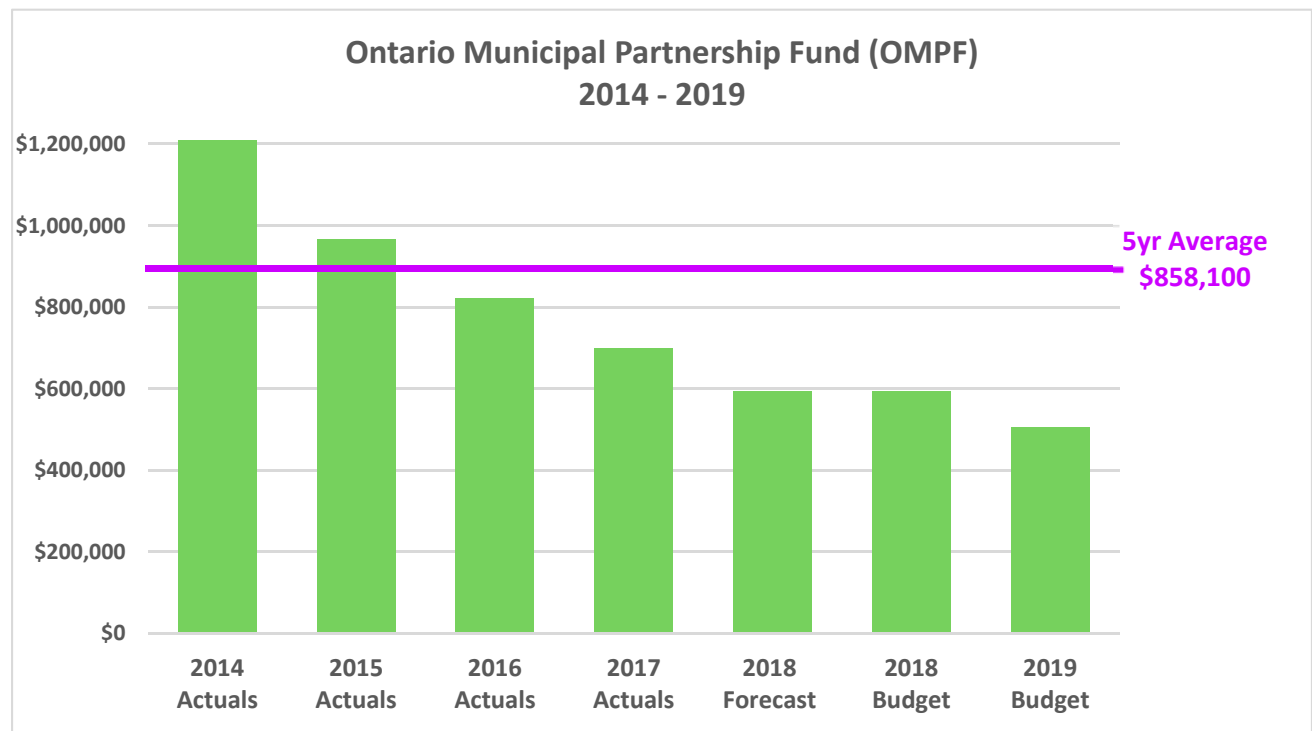


which is partly attributable to the increase forecasted for 2018. Each year there some appeals that are not yet finalized and each year some appeals are expected. The further from the re-assessment year, the less appeals filed. For example, there were 79% fewer Request for Reconsiderations (RfR) filed in 2018 compared to 2017, with 2017 being the first year after reassessment. Therefore, staff have increased the 2019 budget amount for tax appeal and write-offs by \$145,000. This has a negative impact on revenues.

As shown in the graph above, tax write-offs fluctuate from year to year. The average of the past five actual amount of tax write-offs is \$1,350,124. Staff have increased the budget for tax write-offs and adjustments to \$1,200,000 from \$1,055,000, to bring the budget closer in line with the five-year average.

Contributions from other governments – Ontario Municipal Partnership Fund (OMPF)

In 2019, the City will receive 85% of the amount of its 2018 OMPF. This is a decrease of \$89,000. The City receives this grant under the “Transitional Assistance” portion of this program. This grant has been on a steady decline since 2013 when the City received \$1,422,000 grant amount. This is a 65% decline since 2013. This grant reduction has a negative impact on the 2019 non-tax revenues.



In 2019, the City's payment-in-lieu of taxes (PILT) will decrease by \$30,000 due to a decrease in assessment related to PILT properties. This has a negative impact on non-tax revenues in 2019.

Investment in Community Improvement Program (CIP)

During the 2016 budget deliberations the BSC and Council approved the methodology to fund the City's CIP with ten percent of the new tax revenues generated through this program. In 2019 the investment in CIP will increase to \$1,200,000 from \$1,100,000. This is an increase of \$100,000 for this program to fund commitments to brownfield and tax incentive grants. This increase has a negative impact on revenues.

Penalties and Interest on Taxes

Over the past few years, payment on tax arrears have been improving. As taxes are paid by the due dates, then less penalty and interest income is collected by the city. This is positive for the city and its tax payers. There is a negative impact on the city's non-tax revenues of \$90,000 expected in 2019 for this item.

Improved Departmental Reporting

To improve departmental reporting and align revenues collected with the department that has the majority of the responsibility related to the revenues being generated the following revenue items are reported with the departments in the 2019 net expenditure operating budget.

- Building, plumbing and sign permits
- Marriage Licenses
- Break Open, Bingo, Raffle License Fees
- Business Prof License
- Dog Licenses
- Tax certificate fees

These revenues have been previously reported as general revenues, which support all departments equally across the city.

Financial Implications

The net increase in non-tax revenues has a favourable impact on the 2018 tax rates due to there being more non-tax revenues to offset the City's net expenditures for its operations. Ultimately this results in a lower tax rate to generate the tax revenues required to fund the City's net expenditures.

Relationship to Strategic Plan

This report relates to the goal under the economic pillar to be an affordable city for young people, families and retired older adults which is further defined as working towards achieving a budgetary tax rate increase at or below inflation. In 2019, the non-tax revenues have a favourable impact on the tax rate. The increase in non-tax revenues in 2019 of \$126,000 is positive and comparable to the increase in 2018.

Conclusion

Based on the 2019 non-tax revenues projected there will be a net increase in these revenues in 2019. This net increase has a favourable impact on City's tax rates for 2019 as less taxes need to be collected to fund the City's net expenditures because the non-tax revenues of \$126,000 are funding a small portion of these net expenditures. This change is consistent with the impact of non-tax revenues on expenditures in 2018.

Prepared, Submitted and Approved by:

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APPENDIX 1

City of St. Catharines 2019 Estimated Non-Tax Revenue

	2019 Budget	2018 Budget	2018 Year End Forecast	2017 Actuals	2016 Actuals	2015 Actuals	\$ Change 2018 Budget	% Change 2018 Budget
REVENUES:								
General Levy	93,387,123	88,831,810	88,831,810	86,319,111	84,554,460	79,957,995	4,555,313	5.13%
Urban Service Area Levy	12,690,206	11,692,923	11,692,923	11,503,813	11,059,006	11,236,599	997,283	8.53%
Investment in CIP	(1,200,000)	(1,100,000)	(1,100,000)	(1,040,797)	(900,254)	(825,000)	(100,000)	9.09%
Tax Appeals and Write offs	(880,000)	(735,000)	(1,099,436)	(1,222,733)	(1,228,938)	(489,679)	(145,000)	19.73%
Commercial/Industrial Vacancy Rebate	(320,000)	(320,000)	(317,525)	(229,723)	(326,912)	(423,534)	0	0.00%
Supplemental Taxes	665,000	545,000	625,737	891,316	227,565	507,506	120,000	22.02%
Municipal Utilities	549,000	579,000	569,879	557,369	598,043	572,966	(30,000)	(5.18%)
Universities and Hospitals	668,356	668,197	668,356	668,196	664,505	660,599	159	0.02%
Contributions from Other Governments	2,126,800	2,245,700	2,443,028	2,321,989	2,473,778	2,595,487	(118,900)	(5.29%)
Rents, Concessions, Franchises	38,000	38,000	31,950	36,720	81,194	72,959	0	0.00%
Fines	125,000	105,000	70,118	61,894	140,757	166,436	20,000	19.05%
Penalties and Interest	2,650,000	2,740,000	2,143,825	2,615,724	2,757,016	2,775,538	(90,000)	(3.28%)
Income from Investment	4,655,500	3,890,000	3,558,695	4,426,884	3,674,236	3,587,110	765,500	19.68%
Miscellaneous Revenue	79,800	379,800	569,706	108,703	70,388	1,044,990	(300,000)	(78.99%)
Surplus	1,106,000	1,102,000	1,102,000	1,085,000	1,000,000	2,600,000	4,000	0.36%
Total REVENUES:	116,340,785	110,662,430	109,791,066	108,103,466	104,844,844	104,039,972	5,678,355	5.13%
							0	
Tax Levies								
General Levy	93,387,123	88,831,810	88,831,810	86,319,111	84,554,460	79,957,995	4,555,313	5.13%
Urban Service Area Levy	12,690,206	11,692,923	11,692,923	11,503,813	11,059,006	11,236,599	997,283	8.53%
Total Tax Levies	106,077,329	100,524,733	100,524,733	97,822,924	95,613,466	91,194,594	5,552,596	5.52%
					0	0	0	
Revenue - Non-Tax	10,263,456	10,137,697	9,266,333	10,280,542	9,231,378	12,845,378	125,759	1.24%