

# The Municipal Sustainability Model

## **Authors**

Rob Fitzgerald, MBA, AACI  
Norm Stickelmann, MBA, CGA  
Bob Laurie, B.A., FRI  
Paul Sullivan, B.A.

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**FOR DISCUSSION PURPOSES ONLY**

# THE MUNICIPAL SUSTAINABILITY MODEL

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# THE MUNICIPAL SUSTAINABILITY MODEL

## RECOMMENDATIONS

That the Community Charter / Local Government Act be amended to require each municipality to submit to the satisfaction of the Minister, once in each (3 year) election cycle the following:

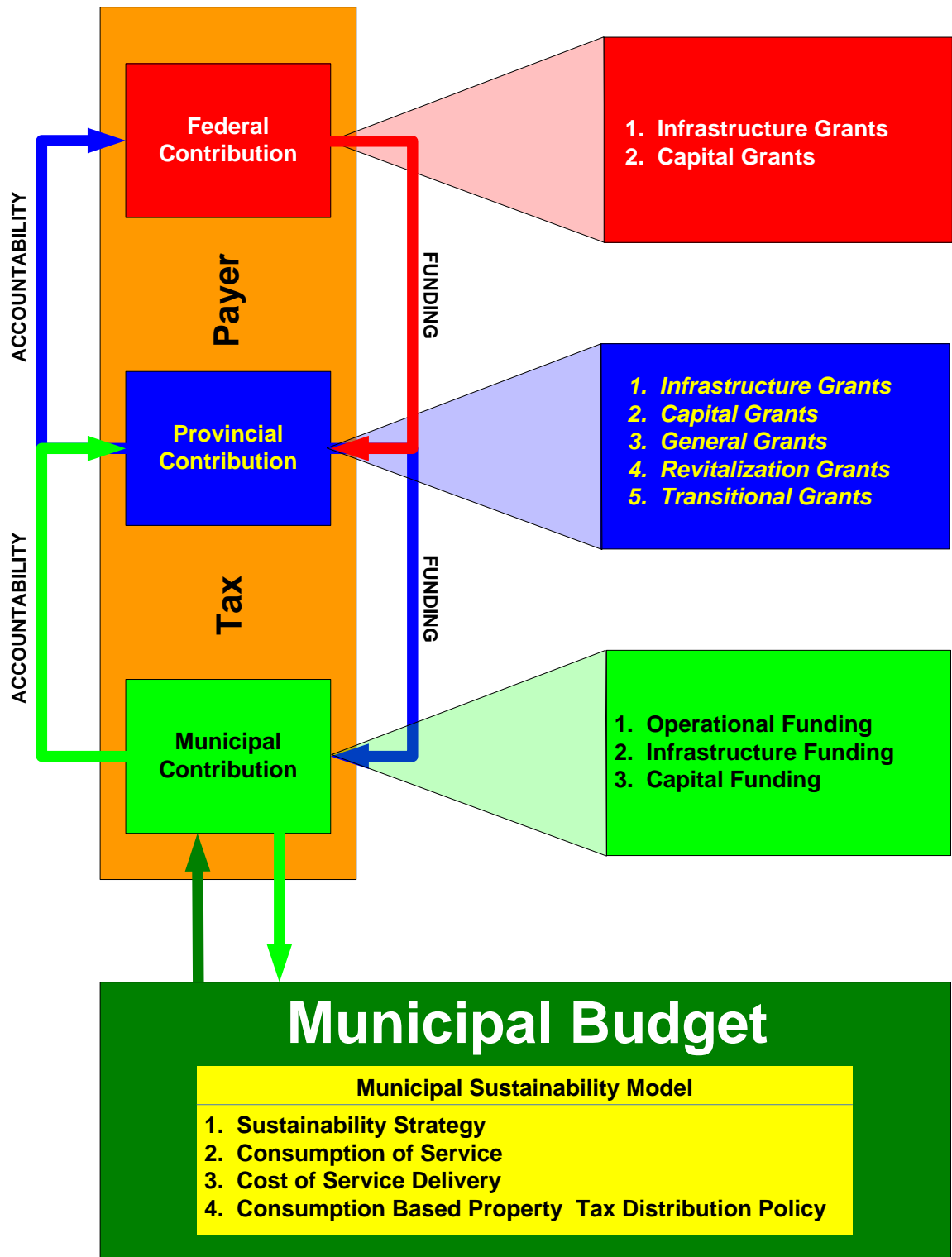
- I) A Sustainability Strategy.
- II) A Consumption of Service Report for the Eight (8)<sup>1</sup> classifications listed below as set out in the BC Assessment Act.
  - 01 Residential
  - 02 Utilities
  - 04 Major Industry
  - 05 Light Industry
  - 06 Business / Other
  - 07 Managed Forest
  - 08 Recreational / Non-Profit
  - 09 Farm
- III) A Cost of Service Delivery Report on Five (5) Administrative Performance Measures:
  1. General Government
  2. Protective Services
  3. Planning & Development
  4. Engineering
  5. Parks, Recreation and Culture
- IV) A Consumption Based Property Tax Distribution Policy for the Eight (8)<sup>1</sup> classifications listed in II above, adjusted from the Marginal Tax Rate for the Non-Residential Classes (Business).

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<sup>1</sup> Class 3 (Unmanaged Forest) deleted in prior years.

# THE MUNICIPAL SUSTAINABILITY MODEL

## MODEL OVERVIEW<sup>2</sup>



<sup>2</sup> Rob Fitzgerald, Norm Stickelmann

# THE MUNICIPAL SUSTAINABILITY MODEL

## CRITICAL MUNICIPAL ISSUES

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1. The current Municipal Governance Model limits Federal/Provincial confidence in addressing perceived “fiscal imbalance” and deters predictable investments in municipal infrastructure.
2. Municipalities have no natural mechanism for organizational renewal other than the three (3) year election cycle.
3. In the absence of a performance based Municipal Sustainability Model, city politicians have limited means of determining “fair and equitable” taxation levels.
4. Taxpayers are frustrated with “short term” ideology trumping “long term” economic realities. A three (3) year election cycle runs counter to a 50 to 100 year municipal infrastructure investment horizon.
5. There is an absence of “taxpayer-funded” disclosure minimums for continuous monitoring and transparency; there are few meaningful annual “tax-spender” standards of disclosure.
6. Strategic budgetary policies are the result of a municipal planning process that does not incorporate economic analysis. Failure to employ “Tax Topography<sup>3</sup>” analysis is resulting in unaccounted financial losses from new development at the expense of existing and future tax payers.
7. Municipalities do not define the “maximum sustainable build-out growth envelope”. There is no definition of upper limit benchmarks or the “carrying capacity” of a municipality.
8. Increases in municipal budgets are continually in excess of taxpayer cost of living increases.
9. There is no known definition of an empirical allocation-methodology for property tax distribution. (No conclusion reached on an empirical allocation methodology in the 2006 Vancouver Tax Commission Report)
10. Toronto is in financial trouble, and Vancouver is on its way.
11. In 1984 Vancouver Business property values were 33% of the total assessment value. By 2008, Vancouver Business property values were 17% of the total assessment value.

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<sup>3</sup> Tax Topography is a tool that defines the real economic impact of land use planning [See Appendix A for illustrative example]

# THE MUNICIPAL SUSTAINABILITY MODEL

## DEFINITION

Sustainability is the result of the act of balancing the three essential elements of social, economic and environment in the best interests of the constituents, but not at the expense of future generations. *(Rob Fitzgerald and Norm Stickelmann)*

## SAMPLE OF SUSTAINABILITY PERFORMANCE MEASURES<sup>4</sup>

ADMINISTRATIVE PERFORMANCE	ENVIRONMENTAL
<ol style="list-style-type: none"><li>1. Cost per Resident for each of the Five (5) Administrative Performance Measures &amp; for Total Expenditures</li><li>2. Planning Cost per Application</li><li>3. Planning Turnaround Times</li><li>4. Infrastructure Surplus / Deficit per Resident</li></ol>	<ol style="list-style-type: none"><li>1. Energy Use per Capita</li><li>2. Energy Use per Employee</li><li>3. Greenhouse Gas per Capita</li><li>4. Greenhouse Gas per Employee</li><li>5. Solid Waste per Capita</li><li>6. Solid Waste per Employee</li><li>7. Water Usage per Capita</li><li>8. Water Use per Resident</li><li>9. Water Usage per Business/Employee</li></ol>
AFFORDABILITY	LAND USE
<ol style="list-style-type: none"><li>1. Average Housing Costs</li><li>2. Jobs per resident</li><li>3. Jobs per Acre</li><li>4. Jobs per Occurrence (Assessment Roll)</li><li>5. Business Taxes per Employee</li><li>6. Average Salary per Acre of Business Property</li><li>7. Average Salary per Employee</li></ol>	<ol style="list-style-type: none"><li>1. Land Area by Zone</li><li>2. Parks per Resident</li><li>3. Park Area per Resident</li><li>4. Population Distribution/Density</li></ol>
DENSITY	LIVEABILITY
<ol style="list-style-type: none"><li>1. Residents per Acre</li><li>2. Residents per Occurrence (Dwelling)</li></ol>	<ol style="list-style-type: none"><li>1. Amenities per Resident</li><li>2. Open Space per Resident</li></ol>
	MOBILITY
	<ol style="list-style-type: none"><li>1. Percentage of Work Force within Walking Distance to Work</li><li>2. Percentage of Work Force using Transit</li><li>3. Transit Capacity (Buses per capita)</li><li>4. Transit Use(Trips per Resident)</li></ol>

<sup>4</sup> Rob Fitzgerald, Norm Stickelmann. John Tylee

# THE MUNICIPAL SUSTAINABILITY MODEL

## A CONSUMPTION OF SERVICE REPORT

### 1995<sup>5</sup> REPORT CONCLUSIONS (CITY OF VANCOUVER)

- Since 1983 the City of Vancouver has had a policy of collecting approximately 40% of its general tax requirements from residential (including recreational and farm) properties and 60% from non-residential properties (business, light industry, heavy industry, utilities). *[Page 5]*
- Between 1983 and 1994 the percentage of taxable assessed value represented by residential properties has risen to nearly 80% of the tax base. As a result, the average tax rate (per unit of assessed value) paid by non-residential properties has grown to about 5.8 times the tax rate paid by residential properties. *[Page 5]*
- This increasing tax ratio has also occurred in other municipalities, but to a lesser degree. *[Page 5]*
- Based on the estimated consumption patterns, the residential/non-residential proportion of general taxes paid to services consumed is set out below. *[Page 7]*
- An analysis of relative consumption patterns among non-residential property classes reveals that utilities, major industrial and light industrial tend to consume fewer services than residential properties. *[Page 8]*

### 2006<sup>6</sup> REPORT CONCLUSIONS (CITY OF VANCOUVER)

- Trends have been more stable between 1995 and 2006. Residential properties have increased their percentage share of taxable value from 81% to 83%, and Council increased the residential percentage share of the tax burden from 41.5% to 45% (before allowing for utility taxes, payments in lieu of taxes, etc.). Combining these two trends the 2006 tax rate ratio is 6.1:1, slightly higher than in 1995. *[Page 1]*

	1995 <sup>1</sup>		2006 <sup>2</sup>	
	Residential	Non-residential	Residential	Non-residential
Share of Services Consumed	71%	29%	76%	24%
Share of Property Tax Burden	40%	60%	42.6% <sup>3</sup>	57.4% <sup>3</sup>
Payment per Dollar of Services Consumed	\$0.56	\$2.07	\$0.56	\$2.42
Consumption Payment Ratio	1 To 3.7		1 to 4.3	

1. Source: 1995 KPMG Report

2. Source: 2005 MMK, Report (this study)

3. After adjusting for utility taxes, payments in lieu of taxes, etc.

<sup>5</sup> Study of Consumption Tax-Supported City Services, Volume I – Main Report (Refers to Item No. 2, CS&B Committee Agenda, April 13, 1995 prepared by KPMG, March 17, 1995)

<sup>6</sup> City of Vancouver, Consumption of Tax-Supported Municipal Services, Volume I – Main Report, Prepared for Financial Planning and Treasury, City of Vancouver, Prepared by MMK Consulting Inc., January 5, 2007

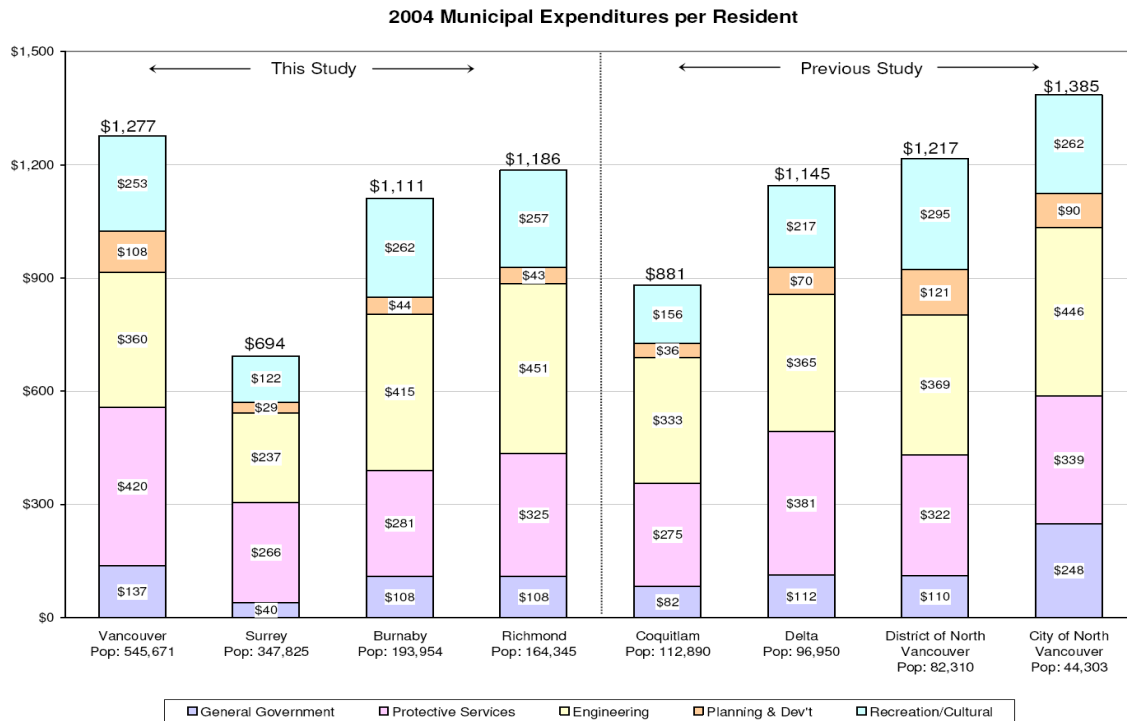
# THE MUNICIPAL SUSTAINABILITY MODEL

## A COST OF SERVICE DELIVERY REPORT

The Cost of Service Delivery Report categorizes operating costs<sup>7</sup> into Five (5) general administrative performance measures:

1. General Government
2. Protective Services
3. Planning & Development
4. Engineering
5. Parks, Recreation and Culture

### SAMPLE REPORT<sup>8</sup>



<sup>7</sup> As reported to the Ministry of Community Relations

<sup>8</sup> Comparison of Municipal Operating Expenditures, Prepared for Fair Tax Coalition, by MMK Consulting Inc., March 16, 2006

# THE MUNICIPAL SUSTAINABILITY MODEL

## INDIANAPOLIS EXAMPLE (DIRECT QUOTE<sup>9</sup>)

We came to call this package of management changes our “strategic tools initiative.” These tools were essential to our ability to pull the Indianapolis bureaucracy into the competitive marketplace. In a sense, the interesting thing about these tools is how unremarkable they are. The initiatives listed below are simply common sense procedure in the private sector. They became noteworthy only when applied to government’s quest to be competitive.

### **No. 1. Activity-based Costing**

Traditional government accounting does not provide the management information we need to reduce costs. Activity-based costing applies private sector accounting techniques to government services with dramatic results.

### **No. 2. Performance Measures**

Simply spending less is not enough. Measuring and rewarding performance are indispensable, requiring us to pay close attention to what we actually produce, and not simply the amount of money we spend on a given service.

### **No. 3. Popular Budgets**

By combining activity-based costing with performance measures, we created a “popular budget” that explained to citizens what they were (or were not) purchasing with every dollar of their taxes.

### **No. 4. Customer Surveys**

Performance must be defined to include customer preferences. Regular customer surveys enable city managers to make informed decisions about tradeoffs in providing various services to citizens, and about awarding incentives as well.

### **No. 5. Employee Empowerment**

As we discussed in the previous chapter, front-line workers often have creative solutions that can greatly enhance operations, but too often bureaucratic rules and unresponsive management prevent them from putting these ideas into action. In order for city employees to succeed in the competitive marketplace, they must be free to carry out their tasks in the manner they see fit. Increasing decision-making authority and freeing workers from narrow job descriptions also allow managers to hold these employees accountable for the results they produce.

### **ABC**

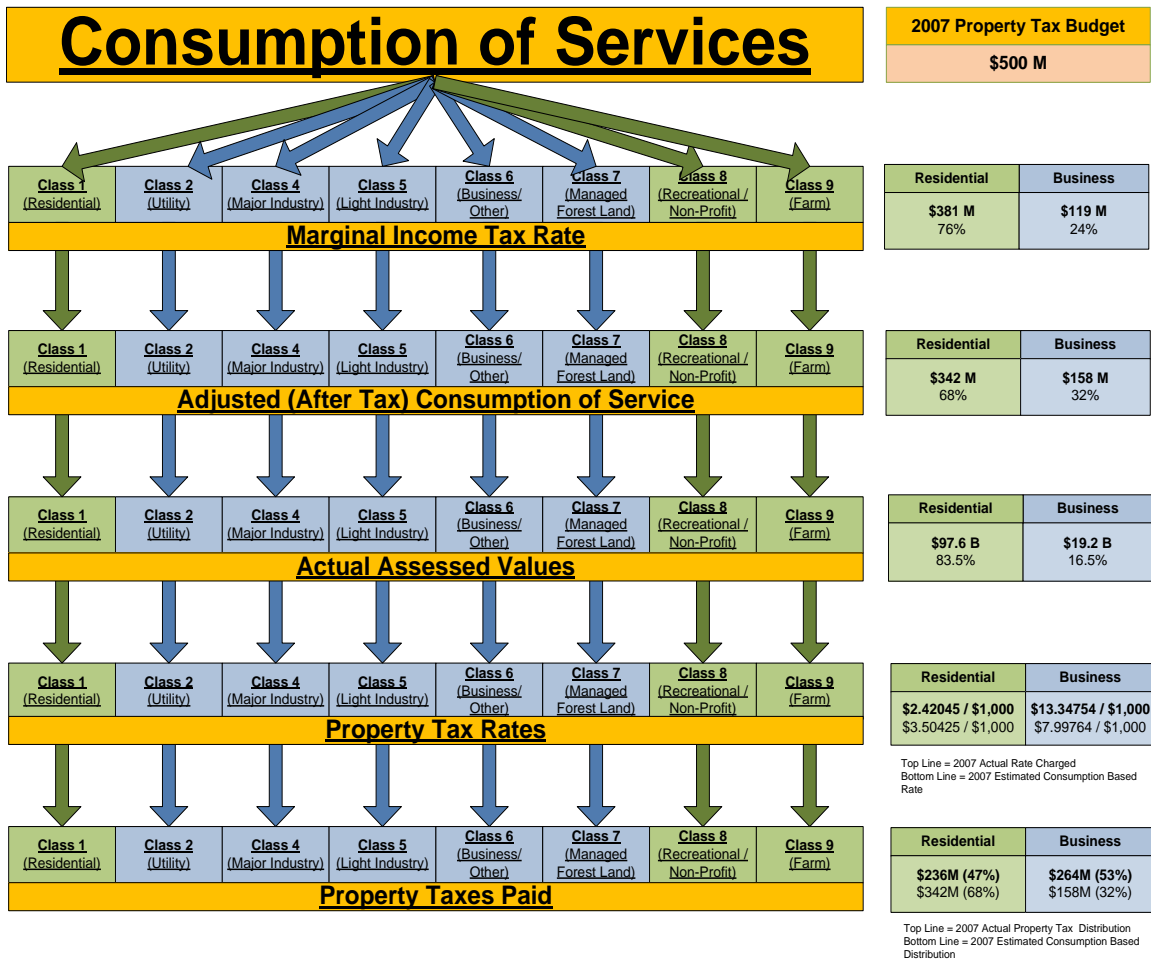
Every year Indianapolis produces one of the best-looking four-colour financial reports of any city in the country. But when I took office in January 1992, no one in city government could tell me how much it cost to fill a pothole, pave a street, plant a tree, or pick up trash. Like most governments, Indianapolis did not think in terms of business units or costs. We used standard government accounting principles that prevented our managers from stealing money, but did nothing to stop them from wasting it. We tracked the amount of money spent on salaries, equipment, capital investments, and professional service contracts – but did not break down any of those costs by the individual activities of government.

<sup>9</sup> The 21<sup>st</sup> Century City, Resurrecting Urban America by Mayor Stephen Goldsmith [Roman & Littlefield]

# THE MUNICIPAL SUSTAINABILITY MODEL

## PROPERTY TAX DISTRIBUTION MODEL

The chart below sets out the flow and use of data in a consumption based property tax distribution policy based on the Eight (8) Classifications<sup>10</sup> listed in the headings below as set out in the BC Assessment Act, adjusted from the Marginal Tax Rate for the Non-Residential Classes (Business). The chart below excludes contributions to Municipal Budgets by the Federal and Provincial Governments.



<sup>10</sup> Effective 2008, Nine property classes existed with the addition of Class 3 – Supportive Housing.

# THE MUNICIPAL SUSTAINABILITY MODEL

## A NEW MEASUREMENT TOOL

Determining the extent to which tax shifting has taken place has been problematic based on existing widely used tools. In an effort to provide a more meaningful tool we have developed the “**Levy-Assessment Quotient (LAQ)**”. This measures the deviation in the tax rates caused by changes in the relationship between the level of assessment and local government taxes paid for each class of property at a specific point in time. The analysis of this factor over time defines the changes or shifts in the relationship and is called the “**Levy-Assessment Quotient Shift (LAQS)**”.

It is the authors’ belief that the Levy-Assessment Quotient is a superior tool in the measurement of changes in tax rates relative to the existing practice of comparing tax rates through the tax rate ratio. The appropriate Levy-Assessment Quotient will vary between municipalities and dependent on not only the mix of properties and values within the community but also on the consumption patterns. [Appendix B]

## RELATED ISSUES

**Unoccupied Density Allocation (“UDA”)** is defined as the area of the site that is created in the abstract by the municipal planning process and consumes no City Services.

UDA is a suggested solution to the issue of “Hot Spots”. Hot Spots can be created by any class of property, but are greatly intensified when the property tax class rate applied by the taxing authority is incongruent with the existing use and occupation by the tenant. This solution is aimed at providing targeted relief to the tenant/occupier [Appendix C].

TAX  
TOPOGRAPHY

LEVY-ASSESSMENT  
QUOTIENT  
("LAQ")

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UNOCCUPIED  
DENSITY  
ALLOCATION  
("UDA")

# UNALLOCATED DENSITY ALLOCATION

## INTRODUCTION

Unoccupied Density Allocation (“**UDA**”) is a suggested solution to the issue of Hot Spots. Hot Spots can be created by any class of property, but are greatly intensified when the property tax class rate applied by the taxing authority is incongruent with the existing use and occupation by the tenant. This solution is aimed at providing targeted relief not only to balance out the tax equity base of a municipality on a fixed levy, but by way of rebate to a tenant/occupier.

The basic calculations provided in our early submission remains unchanged, however, we have added and expanded our definitions, as well as our process flow diagram (See attached).

## OBJECTIVE

1. To ensure affordability of commercial space is available within the City and is not hampered by property taxation as a result of the speculative component contained in a Market Valuation system.
2. Ensure city budget is not impacted and any impacts of **UDA** remain revenue neutral.

## DEFINITIONS

**Hot Spots** arise where

- (a) existing or expected allowable density results in an assessed value upon which the property tax is based and paid by a tenant / occupier, and
- (b) where the assessed value and property tax paid<sup>11</sup> is in excess of what would otherwise pertain were it not for (a).

**Total Density Allocation (“TDA”)** is the existing or expected allowable density of the site as if vacant. It is comprised of 2 components: Occupied Density Allocation, and Unoccupied Density Allocation.

**Occupied Density Allocation (“ODA”)** is the area of the site that is currently occupied and is capable of consuming City services.

**Unoccupied Density Allocation (“UDA”)** is the area of the site that is created in the abstract by the municipal planning process and consumes no City Services.

<sup>11</sup> Intensified when the property tax class rate applied by the taxing authority is incongruent with the existing use and occupation by the tenant. For Example, a commercial tenant paying taxes for existing or expected allowable density that consumes no services.