



# Improving Local Government Revenue in NSW: What are the Options?

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IMFG (est. 2004) is the only institute of its kind in North America, which focuses exclusively on the municipal finance and governance challenges facing cities and large city regions.

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## Mandate

- Conduct independent research
- Spark and inform public debate
- Engage the academic and policy communities

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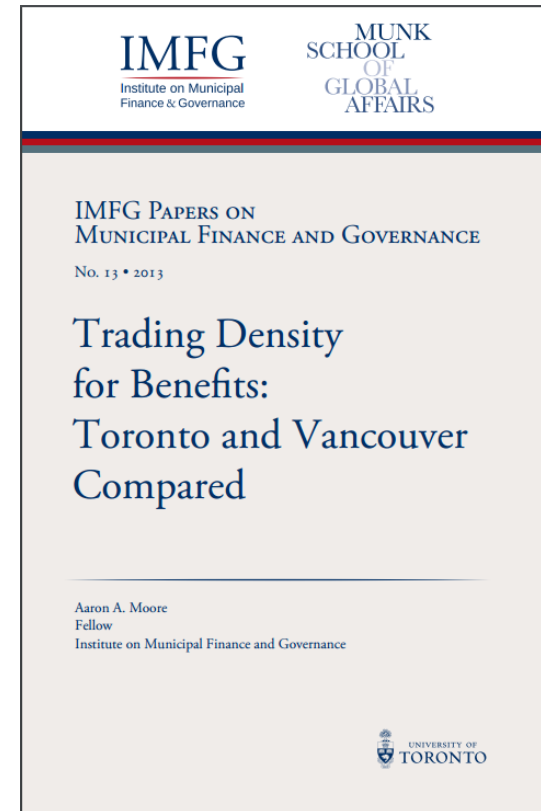
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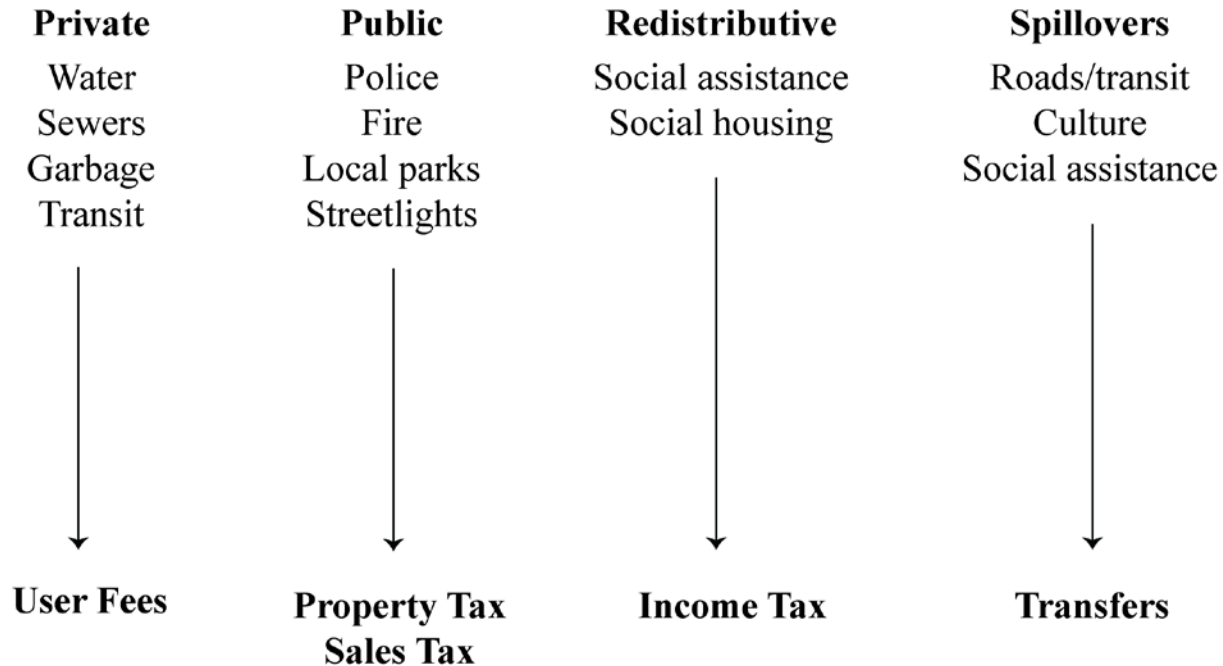
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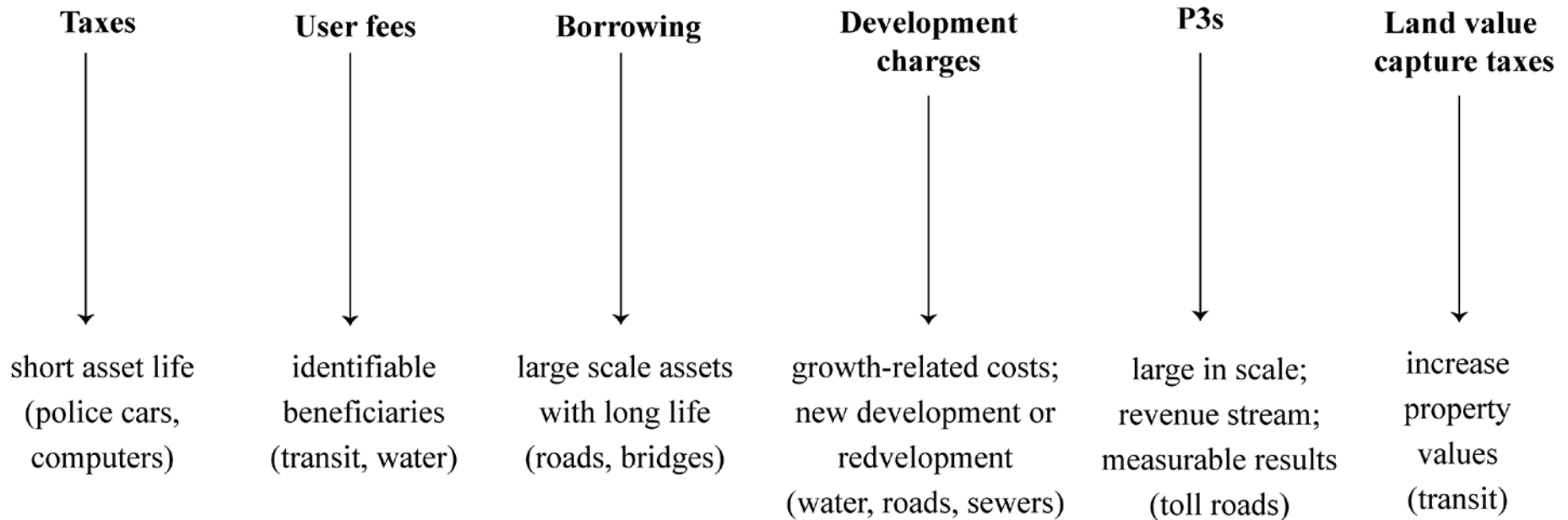
# Outline of Presentation

- The property tax is a good tax for local councils but needs reform in New South Wales
- Local councils could make better use of user fees/charges
- Local councils would benefit from a mix of taxes
- Equalisation transfers need to be targeted to those councils most in need of assistance
- Land value capture may have a role to play in financing infrastructure
- Final observations

# Different Services – Different Revenue Sources



# Different Infrastructure – Different Fiscal Tools



# The property tax is a good local tax ...

- Fair based on benefits received
- Fair based on ability to pay
- Efficient
- Stable and predictable revenues
- Visible, transparent, and accountable



# ... but it is in need of reform

- Tax base – land only?
- Exemptions
- Concessions
- Rate pegging

# Tax Base – Unimproved Capital Value

- Efficient -- does not distort decisions to invest

**BUT:**

- Not closely related to ability to pay for multi-residential units
- Difficult to value land only
- Lower revenue potential than capital improved value (need higher tax rates to bring in comparable revenues)

# Exemptions

- Exempt properties use municipal services but are not taxed
- Economic competition between businesses and government is distorted
- Differential tax treatment affects location decisions, choices about what activities to undertake, and other economic decisions
- Exemptions narrow the tax base -- either taxes have to increase on remaining taxpayers or level of local services is reduced
- Since the proportion of tax-exempt properties varies by local government area, disproportionate tax burdens are created across communities

# Concessions

- Liquidity problems for seniors on fixed incomes
- Tax deferral schemes – not a tax rebate
- Not popular – take up rate is low
- Circuit breakers (property tax credits)
- Who should pay for concessions?

# Rate Pegging

- Popular with taxpayers

**BUT:**

- Breaks the link between tax and expenditure decisions
- Reduces accountability of local councils
- Erodes local autonomy
- Does not target relief to needy taxpayers; reduced services from tax limits likely to impose burden on those most in need of services
- Creates unrealistic expectation that rates should not increase beyond the peg even larger increases are needed

# Fiscal Disclosure

- Also known in the US as truth in taxation
- Roll back tax rate so reassessment is revenue neutral
- Or, put revenue neutral tax rate on tax bill following a reassessment along with actual tax rate

# Local councils could make better use of user fees/charges

- Charge for services wherever possible – generates revenue plus impact on economic behaviour
- Marginal cost pricing – price per unit equals extra cost of last unit consumed
- Rations use of existing facilities and gives appropriate capital investment signals
- Under-pricing leads to over-consumption; signals demand for more underpriced infrastructure
- Example – underpricing water does not encourage conservation

# User Fees/Charges

- Road pricing reduces congestion and increases revenues for transportation; affects trip frequency, destination, modal choice, time of travel, route etc.
- Parking levies reduce cruising time, volume of traffic, congestion
- Waste collection and disposal fees reduce waste
- Stormwater levies based on impervious area reduce amount of runoff



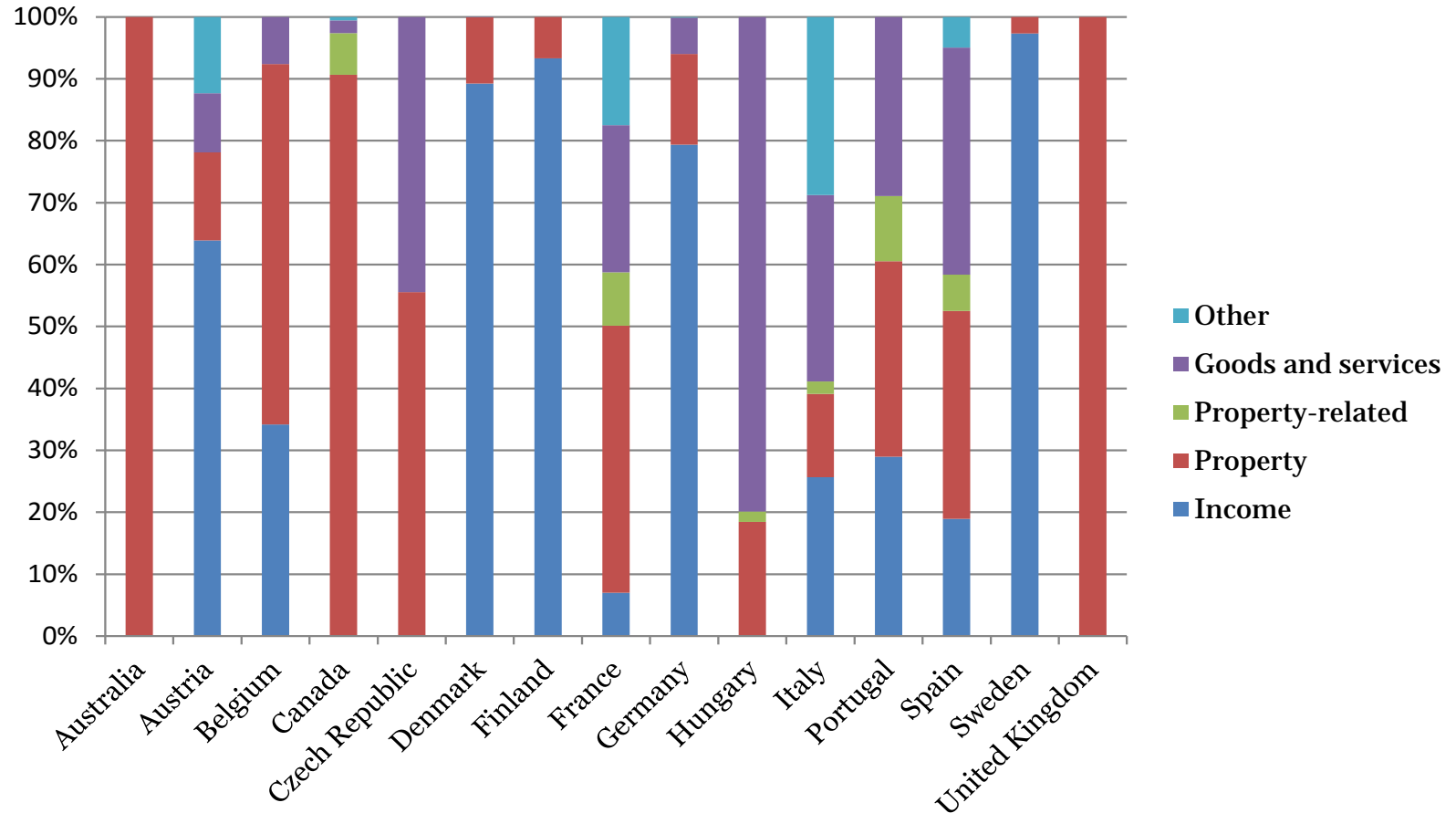


# Local councils would benefit from a mix of taxes

- Property taxes insufficient to fund complex demands of local councils
- Local flexibility to respond to changes in the economy, evolving demographics and expenditure needs, changes in political climate, etc.
- Stability through property tax/ elasticity through income, sales taxes
- Cheaper to piggyback onto Commonwealth or State taxes; locally set rates



## Sources of Local Taxation, Selected OECD Countries, 2012



Source: OECD (2014) Revenue Statistics, 2011-2012.

# Which taxes?

<i><b>Potential Revenue</b></i>	<i><b>Advantages</b></i>	<i><b>Disadvantages</b></i>
<b>Personal income tax</b>	<ul style="list-style-type: none"> <li>• More closely based on ability to pay than other taxes</li> <li>• Taxes commuters and visitors if payroll based</li> <li>• Broad-based tax with significant revenue potential</li> </ul>	<ul style="list-style-type: none"> <li>• Creates incentive to locate outside taxing area, but less so, the larger the geographic size of the taxing jurisdiction</li> <li>• Would have to be piggybacked on national income tax</li> </ul>

<b><i>Potential Revenue</i></b>	<b><i>Advantages</i></b>	<b><i>Disadvantages</i></b>
<b>Municipal sales tax</b>	<ul style="list-style-type: none"> <li>• Satisfies most criteria for a good local tax</li> <li>• Taxes commuters and visitors</li> <li>• Broad-based tax with significant revenue potential</li> </ul>	<ul style="list-style-type: none"> <li>• Creates incentive to purchase outside taxing area but, less so the larger the geographic size of the taxing jurisdiction</li> <li>• Would have to be piggybacked on to national GST</li> </ul>

<b><i>Potential Revenue</i></b>	<b><i>Advantages</i></b>	<b><i>Disadvantages</i></b>
<b>Fuel tax</b>	<ul style="list-style-type: none"> <li>• Satisfies most criteria for a good local tax</li> <li>• A benefit-based tax if revenues are earmarked for funding local roads, highways, and public transit</li> <li>• Relatively inexpensive and simple to implement and administer</li> </ul>	<ul style="list-style-type: none"> <li>• Blunt instrument for targeting congestion</li> <li>• Creates incentive to purchase fuel outside taxing area, but less so the larger the geographic size of the taxing jurisdiction</li> <li>• Revenues will be difficult to sustain with the increase in fuel-efficient and non-fuel vehicles</li> </ul>

<i>Potential Revenue</i>	<i>Advantages</i>	<i>Disadvantages</i>
<b>Hotel and motel occupancy tax</b>	<ul style="list-style-type: none"> <li>• Taxes visitors</li> </ul>	<ul style="list-style-type: none"> <li>• May create a disincentive to visit or host conventions in taxing jurisdiction</li> <li>• Small potential revenue</li> </ul>

# Equalisation transfers targeted to those councils most in need

- Financial Assistance Grants should target funds to those local councils most in need of assistance
- Minimum grant stands in the way of the equalisation objective
- Higher grants for small and rural councils; more revenue sources for large councils

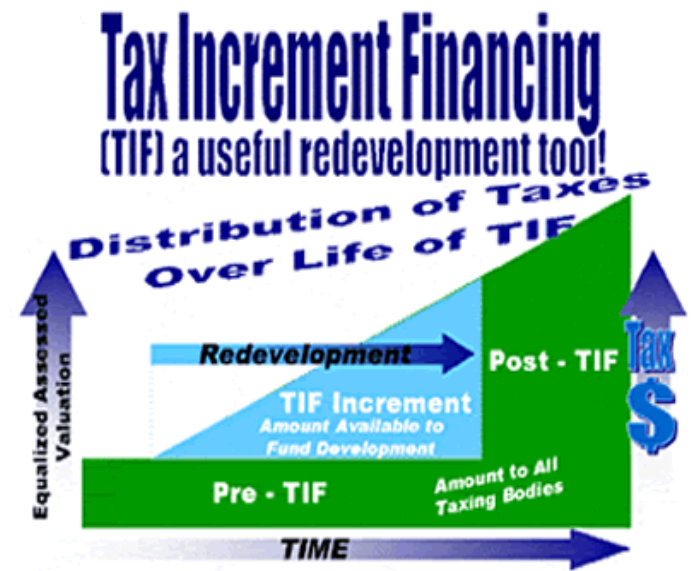
# Transfers are important but ...

- break the link between those who benefit and those who pay
- not stable and predictable funding (depends on resources available)
- no incentive to use proper pricing
- conditional transfers distort local decision-making
- accountability problems with conditional transfers when two or more spheres of government fund the same service



# Land value capture may have a role to play in financing infrastructure

- Recoup some of unearned increment in private land values arising from public investment or change in regulations
- Betterment levies, tax increment financing, sale of building rights
- How to forecast increase in land values?
- Will estimated revenues actually materialise?
- New South Wales – issue of rate capping



# The Size and Scope of TIF Bonds

Source: Haider and Donaldson (2016)

Tax Increment Financing District	Location	Date established	Size (acres)	Total TIF bond issued	Length of TIF in years
Burlington Waterfront	Burlington, Vermont	January 1996	70	\$16.8 million	20
River District	Portland, Oregon	June 1998	351	\$224.8 million	20
North Macadam	Portland, Oregon	June 1999	402	\$288.6 million	20
Arundel Mills Mall (Route 100 TID)	Hanover, Maryland	November 1999	394	\$28 million	10
Parole Towne Center	Annapolis, Maryland	December 1999	1,500	\$8.3 million	10
Sullivan Center	Chicago, Illinois	2000	2.35	\$24.4 million	10
Interstate Corridor	Portland, Oregon	August 2000	3,990	\$335.0 million	20
Lewiston Walmart Distribution Center	Lewiston, Maine	January 2002	13	\$5.8 million	25
Beltline Tax Allocation District	Atlanta, Georgia	2005	6,500	\$1.7 billion	25
Hudson Yards	New York, New York	2005	28	\$2.4 billion	30
East Village	Calgary, Alberta	Spring 2007	49	\$357.0 million	N/A
Downtown Berlin	Berlin, Wisconsin	September 2008	21.3	\$14.6 million	27
Sports, Hospitality and Entertainment District	Winnipeg, Manitoba	April 2012	11 blocks, downtown Winnipeg	\$25.0 million	5
Investors Group Field	Winnipeg, Manitoba	June 2013	2 properties	\$75.0 millions	25
University of Winnipeg Commons Housing Complex	Winnipeg, Manitoba	February 2015	1 property designated	\$2.6 million	15

# Final Observations

- Link revenues to expenditures
- Reform property taxes – especially rate pegging
- Better use of user fees
- A mix of taxes
- More targeted equalisation –remove minimum
- Land value capture?

# Final Observations

- Not all municipalities are the same:
  - Large versus small
  - Rural versus urban
  - Urban versus suburban
  - Rapidly growing versus stagnant
  - Within a metropolitan area versus stand alone
  - Remote versus central location
- Some will be able to raise own-source revenues (taxes and fees); others will need to rely more heavily on intergovernmental transfers