
City of Kelowna

MEMORANDUM

DATE: March 2, 2004
FILE: 2000-02

TO: City Manager

FROM: Director of Financial Services

RE: **GST REBATE FOR MUNICIPALITIES**

RECOMMENDATIONS:

THAT Council approve a strategy to reserve surplus funds generated for infrastructure development resulting from the increase to the City's GST rebate to 100%;

AND THAT Council be provided with recommendations for specific infrastructure projects through the Audit Committee as part of the 2004 year end financial reporting process;

AND FURTHER THAT the 2005 financial plan be developed to reflect the City's GST rebate of 100% along with a staff recommendation for ongoing recognition for budgetary management of projected savings.

BACKGROUND AND COMMENTS:

The Federation of Canadian Municipalities (FCM), on behalf of member cities, has been working with the Federal Government on strategies to address the growing gap between the services Canada's cities and municipalities must deliver and what they can afford. While these services are essential, the resources do not match the need. Of every tax dollar collected, only eight cents goes to municipal governments.

The FCM has asserted that a large "infrastructure gap" has emerged between current fiscal capacity and the needs of citizens for core services, including transportation and transit, water supply, wastewater treatment, solid-waste systems, and recreation and cultural facilities. It has been reported by the Canadian Council of Professional Engineers that the national municipal infrastructure deficit now totals \$60 billion, increasing by \$2 billion a year. Infrastructure is aging, most of it at close to 80 per cent of its service life.

Prime Minister Martin's "New Deal" for Canada's cities, towns and rural communities has committed the Federal Government to financially assist local governments to deal with infrastructure requirements and other services necessary to continue in their key role, including environmental stewardship and sustainable development.

The Throne Speech on February 2, 2004, identified that the New Deal will deliver reliable, predictable and long-term funding for municipalities. The Government has committed to work with provinces to share with municipalities a portion of gas tax revenues or to determine other fiscal mechanisms which achieve the same goals. As this initiative will take time and the agreement of other governments, the Government stated that, as a down payment, it would provide all municipalities with full relief from the portion of the Goods and Services Tax they now pay effective February 1, 2004.

The application of the GST for municipalities is relatively complex. Many activities undertaken by the City that have attributes of a business, like adult recreation programs or the supply of electricity, already return 100% of all GST incurred by the City as an input tax credit. Many other activities have been subject to a rebate of 57.14%. A large portion of the GST incurred through City operations has had a mix of input tax credit and rebate. The factors included in the calculation for determining this mix are annually adjusted to reflect actual experience.

The average non-rebatable GST over the past 4 years was approximately \$1.35 million with distribution among the general fund (75-80%), the wastewater fund (15-20%) and the water fund. For 2004, Financial Services projects that the 100% rebate will generate a minimum \$1 million additional surplus to the general fund. In keeping with the thrust of FCM's objectives in returning a greater share of taxes to the communities from which they were collected for infrastructure management, the Audit Committee will recommend specific infrastructure renewal and development projects for these funds in early May, 2005 when the City's financial statements are finalized and reviewed with Council.

Financial Services will be working with all City departments in removing GST impacts from their operating and capital budgets for 2005. A definitive GST saving will be identified in the general, wastewater and water budgets and recommendations for ongoing recognition of this saving will be brought to Council for consideration as part of the 2005 Financial Plan review.

P. Macklem

cc: Financial Accounting & Systems Manager
Financial Planning Manager