

Program Design and Implementation Considerations

Introduction

Municipal finance in Canada is predominantly based on the benefits-received principle, with the underlying premise that those who benefit should pay for the service.¹ This is largely because municipalities deliver services where direct beneficiaries are well defined and collecting payment is a simple process. Not only is this approach efficient from a resource allocation perspective, but it is also equitable from the benefits principle. However, user fees may not be equitable from the ability to pay perspective, meaning that they can disproportionately induce higher relative costs on low-income households.

To address this issue, municipalities offer various program subsidies to low-income households to support access to key municipal services. Such subsidies can be “common” or “targeted”. Common subsidies can be defined as the use of general revenues where user fees are insufficient to fund a service that is widely available.² For example, public transit fares have a common subsidy since the transit fares do not cover the full costs of the service to the rider. The municipality subsidizes a share of cost of the service from its general tax base.

Targeted subsidies, by contrast, are based on some limited criteria, such as income levels, age, occupation, or physical characteristics. For example, targeted subsidies may be offered to low-income seniors for recreation programs, whereby they pay a lower fee to access recreational services relative to the rest of the population. Ideally, the policy literature supports offering targeted subsidies based on a standardized measurement of means (i.e., income) rather than limiting them by demographic or other criteria. As a City of Edmonton paper puts it: “When offering targeted subsidies to specific citizen groups, the public benefits derived from the additional use or availability of the public service should outweigh the public costs of providing targeted subsidies”.

Like any program, there are constraints and trade offs that decision makers need to be aware of, and as such, there is no one best approach for offering municipal subsidies. Given this context, the intent of this document is to provide key principles and considerations for designing low-income support programs. Guidance for this is offered by the City’s core sustainability policy, The Triple Bottom Line (TBL) Policy and supporting criteria used for public policy analysis. Design and implementation issues, such as eligibility, intake, duration, subsidy size, and duration are addressed.

General Principles and Considerations

The City of Saskatoon’s (City) TBL policy outlines a comprehensive approach to addressing environmental, economic, and social sustainability. For the purposes of

¹ This is well established in the policy literature, see for example Duff, D. G. (2004). Benefit taxes and user fees in theory and practice. *University of Toronto Law Journal* 54, 391–447 and Tedds, L. M. (2020). Who pays for municipal governments? Pursuing the user tax model. In E. A. Heaman, and D. Tough (eds.), *Who Pays for Canada? Taxes and Fairness* (pp. 183–200). Montreal and Kingston: McGill-Queen’s University Press.

² For a discussion, see the City of Edmonton, “The Way we Finance, User Fees White Paper,” March 2016, obtained from https://www.edmonton.ca/public-files/assets/document?path=TWWF_User_Fees_White_Paper.pdf

designing a low-income support program, Administration integrated additional public policy criteria with specific indicators from the four main principles of the TBL policy:

Social Equity and Cultural Wellbeing

- Equity and opportunity
 - Take actions that support people of all incomes
- Self sufficiency and living with dignity
 - Support actions that address poverty; and /or resolve income disparities

Environmental Health and Integrity

- Waste reduction and diversion
 - Divert waste from landfills through prevention, reduction, reuse, exchange, sharing, repurposing, recycling, and/or composting initiatives

Economic Prosperity and Fiscal Responsibility

- Financial planning and resourcing
 - Support processes that uphold financial accountability and transparency
 - Identify and secure adequate resourcing
- Ease of Administration and implementation
 - Support efforts to reduce administrative and operational costs
- Efficiency
 - From an allocative perspective, does the tax or fee provide incentives to make an efficient allocation of resources so that society is not made worse off? Efficiency is attained when no one can be made better off from a program without making someone else worse off or when those who gain from the program can reasonably compensate those who lose, such that society is still left better off with the program than without. Ideally, benefits should outweigh costs and net benefits should be maximized.
- Fairness
 - From the benefits perspective, do those who benefit from a service pay for it?
 - From the ability to pay perspective, the costs of a service should be distributed by a reasonable measure of a person's ability to pay for it (e.g., using income).

Good Governance

- Transparency
 - Carry out work in a way that is ethical, accountable, accessible, and transparent
 - Support actions that ensure the City remains consistent between what it says it values and what it practices
- Engagement
 - Conduct employee engagement
 - Conduct public engagement

- Best Practice
 - Draw on science, research, best practices and subject matter experts; and /or use the best information available on trends and drivers from local, national or international sources

Additionally, it is important to acknowledge the United Nations (UN) Sustainable Development Goals which call for the harmonization of the of the three main TBL elements as they are deemed crucial for the well-being of individuals and societies. Further, the UN's sustainable development agenda identifies that:

Eradicating poverty in all its forms and dimensions is an indispensable requirement for sustainable development. To this end, there must be promotion of sustainable, inclusive and equitable economic growth, creating greater opportunities for all, reducing inequalities, raising basic standards of living, fostering equitable social development and inclusion, and promoting integrated and sustainable management of natural resources and ecosystems.³

This sentiment is reflected in the public engagement results (see Appendix 1) where poverty is identified as a major barrier to participation in the City's environmental programs.

Design Considerations

Eligibility

The first consideration simply asks who is eligible for the subsidy? In the case of targeted subsidies to low-income households, research supports using income criteria. In other words, households which fall below the relevant income thresholds based on the low-income lines, explained in Appendix 4, should be a primary consideration. Although the Low Income Cut Off is the most popular line used by municipalities it is not necessarily the most optimal.

The City, while using Low Income Cut Off (LICO) as a base for all programs, uses different variations of LICO for each program eligibility in practice. That said, the City's Leisure Access Program (LAP) review identified Low Income Measure (LIM) as the more frequently used poverty line by practitioners and recommended using LIM if the goal of the program is to increase the number of eligible residents. Alternatively, the review also recommends a sliding LICO threshold to increase eligibility.

Tassonyi and Kitchen (2021) identify LIM as the fairest measure to define a low-income use of municipal services.⁴ Denver uses a sliding scale based on the American equivalent of LIM, the % Area Median Income.

Secondary considerations such as age, physical characteristics, and housing tenure may be used if the goal is to micro target, but this tends to violate fairness/equity

³ United Nations Sustainable Development Agenda (<https://www.un.org/sustainabledevelopment/development-agenda/>)

⁴ Almos Tassonyi and Harry Kitchen. "Addressing the Fairness of Municipal User Fee Policy" in IMFG Papers on Municipal Finance and Governance No. 54, July 2021

criteria. The use of these secondary criteria can; however, limit the size of the subsidy and fiscal cost to government if budget constraints are a concern.

Subsidy Size and Structure

Targeted subsidies can be applied as flat fees, rebates, or discounts. The size of the subsidy can range from a nominal fee or percentage of the total cost of a service. For example, as Appendix 3 details, Calgary provides eligible recipients a nominal fee subsidy of \$25 per year for solid waste, whereas Denver provides a discount from 30% to 100% depending on income scale. Feedback from internal engagement, noted in Appendix 1, suggests an impactful discount to be in the range of 50-100% of the total cost of curbside waste services.

How should a subsidy be structured? Most cities apply a flat structure whereby all eligible recipients receive the same subsidy regardless of income. However, sliding scale subsidies have become more popular in recent years, meaning that the size of subsidy is larger as the eligible income thresholds fall. The City of Calgary uses this approach for transit subsidies, while Denver uses it for solid waste subsidies. This approach improves equity as it makes the subsidy more progressive relative to income. On the other hand, they may be more complex to administer to due to the creation of income bands and varying subsidy sizes.

Subsidy Duration

Should a program be transitional or continuous? This often depends on the intent of objectives of the overall program to which the subsidy is offered. Sometimes a program is short-term because the objective is to enable access quickly as the program is limited by budgetary or legislative constraints or other outcomes. Thus, the subsidy could mirror this. Other times, a city introduces a new program that has immediate short-term financial impacts, so the subsidy is used to mitigate the initial net fiscal cost, partially or fully. It can be phased-out over time as operational, technological, and program improvements emerge.

The City's largest subsidy programs, the low-income transit pass and the LAP are continuous subsidies, meaning they have no set end date. The public policy research and jurisdiction review did not find examples of a fixed term low-income support program for solid waste, while examples of recent program implementation are continuous with no stated end date.

That said, both approaches align with public policy (economics) best practice which indicates that a low-income subsidy should be developed separate from the service itself. In a synthesis of work on municipal government funding in Canada, Lindsay Tedds notes "that good user levy design dictates that equity concerns based on ability to pay should not be taken into account initially but after the regime is designed through discounts".⁵

⁵ See Tedds, L. M. (2020). Who pays for municipal governments? Pursuing the user tax model. In E. A. Heaman, and D. Tough (eds.), *Who Pays for Canada? Taxes and Fairness* (pp. 183–200). Montreal and Kingston: McGill-Queen's University Press.

Funding the Subsidy

In the case of targeted subsidies, funding could be offered through any source available to a city, ranging from property taxes to user fees or by allocating unconditional government transfers to it. The policy literature recommends that funding for low-income subsidies, where the goal is the community benefit of poverty reduction, is most appropriate through property taxes. In fact, some authors note that user fees should not be used for social services that redistribute funds, indicating “for these services, grants from senior levels of government and local taxes are much more appropriate”.⁶

The practices of municipalities appear to be mixed, especially for utility-based subsidies. For example, the City of Denver is using property tax funding for their waste affordability program while the City of Regina has chosen to fund their water affordability program through a utility rate increase though this was contrary to public input. The City of Regina Water Utility and Property Tax Affordability Survey, July 2021, reported 20% support for a utility rate increase to fund an affordability program compared to 41% support for property tax funding.⁷

Program Administration

Perhaps the largest design issue to consider is program administration. Once the previous four considerations are (largely) resolved, questions about how to administer the program become paramount. How many staff are required to administer the program? What technology is needed to verify applications and approve the subsidy? What is needed to verify income, residency, housing tenure, or other criteria etc?

Before elaborating on these questions, a key point needs to be raised about subsidy programs. That is, each time a city introduces a stand-alone subsidy program it creates new administrative structures and process that could outweigh the benefits that the subsidy provides, making it inefficient. For example, if the cost to administer the subsidy is \$200,000 but the total subsidy is \$150,000 then society is worse off as the administration costs outweigh the subsidies. Moreover, it generates participation barriers for several reasons, including “low monetary or utility gains, stigma of receipt, monetary and nonmonetary costs of program participation, imperfect information, administrative barriers, and mismeasurement”.⁸

One way to mitigate this is to have all subsidy programs, common and targeted, placed under one umbrella program. The City has started this with its low-income transit and leisure access subsidies program. It could, however, be expanded to model The City of Calgary’s Fair Entry Program (see Appendix 3) which appears to be an optimal

⁶ Tassonyi and Kitchen (2021), *Addressing the Fairness of Municipal User Fee Policy*. IMFG Papers on Municipal Finance and Governance, No. 54.

⁷ City of Regina [Water Utility and Property Tax Affordability Survey Report](#), July 2021.

⁸ See for example, Ko, W., Moffitt, R.A. (2022). Take-Up of Social Benefits. In: Zimmermann, K.F. (eds) *Handbook of Labor, Human Resources and Population Economics*. Springer, Cham. https://doi.org/10.1007/978-3-319-57365-6_372-1 and Robson J, Schwartz S (2020) Who doesn’t file a tax return? A portrait of non-filers. *Can Public Policy* 46(3):323–339. <https://doi.org/10.3138/cpp.2019-063>

approach to improve administrative simplicity and reduce barriers to participation.⁹ It would also improve blending and cross promotion with other subsidy programs.

1) Human Resources

The number of staff required to operate the program is largely based on the time to review and approve application. It is sensitive to number of households eligible for the subsidy. Cities that have solid waste subsidy programs bundled with other programs, report participation rates of 10-15% (see Appendix 3).

The City of Regina is estimating to have two full-time equivalents to administer their water utility affordability program, despite that the program is limited to low-income seniors and persons with disabilities. It is likely that the City would need to have at least one additional human resource allocated to administer a new subsidy program.

2) Income Verification

Because targeted subsidies are income tested, an income verification process is needed to screen-in eligible participants. The City's current standard for income verification to access income qualified programs is the Notice of Assessment (NOA) which is provided by the Canada Revenue Agency after filling previous year's income tax.

The City's LAP review noted that, some of the lowest income earners and people who could/would benefit from this program do not have access to it. This is due to the fact that not all people file their taxes annually and can be difficult to access an NOA. For others, such as youth and newly landed immigrants, access to an NOA is not possible. Based on community feedback, the lone proof of income option was the most notable barrier to access. This is confirmed by academic research.¹⁰

When compared to other prairie cities, Saskatoon is the only municipality with a single method for income verification for leisure access programs. Community engagement and best practice suggest expanding the list of income verification documents. For instance, the LAP review recommends using:

- World Income Tax Form as an approved form of income verification.
- Free for Newcomers to Canada that can prove they have lived in Canada for less than 1 year.
- Creation of a CoS "LAP Notary Public" model would allow service delivery organizations to apply to the CoS for the ability to sponsor a four to six-month interim LAP validation. This process will grant potential LAP users access to LAP services while obtaining required documentation.

⁹ <https://www.calgary.ca/social-services/low-income/fair-entry-subsidy.html>

¹⁰ See note 8.

- Adaptation of forms used by existing external service provider organizations which are able to verify through alternative programming requirements the eligibility of potential LAP applicants. These forms could include organizational “sponsorship”, social service or child welfare forms, Youth and Adult Mental Health services, school divisions etc.
- Letter of employment and/or pay stubs (four pay stubs) to be considered as an acceptable form of eligibility verification (must take into consideration employment status, i.e.- how do you verify if working multiple jobs).

3) Residency Verification

Residency verification is another step that is often used to screen eligible participants, especially for targeted subsidies. This is especially important for subsidies that apply to owner-occupied residential properties, as they do in Calgary. However, these can sometimes be managed using technology, in Saskatoon’s case linking through the Customer Information System (CIS) used for utility billing. This verification process can work for renters who have a utility account in their name.