

The MERA Model

HRM's Municipal Expenditure and Revenue Allocation Model

Preview Report

Purpose of the Model

The Tax Reform process will look at foundations of HRM's tax system. One option for the "foundation" would be look at a system that is based on services, rather than one that is considered a "wealth tax". HRM should have a sense of the potential shift to a service-based – who receives them, who drives the costs of services and who benefits from them – foundation could mean for residential and commercial taxpayers. As well, it is beneficial to think about how HRM could build a service-based foundation for a new tax system.

How the Model Works

The MERA Model allocates costs of municipal services to three types of properties: residential, commercial and institutional (public). The costs are allocated based on an estimate of: i) who uses or creates the need for the services, i.e. the cost driver, and ii) who (potentially) benefits. Taxes, user fees and other revenues are allocated based on an estimate of who pays various revenues.

Summary of Results

MERA Model Summary	<i>Residential</i>	<i>Commercial</i>	<i>Public & Exempt*</i>
<i>Municipal Revenues Received</i>	56%	37%	7%
<i>Related Municipal Costs</i>	64%	27%	9%
<i>Revenues / Costs</i>	87%	138%	79%

**includes federal, provincial and municipal government properties, universities, schools, hospitals & churches*

What does this Tell Us?

In the above table, "Revenues / Costs" could be thought of as whether they "Pay Their Own Way." MERA suggests that Institutional/Exempt and Residential properties pay about 80% to 85% of the cost of their Municipal Services. By contrast, commercial properties pay almost 40% more, on average, than the direct benefits to them – **the business community, overall, subsidizes residential, non-profit and exempt properties**. Keep in mind that this model looks at each of the three classes of properties as a group. Certainly, thousands of individual residential and other properties would be "paying their own way."

What we still Need to Figure Out

What does this suggest about the effective tax burden on residents and businesses in HRM? What are the economic impacts of this? How does this affect the competitiveness of businesses operating in HRM? Are some businesses more seriously impacted than others by this? What is the right balance of residential and business tax that would lead to the best climate for sustainable commercial and residential growth?