



PO Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Halifax Regional Council
July 4, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Cathie O'Toole
Cathie O'Toole, A/Director of Finance

DATE: June 20, 2006

SUBJECT: **Residential Property Tax Rebate and Deferral Programs:
Evaluation of Policy Change**

INFORMATION REPORT

ORIGIN

In May, 2005, Regional Council approved amendments to both Administrative Order 10 and By-law T-300 (subsequently re-numbered as By-law T-700) with the aim of providing enhanced assistance to lower income homeowners, especially those households with a combined gross annual income of <\$17,000. This report provides a summary of the impact of such policy changes on program participation, cost, and distribution of assistance.

This report also provides an update on the status of an evaluation of Bill 12 which authorizes tax relief on buildings destroyed or partly destroyed by "...fire, storm or otherwise".

BACKGROUND

1. Impact of Policy Change for Low Income Homeowners

In May, 2005, amendments were made to both the *Residential Tax Exemption Program* (Administrative Order 10) and *Residential Tax Deferral Program* (now By-law T-700) with the aim of:

- Increasing the value of rebates (up to a maximum of \$700) for households whose combined gross income was in the range of \$0 to \$23,000. The aim was to reduce the cost of property tax as a % of income for lower income households and reduce disparity as compared to the regional average of 2%.
- Shifting the distribution of assistance to the lower income range, ie. households whose combined

gross income was <\$17,000 a year.

- Increasing access to the program by raising the income eligibility threshold to \$27,000 (up from \$26,000).
- **Reduce the abrupt drop in assistance at the income eligibility threshold;** the amount of tax paid at \$27,000 as compared to \$27,001.
- Allowing application to both the rebate and the deferral program.

DISCUSSION

The following major findings indicate that the policy changes were successful in achieving the intended outcomes:

Distribution of Assistance by Income:

- The value of the average rebate per household shows that the distribution of assistance did shift to the lower income range (household income less than \$17,000). See: **Attachment 1**.
- The single largest increase in rebate value was in the income range of \$15,000-\$20,000 where the average tax was \$1,436. At this level of income and tax the average municipal rebate value was \$417 (excludes any provincial seniors tax rebate) and is a 7% reduction in tax relative to income and the balance of \$1,019 to be paid represents ~5% of gross household income. See: **Attachment 2**.
- Data suggest that even with a municipal rebate some lower income households are paying more than the regional average 2% of income in property tax. However, this figure does not include eligible applicants in receipt of a further rebate from the provincial government: HRM needs access to data from the Nova Scotia *Seniors Tax Rebate Program* to establish a more accurate measure of affordability for lower income households.
- Interestingly, participants in the tax deferral program do not have significantly higher tax bills (on average \$1,400 as compared to \$1,200 for rebate only applicants). This finding suggests that participation in the tax deferral program is more a function of income, not the amount of tax billed.

Program Participation Rates:

- Participation in the *Residential Tax Exemption Program* (“rebates”) increased substantially over the prior year; from 2,254 households to **2,901 (an increase of 647 households or approximately 29%** as compared to an increase of ~9% in 2004-05). The vast majority of rebate applicants are “repeat customers” and apply to the program annually.
- **The majority of new rebate program participants (over 60%) were in the \$10,000 to \$20,000 income range.** Both the lower (<\$10,000) and upper (\$20,001-\$27,000) income ranges increased ~18%.
- Participation in the *Residential Tax Deferral Program* increased substantially over the prior year,

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from 60 households to 117 (an increase of 26% over prior year). This increase is thought to be a consequence of an increase in income threshold, assessment increases, renewal of a prior year's deferral (22 applicants), and program awareness.

Access to Program:

- Of the **647 new participants** in the *Residential Tax Rebate Program* **approximately 20% were a result of increasing the income eligibility threshold** from \$26,000 to \$27,000. At this income range the average rebate value is modest.
- In 2005-06, the number of customers who received both a rebate and a tax deferral was 95 of whom 43 were new to the program. There is no comparative data for prior years because this is the first year that assistance has been available from both programs.
- As shown below in Table 1, despite increased assessment values, the average value of tax deferred dropped in 2005-06 due to the availability of a rebate. And, there was an increase in the amount of tax paid by deferral customers.

Year	Annual # of Applicants	Combined Total of Taxes Due	Combined Total of "Rebates"	Combined Total of Deferrals	Average Deferral per Applicant	Variance (Combined Tax Paid by Applicants)
2000-01	72	\$101,949	n/a	\$101,473	\$1,409	\$476
2001-02	86	\$98,839	n/a	\$98,839	\$1,149	\$0
2002-03	114	\$113,859	n/a	\$109,866	\$964	\$3,993
2003-04	97	\$114,114	n/a	\$110,530	\$1,139	\$3,584
2004-05	60	\$73,710	n/a	\$71,715	\$1,195	\$1,995
2005-06	117	\$158,912	\$53,851	\$98,363	\$841	\$6,698*

* This figure is significantly higher than in prior years and may indicate that a previous deferral came due for payment or title to property changed and therefore payment of deferred amounts in full, or an increase in the number of customers making partial payments.

Rebate Program Cost:

- In 2004-05, the budget for the rebate program was \$694,000. The cost of the policy changes introduced in 2005-06 were estimated to be an additional \$415,000, for a combined total of \$1,109,000, based on participation remaining stable at 2,500 households. To cover the anticipated increase in program participation of 8% -10% and adjusted rebate values an additional \$500,000 was budgeted for a combined amount of \$1,194,000 in capacity.
- The actual cost for the rebate program in 2005-06 was \$1,118,294 largely as a result of an increase in program participation.

Deferral Program Cost:

- Overall, the average value of taxes deferred by individual household has remained relatively consistent over a 6-year period in ~\$1,000 - \$1,200 range.
- As of March 31st, 2006, the cumulative value of deferrals to date, for both property tax and local improvement charges, for the period 1996 to 2006 was \$1,342,337.

2. Partial Exemption Due to Destruction of Property

Lower Income Homeowners:

In an Information Report to Council (January, 2003), staff of Financial Services recommended against an across the board rebate: Regional Council asked staff to review options to assist lower income homeowners.

The issue of lower income homeowners who could be denied a tax rebate or deferral because they must temporarily re-locate due to the destruction or partial destruction of their home has been addressed. Amendments to Administrative Order 10 and By-law T-700 are proposed. If approved, the amendments would allow for the residency requirement to be suspended for one (1) year so as to enable owners temporarily displaced because their home is uninhabitable due to destruction to apply for a rebate or deferral.

All Property Owners Irrespective of Income:

The implications of Section 69A of the Municipal Government Act (1998) have been debated on a regular basis by the HRM Grants Committee through 2005-06. The issue is complex and emotional. In the opinion of staff there are significant financial and legal risks to HRM and pressure on existing staff resources. Debate has been deferred for two months while the committee makes recommendations re: the *HRM Community Grants Program* and will resume in the fall.

The main points of debate include:

- protecting the integrity of assistance programs;
- customer service standards (the central issue appears to be the timing of an adjustment to assessment value and thereby taxes);
- HRM's capacity to respond in a timely manner (an assessment adjustment will still be required, additional documentation from customer, fire, building inspectors etc);
- jurisdictional mandate and alignment (assessment valuation is the responsibility of the Province).

BUDGET IMPLICATIONS

In 2006-07, the proposed budget for the rebate program is \$1,074,000.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

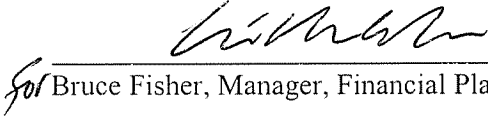
On the basis of staff's findings there are no recommended changes to the eligibility criteria, rebate values, or budget for the *Residential Tax Rebate Program* or *Residential Tax Deferral Program* in fiscal year 2006-07.

ATTACHMENTS

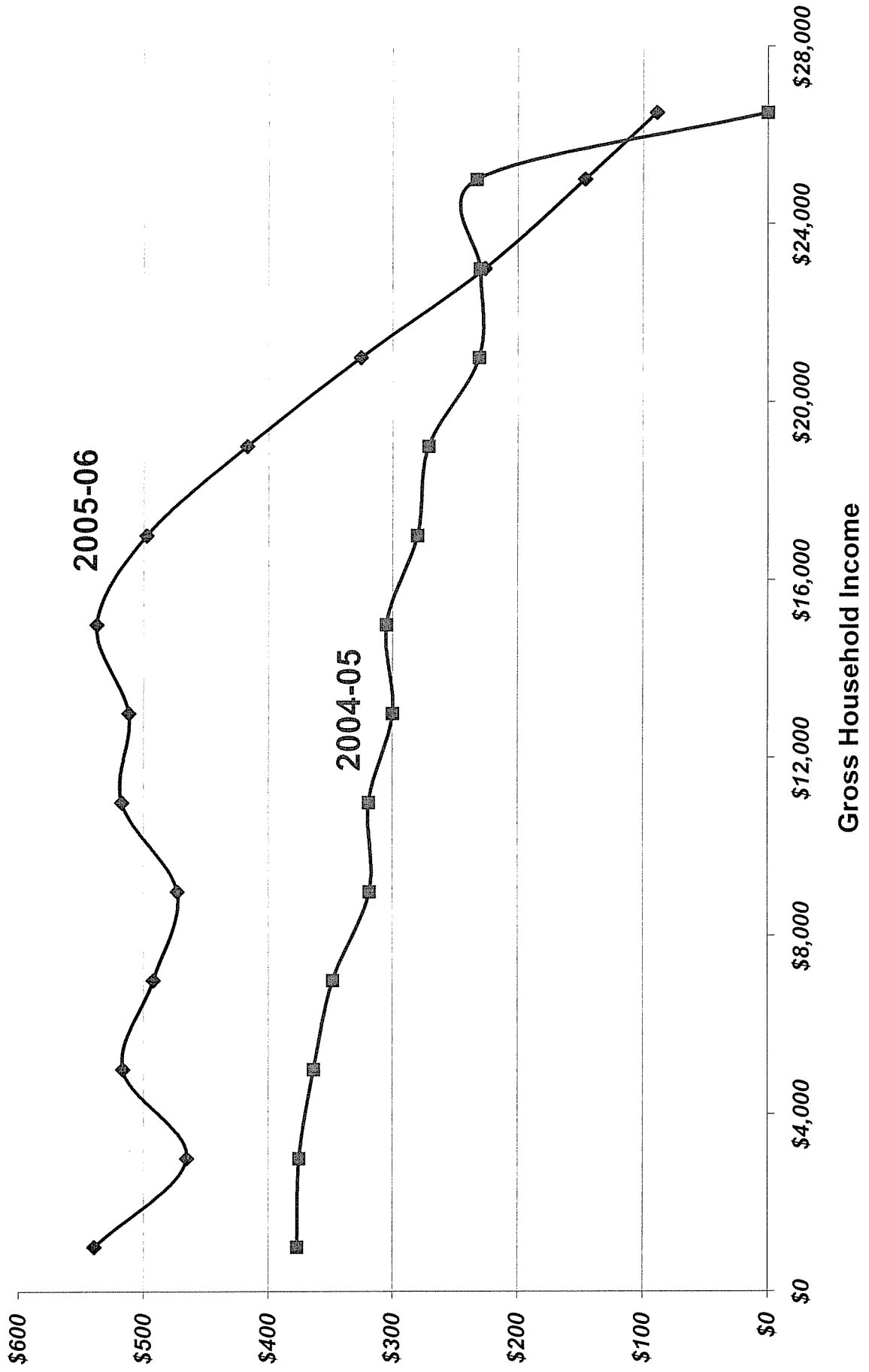
1. Comparison of Average Tax Rebate per Household 2004-05 and 2005-06.
2. Increase in Number of Rebate Clients, per Income Level.
3. Distribution of Rebate Applications by Electoral District 2005-06.

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/agenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

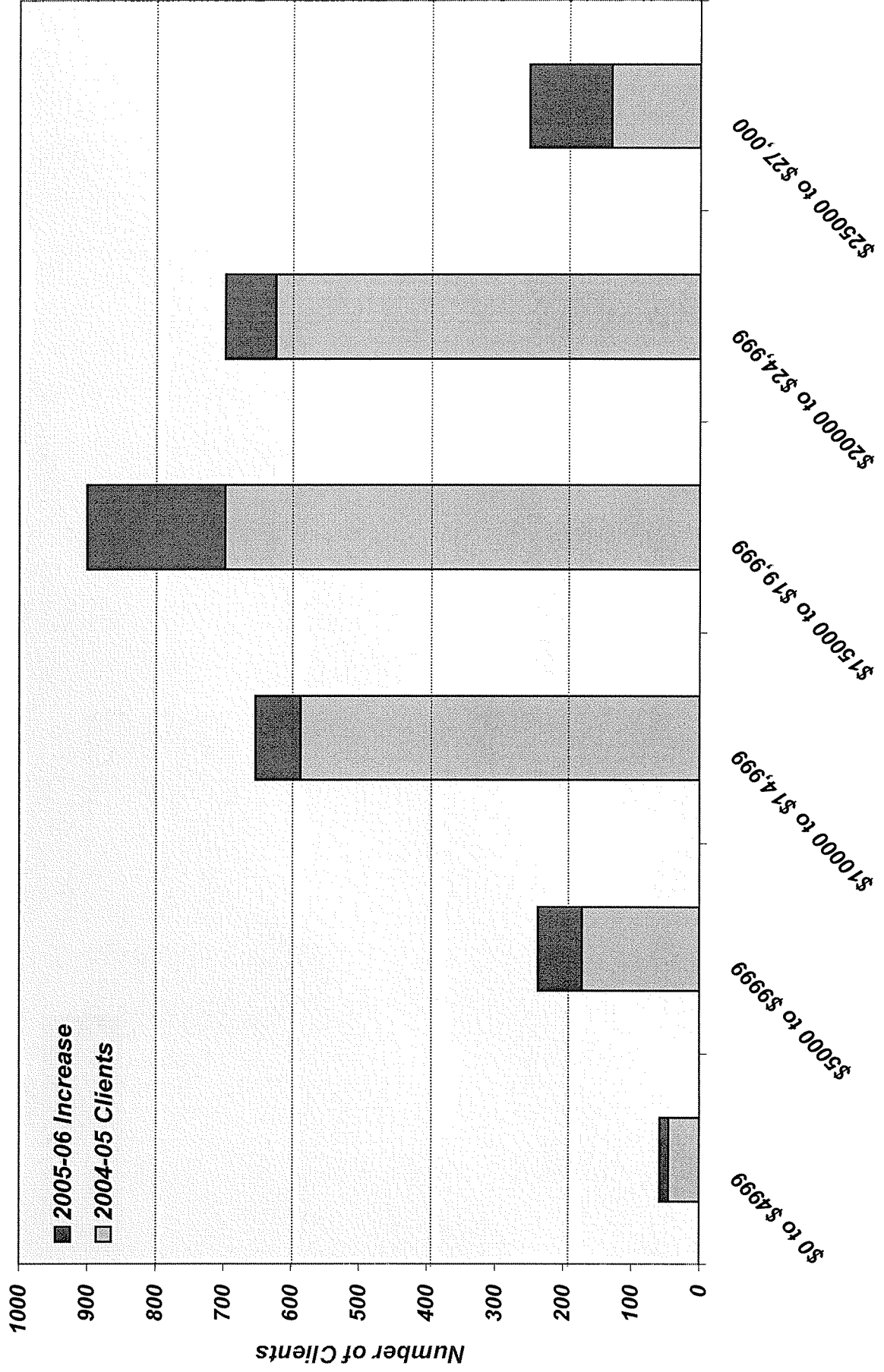
Report Prepared by : Peta-Jane Temple, Team Lead, Tax, Grants & Special Projects 490-5469

Financial Review :  Bruce Fisher, Manager, Financial Planning, HRM Financial Services

Attachment 1: Average Tax Rebate (per household)



Attachment 2: Increase in "Rebate" Clients, per income bracket, from 2004-05 to 2005-06



Attachment 3

Distribution of Rebate Applications by Electoral District 2005-2006		
District	Number of Applicants	Cumulative Value of Rebates
1	400	\$129,736
2	181	\$63,828
3	287	\$103,858
4	70	\$28,430
5	71	\$27,846
6	94	\$40,750
7	86	\$38,450
8	124	\$45,828
9	74	\$28,834
10	37	\$17,650
11	153	\$66,950
12	34	\$18,400
13	30	\$17,100
14	101	\$48,500
15	105	\$43,454
16	57	\$24,250
17	77	\$36,600
18	166	\$64,259
19	177	\$50,686
20	139	\$47,506
21	90	\$41,900
22	216	\$81,554
23	132	\$51,922
Total Awards	2901	\$1,118,294