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HALIFAX
REGIONAL MUNICIPALITY

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Halifax Regional Council
July 15, 2003

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Dale MacLennan
Dale MacLennan, CA, Director, Financial Services

DATE: July 10, 2003

SUBJECT: **Prorated Tax Relief due to Property Damage**

INFORMATION REPORT

ORIGIN

Enactment of Bill 12 of the Municipal Government Act and at request of Council.

BACKGROUND

In May of 2001, Bill 55 was brought before the NS House of Assembly as a Private Member's Bill requesting tax relief for properties damaged by fire where the assessment does not reflect that situation. The Bill subsequently passed Third Reading as Bill 12, an amended version of Bill 55, which stated that Council may, by policy, grant tax relief, to the extent that Council considers appropriate, on buildings destroyed or partially destroyed by fire, storm or otherwise. Under the legislation such a policy may be made retroactive to April 1, 1999.

DISCUSSION

Under previous legislation when a building was destroyed by fire or otherwise there was no provision for a rebate or reduction of taxes for the period when it remained damaged either for residential or commercial. In the case of business occupancy, taxes would be adjusted effective with the date of close of business. Nonetheless, when the property/business owner received their assessment for residential or commercial property taxes in January of the year following they could appeal the value stated and, in every case, if the property had not been replaced be granted a reduced value. If the property had been replaced then no reduction in assessed value for the time the property was damaged was available. The new legislation, Bill 12, would provide Council with the ability to rebate a prorated portion of the year's taxes based on the time in the year when the property was not available to the owner for whatever purpose it was originally intended.

On inquiry to Service Nova Scotia and Municipal Relations (SNS&MR) it was determined that this legislation had been enacted mostly in mind of the municipal residential tax payer who had been devastated by a fire and was uninsured and consequently destitute. The rebate for taxes would constitute a compassionate response by the municipality. It was made clear to HRM by SNS&MR that this legislation was written as an optional piece for municipalites. The legislation is not intended to force municipalities to grant tax relief for fire or otherwise damaged properties regardless of the personal circumstances of the taxpayers.

It is clear that this would be an entirely new and unique program for HRM to undertake. The policy would need to be very specific and would require well trained human resources in order to administer the policy properly. The costs could be significant and, in fact, unpredictable as the ability to estimate potential lost revenue from property damage claims would be limited

In considering the matter, staff looked at a number of issues:

1) What might be the criteria that should be met in order to access this potential program?
2) What are the practices in other jurisdictions? and,
3) What might be the budget implications? See Budget Implications section

1) Staff considered the following criteria might be particularly appropriate:

-an application would be made within 6 months of the occurance;
-there would be a requirement that the property was a principal residence only;
-an affadavit stating no property insurance was held by the homeowner would be required;
-income limits would be set and proof of income obtained.

Applications would be submitted to the Grants Committee who would be granted additional budget allotments so as to provide for the estimated lost revenue and for additional staff to process the claims.

2) Staff investigated fire damaged property tax relief in other areas and found the United States had the most comprehensive program for providing for deductions for property loss via their federal personal income tax act. This program also deducts from the loss any proceeds of insurance received and also 10% of the individuals gross income reflecting that they feel the insurance is intended to reimburse and that there is a certain amount of the individual's own means which can provide for the loss. Although instructive in the approach and philosophy, this program is not comparable to tax relief that may be provided on municipal property taxes.

There was limited information on tax relief provided by other provinces for damaged properties but in Nova Scotia staff found three policies that provided for tax relief for properties damaged by fire or otherwise. Middleton, Amherst and Pictou all have policies. These policies required a written application by the taxpayer and required the Director of Assessment to value the property for the purpose of the policy. One of the policies specifically did not provide for interest paid on reduced amounts and only enabled the policy effective April 1, 2001, not to April 1, 1999 as allowed in Bill 12. This policy was also specific in that fire was the only acceptable damage which would invoke the opportunity to receive a rebate.

It should be noted that proration of taxes to properties which are newly constructed or renovated is not allowed under the current provincial legislation. A typical home in HRM, newly built in the winter (after Dec 1) of any year will not pay property taxes on more than the land value for up to 12 months. This saves a typical homeowner in HRM approximately $1,500 in their first year of ownership. This new Bill 12, therefore, reflects an inconsistency in legislation. Proration of taxes for damaged property would be possible but not possible for new properties.

The method of allocating the tax burden among constituents by using the assessed value of their properties is at best problematic. The idea that if one's property is destroyed one's taxes should be relieved is symptomatic of the disconnect between receipt of municipal services and receipt of one's tax bill for same. One is hard pressed not to make that direct connection; yet, if the property owner was presented with the bill for the costs of the firefighting efforts to fight the fire which destroyed their home, both they and HRM would be appalled at the burden. The additional resources required to monitor their property after the event are not insignificant. Police and by law enforcement personnel would certainly consider this to be an at risk area. The streets would still be plowed and the street lights would continue to light the area. Given this philosophy, staff would not recommend an across the board policy of tax relief for damaged properties.

Usually, property owners provide for insurance on their property for damage that may be caused by fire, storm or otherwise as home insurance is a basic cost of ownership. This insurance would ideally provide for replacement of the property and for interim living arrangements for those affected. Where a taxpayer has no means to afford insurance it could be considered that the inability to replace their property would constitute undue hardship and the municipality could be petitioned for relief from the property taxes for the time the property was not available to the owner. Service NS and Municipal Affairs has indicated that this was the original intent of this bill.

BUDGET IMPLICATIONS

Staff investigated the potential impact to the budget should the policy be implemented and applied retroactively to April 1, 1999, as is provided in the Bill. It was determined that almost 1800 major/minor structural fires have occurred in that time in the core area. Rural statistics were not available from Fire Services but would be in addition to those reported. The following table outlines some conservative estimates of potential revenue impacts should the policy be enacted and backdated to April 1, 1999.

Year	Estimated Property Losses*	Average General Tax Rate*	Estimated Revenue Loss
1999	$10,950,000	$1.400	$153,300
2000	$12,325,000	$1.386	$170,800
2001	$11,600,000	$1.369	$158,800
2002	$ 9,900,000	$1.348	$133,500
Totals			$616,400

* based on an estimate of $25,000 on average per occurance and the urban residential rate per $100 including fire protection (amounts would be higher if all area rates, LICs, supplementary education rates were included).

Losses of general and area rate revenues would need to be replaced with other revenue sources in order to meet budget obligations and plans. The amount of the loss would be apportioned among other taxpayers. These taxpayers would have an expectation of responsible insurance coverage as a normal cost of ownership. Nonetheless, it is understood that some taxpayers might not be able to afford appropriate insurance due to low income and an application under a new program such as this would be a reasonable response to this legislation.

To provide for the potential revenue losses, each year an estimate of possible rebates due to fire damaged property would be included in the budget, and each year actual experience would be written off against the allowance. The expense would be treated in a similar manner as the allowance for receivables outstanding. This approach would be most conservative as it would be impossible to predict any one years losses and prudent as there would be a need to accumulate allowance for the potential for a devastating fire episode in the municipality.

In addition, in order to administer a Council approved policy for the above there would be a need for additional resources to administer the program as each request would require enhanced individual, sensitive and careful attention due to the nature of the situation. Each situation would be addressed individually and could include requests for rebates for damage due to minor occurances and to occurances relative to wind, flood or other damages. If a full program were instituted and prorated back to 1999 then two full time staff are recommended for a two year period reducing to one full time staff person. The first year would be to develop and implement a new program and to process a large backlog of requests and to orient other HRM departments which would be impacted eg legal services, revenue. Estimated amounts for a specialist (tax, insurance, para legal) and an admin/technician including benefits and overheads is $110,000 per year. It is anticipated that these costs would drop off as the program matured.

If a program to address go forward requests only for those taxpayers who are deemed destitute was instituted then staff and admin costs would be much less. Estimates would be in the range of $45,000 per year with a cost drop off as the program matured.

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.

REGIONAL PLANNING IMPLICATIONS

None.

ALTERNATIVES

Council could institute an across the board policy to provide for rebated property taxes on all property destroyed or partially destroyed by fire, storm or otherwise as specifically provided by the provincial legislation. This is not recommended as per the discussion and budget implications sections of this report.

Council could keep the current policy where tax relief is provided by time delays in assessment increases and/or by permanent correction of an assessed value if the loss is prolonged ie greater than one year. There are no incremental costs associated with this alternative.

Additionally, Council could amend the existing rebate and deferral program to provide for an option where individuals could petition HRM for tax relief. This program would recognize specific hardship situations where gross family income levels precluded the ability to afford full and comprehensive insurance, where the property was a principal residence and was owner occupied . The option to defer could be offered in lieu of a grant and provision for non-profit organizations could be included in the criteria. There would be a need to amend the applicable administrative order and by law and to provide the additional resources to the Grants Program as per the budget implications section of this report.

Staff favour the latter two options.

Staff will, therefore, return with a proposed amendment to the existing deferral and rebate programs that will allow for prorated tax relief for residential taxpayers meeting specific criteria as per the discussion and alternatives section of this report. Council consideration and approval would be sought for implementation in the 2004/05 operating budget.

ATTACHMENTS

None

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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