P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 9.1.4
Audit & Finance Standing Committee
November 26, 2014

TO: Chair and Members of (Name of Community Council or Board)

Original Signed

SUBMITTED BY: ______________________________

Maggie MacDonald, A/Managing Director, Government Relations & External Affairs

DATE: November 7, 2014

SUBJECT: **Provincial-Municipal Fiscal Review – Halifax Submission**

ORIGIN

Release of the Provincial-Municipal Fiscal Review Consultative Report on October 15, 2014. UNSM is requesting feedback via submissions from Municipal Councils, which will then be forwarded to the Fiscal Review Working Group and the Provincial government.

LEGISLATIVE AUTHORITY

HRM Charter s. 79 (1) (v) authority to spend subscription funds on UNSM membership, as well as broader ability to participate in UNSM activities.

RECOMMENDATION

It is recommended that Council send a submission to the UNSM regarding the Provincial-Municipal Fiscal Review Consultative Report, accepting the recommendations as is, and seeking an active role in ongoing review and implementation.

BACKGROUND

In 2012, the Department of Municipal Affairs (DMA) began the Provincial-Municipal Fiscal Review to examine how provincial support to municipalities could be best allocated. A Steering Committee and Working Group were established consisting of elected officials from Nova Scotia municipalities, Deputy Ministers, and staff from municipalities across Nova Scotia, Union of Nova Scotia Municipalities, and Municipal Affairs Services Division. Halifax was represented on the Working Group by two Finance staff that took an active role in developing the report.

The Fiscal Review suggests that current demographic and economic trends present major challenges for the future viability of municipalities. The Provincial-Municipal Fiscal Review Committee's mandate was to review current provincial programs and services to better meet municipal needs within the context of a balanced provincial budget. The Steering Committee made 41 recommendations which are detailed in the report concerning structure, road equity, scarce resources, revenue, and collaboration. The report and recommendations were released for comment from municipalities across the Province with a deadline of December 15, 2014.

DISCUSSION

Brief summaries of the five themes in the report are outlined below, with Halifax-specific implications noted. A number of recommendations apply only to towns or rural municipalities, and there is a heavy emphasis on encouraging voluntary restructuring to help realize cost savings.

Opportunities to Improve Government Structures

Following recommendations from the Towns Task Force in 2012, the Provincial-Municipal Fiscal Review explored a variety of options to address structural challenges in Nova Scotia. It recommended that the Province formalize Financial Condition Index (FCI) tracking as a standard tool to monitor the financial health of municipalities. Following three consecutive years of red-flagged FCI indicators exceeding the threshold, individual municipal units will be subject to a standardized comprehensive structural review and action plan to move out of the red-flag area. Municipalities also have the option to voluntarily request a review at any time and in extraordinary circumstances, where it is jointly agreed by the UNSM and DMA that there is a need, a municipality could be targeted for a review process. The Fiscal Review Report also recommended the phasing out of villages, as they represent an additional tier of local government with additional administrative costs.

Currently, Halifax meets all the FCI thresholds and does not have any red-flagged indicators. Although it does face some financial pressures, Halifax is in a strong and stable fiscal position. One of its greatest challenges, however, rests in the financial health of the rest of the Province. Even though it is the largest and the most affluent of the 54 municipalities, it risks being dragged down by the weak economic and fiscal performance of other parts of the Province. It is in Halifax's interest for other municipalities to strengthen their fiscal positions as well. Economic issues such as unemployment, labour market participation rates, and productivity contribute to overall social and economic outcomes. Increasingly youth from all over Nova Scotia are passing over Halifax and migrating west, as such depleting the provincial population and tax base and leading to slower growth in Halifax. Positioning Nova Scotia as an attractive place to live will help retain people and attract more jobs. This can best be done if Nova Scotia municipalities are viewed as sustainable and viable communities. Halifax cannot continue to grow at a fast pace if most other municipalities are steadily declining.

Population growth and retention is more important than ever before to Halifax. Between 2001 and 2013, net migration accounted for 2/3 of Halifax's population growth. However this growth is slowing, with Halifax's population growing by only 0.4% from 2012 to 2013 while out migration to other parts of Canada spiked to its highest level in over a decade. This represents a break with recent trends. A population growth strategy for the city and province must focus on stemming the outflow of youth from the region and increasing the attraction and retention of immigrants. Stable and fiscally viable communities throughout the region contribute to this. Healthy population growth contributes to growth in local government revenues without the need for increased tax rates on individual homes and businesses.

Opportunities to Improve Road Equity

The Provincial Municipal Service Exchange Agreement (1995) saw a transfer of services between municipal and provincial jurisdictions in Nova Scotia. Under Service Exchange, local roads constructed by the Province before April 1, 1995 are maintained by the Department of Transportation and Infrastructure Renewal (NSTIR) on a fee basis while local roads constructed after April 1, 1995 are the responsibility of the municipality in which they are constructed. Towns, however, have always been responsible for their own roads (local, arterial and collector). Since towns cannot achieve the same economies of scales as NSTIR, road costs are higher for towns than rural municipalities. Due to this disparity, the Fiscal Review report recommends rural municipalities pay TIR full maintenance recovery cost for 745 km of local roads maintained under Service Exchange. In addition, NSTIR would offer to maintain some town roads at a fee. These changes would introduce a great level of equity between municipalities, solving a difficult legacy issue, and eliminate a disincentive for restructuring.

These recommendations do not affect the arrangements between NSTIR and Halifax. In 1996 a trade was made between Halifax and NSTIR to account for NSTIR owned roads within the Halifax core region. According to the report, Halifax maintains 2,307 km of local roads with a total service and maintenance cost per kilometre at $13,416. There is no change to this agreement proposed in the Fiscal Review report.

Opportunities to Reallocate Scarce Resources

Every year, the provincial Government of Nova Scotia, through the Department of Municipal Affairs, administers financial grants to municipalities. The Provincial-Municipal Fiscal Review report contends that the current grants framework – the equalization program in particular – is not working to ensure the long term viability of Nova Scotia municipalities. Some of the major issues with the program are:

- The current equalization formula considers ability to pay for each municipality by applying a standard tax rate for its uniform assessment. However it does not consider the income of residents, hence their true ability to pay their taxes. This can lead to scenarios where some municipalities with higher incomes receive more equalization than struggling municipalities with lower incomes.
- The existing equalization formula is a disincentive to restructure. Towns that dissolve are likely to see any costs savings substantially reduced through reductions in the equalization formula.
- The current value of the equalization grant has been frozen for 9 years at $30.5 million. It fails to reflect rising municipal costs associated with federal and provincial regulations. By using average municipal expenditures to calculate grants, it also only represents the average of what exists, rather than the minimum actually needed to provide core services.

The Working Group considered many possible improvements to the current formula but was hampered by inconsistent and insufficient data. Given the complex issues associated with equalization and the far-reaching impact any changes would have, it recommended freezing individual municipal allotments until 2018, to allow time for an alternative equalization grant to be developed. In the short term, this also removes the disincentive to restructure.

Halifax does not receive any funding through the provincial equalization program. A more equitable and meaningful equalization transfer for municipalities will generally strengthen municipal government across Nova Scotia.

The Fiscal Review report recommends a package of reforms to the grant program, including the NSPI Grant-in-Lieu (GIL), the HST Offset Program, the Provincial Capital Assistance Program (PCAP) and an Innovation/Capacity Building grant.

- NSPI GIL - Currently, the Province uses a portion of this GIL to pay the cost of equalization. The report recommends expanding the NSPI Grant so that it is calculated on rate times assessment for host municipalities and also that the Province pay for equalization from provincial revenues. This would increase the value of the grant from the current $11.6 million, to approximately $22 million. This doubling of the GIL would allow the 47 municipalities that host NSPI assets to receive larger grants. Halifax would see its grant increase from $3.2 million to $6.3 million annually. The Working Group recommended this change so that municipalities will receive a grant from NSPI that is predictable, grows with the value of the assets, and resembles the taxes paid by other commercial properties.

- HST Offset Program - the report recommends the elimination of the HST Offset Program. The Working Group felt that this unconditional operating grant did not support the objectives of greater fairness, transparency, stability and elasticity. The recommendation is to redirect the $6 million currently invested in the HST Offset program to an expanded PCAP. In 2014-15 Halifax received $3.6 million from the HST Offset program.

- PCAP – PCAP is an application-based fund which provides assistance to municipalities for water, wastewater and solid waste capital projects. In 2014-15 the total PCAP fund was $3.75 million. The Working Group agreed that increased Provincial infrastructure funding is needed. However improved information that can track the state of exiting assets and prioritize replacement and new-build capital projects is also necessary. The report recommends significantly increasing PCAP, to $17.9 million annually, and expanding the eligible categories to include roads and other critical capital projects. PCAP funding would also be used to develop an Asset Management program for all municipalities outside of Halifax, which has already developed its own.

  PCAP has historically been a relatively small fund, and its municipal grants tend to be in range of tens or hundreds of thousands. Apart from a $2 million grant in 2005 for Harbour Solutions, Halifax has received periodic grants ranging from approximately $5000 to $150,000. Increasing the fund presents opportunities for all municipalities to address pressing infrastructure needs.

- Innovation/Capacity Building Grant – there is currently a $250,000 grant available for municipalities to undertake capacity-building activities (training, internship programs, etc), promote innovation and fund comprehensive municipal viability reviews. The Working Group recommends increasing this to $1.75 million.

The changes to operating grants recommended in the report appear to have an almost neutral impact on Halifax. An estimated $3.1 million increase in the NSPI GIL roughly equals the loss of the $3.6 million from the HST Offset. An expansion of PCAP would be of great benefit to all municipalities by allowing major infrastructure projects to receive Provincial assistance.

<u>Opportunities to Improve Revenue Systems</u>
The Working Group undertook an extensive review of the benefits and challenges associated with the property tax system, as well as several other potential revenue systems for municipalities including municipal income tax, corporate income tax, gas tax and municipal sales tax. Systems were evaluated for vertical and horizontal equity, economic efficiency, accountability, adequacy, stability and administrative burden. While the Working Group acknowledged equity and other issues with the existing property tax system, it did not recommend any major changes to the assessment system. The Fiscal Review Committee noted challenges associated with Nova Scotia’s assessment cap policy.

The Fiscal Review Committee recognized that new or alternative sources of revenue for municipal services are needed to offset a heavy reliance on property tax. It proposes a joint provincial-municipal review of finance powers in the Municipal Government Act and the Halifax Charter to provide clearer and more flexible authority over property taxation. Specifically, the report recommends amendments to legislation to provide greater municipal autonomy over all forms of property taxation, including forest and recreational properties, and special tax legislation around telecommunications and emerging energy sectors. A review of finance powers in both the MGA and the Halifax Charter aligns with the Council-approved scope of the Charter Review. A joint approach with other municipalities would be helpful in accelerating this work, and initial discussions with the AMA are already underway.

The report also recommends the Province introduce a Provincial Property Tax Rate, applied to all taxable property, in order to replace the current system of municipal contributions to education, housing and corrections. Currently municipalities are required to contribute to support these provincial programs. Municipalities frequently raise concerns about the impact mandatory contributions have on their ability to deliver services, as well as the issues of transparency and accountability that arise from municipalities collecting taxes for programs over which they have no control.

The Fiscal Review Committee's proposal would introduce a Provincial Property Tax Rate, applied to all taxable property in Nova Scotia. It would be calculated using taxable assessment rather than the current Uniform Assessment approach. Instead of municipalities transferring a portion of municipal property tax revenues, municipalities would reduce their tax revenues by the amount of their mandatory contributions. The Province would then institute a Provincial Property Tax rate to collect the same amount. Municipalities would still collect this tax on behalf of the Province, but it would be included in the provincial budget and financial statements, rather than on municipal budgets and financial statements. This aligns taxation with responsibility. It is the Province that current decides on Education, Housing and Corrections policy, but it currently requires the municipalities to share in the costs of those provincial decisions.

For 2014, Halifax collected $844.9 million in municipal revenue. Of this, $129 million was levied as an area rate and transferred for education, housing and corrections. Under the Provincial Property Tax proposal, Halifax would almost eliminate the area tax rate to collect the $129 million, leaving only the Provincial Valuation Services Corporation (PVSC) to be paid for. The Province would then set a property tax rate for all municipalities using taxable assessment, to collect the amount it formerly took via transfers from municipalities. While the total amount of revenue the Province collects would be the same, there could be shifts in burden within Nova Scotia. The report estimates the amount collected from Halifax taxpayers would increase by $4.6 million due to the change. The final decision on any new property tax rate, however, would be a Provincial one. Over time, it could even be that the Province would shift some of that cost to the income tax system.

<u>Opportunities to Improve Collaboration (Non-Financial Supports)</u>
Provincial government decisions have an impact on municipal finances. The Fiscal Review report notes that compliance with provincial regulations, such as waste water standards and climate change, affects municipal expenditures. The Fiscal Review recommends improved stakeholder involvement and consultation early in the process of new regulation development between the province and municipalities to properly access the economic and financial impact. New regulations should not be implemented unless they have been fully costed. For Halifax, this is a critical recommendation. Many new regulations carry heavy fiscal costs for municipalities that often become a major cost driver, putting upward pressure on municipal taxes.

The Fiscal Review also noted that communication around available services and supports to municipalities should be strengthened. The report recommends that the Province and municipalities improve collaboration and partnerships by jointly determining strategic priority areas, establishing an ongoing staff-level roundtable and developing new processes for sharing information with municipalities.

Halifax continually works to strengthen communication and collaboration with municipalities and with the Provincial government. Given Halifax's status within Nova Scotia, as home to 44% of the population and 55% of the GDP, Halifax would seek membership alongside UNSM and the AMA at the proposed staff-level roundtable and joint priority-setting exercises.

<u>FINANCIAL IMPLICATIONS</u>

There are no immediate financial implications. Net changes made under this report could see Halifax`s revenues from the Province decline by $500,000 although it would have access to a much larger PCAP program.

In addition, the $129 million of transfers made for Provincial expenses, all of them funded through an area rate, would no longer be included on municipal budgets and financial statements. While the cost to Halifax taxpayers of the new provincial property tax may exceed the amount under the current area rates, this will be clearly identified as a Provincial decision. It is worth noting that this area rate has been rising at a steady rate – almost $14 million in two years.

For Halifax, the more important financial issues in the Fiscal Review are long term and strategic. First, regulations applied to municipalities need to be fully costed before the decisions are made to apply them on municipalities. Secondly, and perhaps more importantly, for Halifax to grow at a rapid pace requires stable, viable municipal governments across Nova Scotia.

COMMUNITY ENGAGEMENT

None for this report

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

Council could include requests for further changes to the recommendations in its submission.

Council could opt not to send a submission.

ATTACHMENTS

Appendix A: Provincial-Municipal Fiscal Review Consultative Report (available online at http://unsm.ca).

A copy of this report can be obtained online at http://www.halifax.ca/council/agendasc/cagenda.php then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

Report Prepared by: Michelle Venturini, Research & Communications Analyst, 902-490-6982
Anne Totten, Corporate Policy Analyst, 902-490-5623

Original Signed

Report Approved by: ______________________________
Maggie MacDonald, A/Managing Director, Government Relations & External Affairs, 902-490-1742

Original Signed

Financial Approval by: ______________________________
Greg Keefe, Director of Finance & ICT/CFO, 902.490.6308

The Provincial-Municipal Fiscal Review

Consultative Report

Table of Contents

Provincial-Municipal Fiscal Review

Municipal Structural Review

Draft Options Paper

2014

Executive Summary

The Provincial/Municipal Fiscal Review (Fiscal Review) is a joint project between the Province of Nova Scotia and municipalities. It is primarily concerned with the state of municipalities, the relationship between the Province and its municipal partners, and the allocation of resources.

A key part of the Fiscal Review is consideration of the structure in which local governments operate. Drawing on a literature review, jurisdictional scan, and informal interviews, this report examines the current state of municipal structure in Nova Scotia and presents options for its potential reform.

Literature Review

Research for this options paper included a literature review on the topics of cohesion, capacity, efficiency, and representation. The literature indicates:

- No clear consensus on the optimal size of a municipality
- Less research on consolidation in rural areas
- Economies of scale can be achieved for capital intensive services, less so for labour intensive services, but factors such as population density and the level of service are also important factors
- Impact of mergers on cost savings mixed
- There are non-financial benefits to structure reform, such as reduced duplication, improved administrative capacity, reduced inter-municipal competition

Jurisdictional Scan

An extensive jurisdictional scan on structural reform in other Canadian provinces found:

- An emphasis on structural reform in Ontario and Quebec, to a lesser extent in Nova Scotia and New Brunswick
- More regional cooperation approaches in Western Canada and British Columbia
    - Leads to focus on governance over government, process (strategic planning, resolving conflict, building consensus) over structure
    - Manitoba's *Municipal Modernization Act* (2013) is a major new development
- Overall, many two-tiered systems eliminated in Canada

Options

Based on these sources of information and a series of informal interviews with stakeholders in other Canadian provinces, the following "off the shelf" reform options were considered:

- Triggered Review
- Targeted Review
- Timed Review
- Threshold Approach
- Incentives Approach

Summary of Recommendations- (Full description on pg. 31)

R1 - The Province will formalize FCI tracking as the tool that will be used to monitor the financial health of municipalities.

R2 – The Province, with UNSM and AMA, will develop materials to help ensure that municipalities understand the FCI and have access to best practices to improve their financial health.

R3 – The Province will develop a suite of programs designed to assist any municipality that chooses, or is required, to initiate a consolidation process.

R4 - After three consecutive years of 6 or more red-flagged FCI indicators, municipalities will be subject to a comprehensive review.

R5 – Beginning on March 31, 2015, the FCI tracker will be applied as a trigger for reviews for any municipality that has exceeded 6 or more red-flag trigger threshold for three consecutive years.

R6 –Municipalities will be encouraged to voluntarily request a review at any time, for any reason.

R7 - In extraordinary circumstances, where it is jointly agreed upon by the UNSM and SNSRM that there is a need, a municipality could be targeted for a review process.

R8- The review will provide all parties with binding outcomes that will identify the conditions necessary for municipal viability.

R9 - The reviewed municipality, other affected municipalities and provincial officials will have 90 days to develop an Action Plan to achieve the outcomes identified in the review.

R10 - The Province, upon receipt of the Action Plan, will issue a Ministerial Order within 30 days. If the Province does not receive an Action Plan within 90 days, the Province will issue a Ministerial Order.

R11 - Municipalities will submit progress reports to the Province periodically once a transition process has begun. FCI tracking will continue.

R12 – In the event that a review reveals that the challenges facing a municipality are such that they cannot be addressed through structural changes or a realignment of service standards, OR a municipality implements their Action Plan and improvements are not realized, then a tailored public policy process will be launched.

R13 – No new villages will be created and no new powers will be given to villages beyond those that currently exist.

R14 – All incorporated villages in Nova Scotia should be phased out. Existing villages should be given the opportunity to apply for town status, merge with an adjacent town, or dissolve into their encompassing rural municipality as they see fit.

+

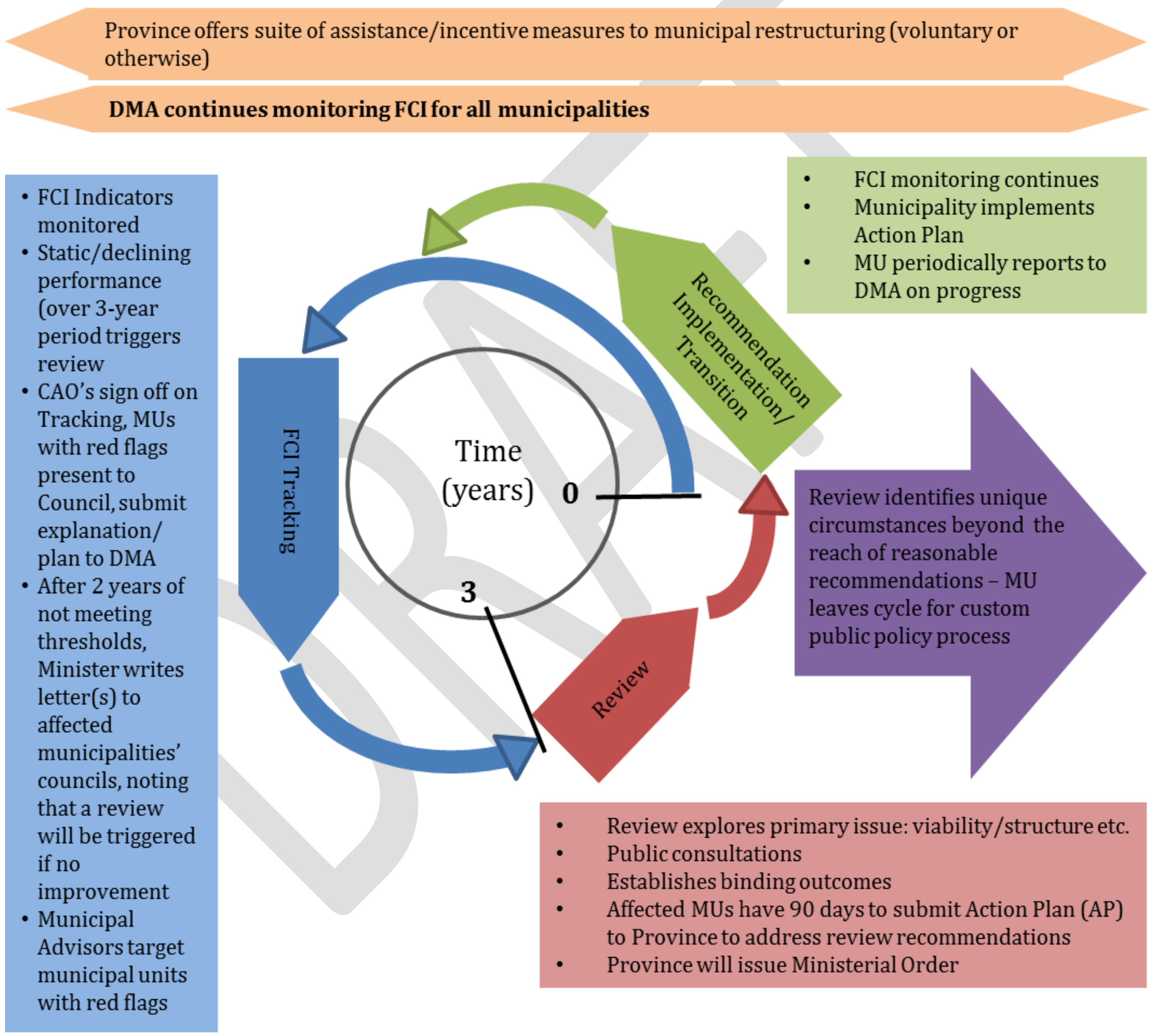


Table of Contents

The Provincial/Municipal Fiscal Review

In 2010, staff from DMA (DMA) reviewed the Province's municipal equalization grant program. During the review, it became clear that it was difficult to review the equalization program in isolation from the other provincial grants distributed to municipalities. As a result, the Province embarked on the Fiscal Review with the overall goal of determining how provincial support to municipalities could best be allocated.

A Steering Committee was established consisting of elected representatives from municipalities across Nova Scotia and Deputy Ministers from departments where there was a significant level of interaction with municipalities. To support the Steering Committee, a Working Group was also established, consisting of staff from municipalities across Nova Scotia, staff from the Union of Nova Scotia Municipalities, and staff from DMA's Municipal Services Division. The Working Group is supported by a set of subcommittees, with staff representatives from municipalities and relevant departments.

The Review was tasked with two key projects: first to document the current state of Nova Scotia municipalities, and second to use that information to evaluate all relevant aspects of provincial-municipal relationship including:

- Appropriate funding sources for municipalities
- Municipal-provincial responsibilities
- Municipal structure
- The impact of regulation on municipalities
- The municipal grants and contributions structure
- Non-financial supports for municipalities

A report on the *Current State of Municipal Governments in Nova Scotia* was released in Fall 2013.

Introduction

> "Municipal structures are not necessarily the final authority on defining communities. Residents of Hazel Hill associate with the community of Hazel Hill, not MODG (Municipality of the District of Guysborough). Dartmouth is Dartmouth, not the Halifax Regional Municipality. And Louisburg is certainly not the Cape Breton Regional Municipality. Nova Scotia's residents should continue to passionately celebrate community but not confuse that with how government services are best organized and delivered."
>
> – *Review of Canso/Municipality of Guysborough Governance Reform, 2014*

> "We must think with our heads, not our hearts."
>
> - *UNSM Towns Task Force, 2012*

This report provides research conducted on structure options to improve and support municipal government in Nova Scotia. In preparing this report, the Fiscal Review Working Group agreed that any recommendations stemming from the review should be evidence-based and maintain or strengthen local governments' ability to meet the following guiding principles:

1. **Democracy**

Recommendations should uphold transparent, accountable, accessible, and representative municipal government.

2. **Equity & Fairness**

Recommendations should support a reasonably comparable standard of public services across Nova Scotia municipalities at reasonably comparable levels of taxation, and support a system where citizens receive best value and are taxed according to the services they have access to.

3. **Viability & Capacity**

Recommendations should ensure that municipalities have sustainable resources to support their long-term viability. This includes, but is not limited to, access to revenue, an appropriate level of tax burden, the ability to provide core services and the ability to maintain sufficient human resources.

4. **Efficiency and Effectiveness**

Recommendations from this review should encourage efficient and effective decision-making.

This report considers the structural issues facing Nova Scotia municipalities and the potential options available to address them.

Background: Municipal Structure in Nova Scotia

Municipal government is the closest level of government to the people, providing an unparalleled degree of accessibility and local choice in services to citizens. These unique qualities make local governments important contributors to vibrant and healthy communities across the country. However, there are significant challenges facing municipalities, including in Nova Scotia.[1] Given the demographic, economic, and financial pressure experienced by some units, consideration of current municipal structures is warranted.

Though Nova Scotian municipal boundaries and legislation have been revised since municipalities were first established in the *Towns Incorporation Act* of 1888, the basic structure remains the same. Three areas of significant change since that time suggest that there is potential to improve governance by revisiting municipal structures.

Firstly, population and settlement patterns have changed significantly, with increasing urbanization changing the nature of our urban and rural communities. In addition, the scope and complexity of services provided by municipalities has increased. In recent years some municipalities have faced challenges meeting and maintaining new and highly technical regulations such as wastewater treatment standards. Finally, major technological changes have altered how and where we live, work, and enjoy life.

There have been a number of modern attempts to review municipal structure in Nova Scotia. The Royal Commission on Education, Public Services, and Provincial Municipal Relations (i.e., the Graham Commission) reported in 1974 on a wide range of government services, including municipal government. Implementation was not immediate, but several of the elements of the Graham Commission have been further studied and adopted. However, the proposed municipal boundary changes have not been among them.

The last review of municipal structure in Nova Scotia was undertaken in the early 1990s by the Local Government Taskforce. Since then, some selective restructuring has taken place in Halifax Regional Municipality, Cape Breton Regional Municipality, Regional Municipality of Queens, and finally with the recent dissolution of the Town of Canso.

However, structure remains a topic of discussion. Citizen groups in several areas of the province (e.g. Annapolis County, Pictou County, and Kings County) have formed to encourage discussion on municipal amalgamation in their communities. The recent Towns Task Force noted the disadvantage that towns in particular face in terms of access to revenue, tax burden, service expectations, and transportation responsibilities.[2] More

[1] For more information on the state of local government in Nova Scotia, please see the *Current State of Municipal Governments in Nova Scotia* document released by the Provincial-Municipal Fiscal Review in Fall 2013.

[2] The FCI is a new tool using key municipal indicators currently under development by SNSMR. Release is expected in 2014.

recently, the final report of the Nova Scotia Commission on Building Our New Economy - entitled "Now or Never: An Urgent Call to Action" – also called for a comprehensive review of municipal structure (pg. 50). Finally, there is a general trend towards reducing the size of government (e.g. UARB hearings on council size, the provincial *Back to Balance* initiative). Given these factors, the Fiscal Review decided to examine whether current municipal structures are best suited to providing high quality local governance in Nova Scotia.

While this options paper explores the potential of restructuring, it is important to recognize that structural reform is not a cure for all economic challenges facing Nova Scotia communities. Cost savings achieved through economies of scale must be measured against transition costs and the knowledge that some improvement may be in service level, rather than lowering tax burdens. While restructuring may position communities to better address challenges, it will not necessarily reverse negative population or economic trends all on its own.[3]

[3] For more information on the economic and population challenges facing Nova Scotia, please see The Report of the Nova Scotia Commission on Building Our New Economy (2014).

Literature Review

The literature review for this paper involved peer-reviewed articles from a variety of academic journals, including Local Government Studies, Canadian Public Administration, the Journal of Public Administrative Sciences, the Canadian Research Index, and the Canadian Public Policy Collection.

Articles were selected for inclusion according to the following criteria:

- Scale and size similar to Nova Scotia
- Consideration of both urban and rural areas
- Similar services offered
- Post 1960
- Use of case studies

Figure 1: Impact of Consolidation in Rural Communities

In 1992, Bunch and Strauss authored a study on nine small, fiscally distressed municipalities in Western Pennsylvania. With populations ranging from 800 to 14,000, the towns had lost substantial portions of their tax base as a result of the closure of local steel mills and related heavy industry. The population also had a higher proportion of seniors, higher levels of poverty, fewer college graduates, and lower per capita income than the national average. The authors found that consolidation would help 7 out of the 9 units in terms of tax burdens. Two units would see significantly lower burdens for the median home owner and two would only be able to provide local services if they consolidated.

Based on this research, it became clear that there is a lack of consensus in the literature on the optimal size of a municipality (Allan, 1993). Research on consolidation in rural areas is also scarce. Furthermore, arguments for and against mergers can generally be grouped into four themes: cohesion, capacity, efficiency, and representativeness. The key findings of each theme are briefly outlined here.

1. Cohesion: The ability to make decisions for a region

Proponents of consolidation argue that major elements of the municipal sphere – including land use planning, economic development, transportation, and waste management – require greater coordination than can be achieved by a fragmented local government system due to externalities (Tindal; Rusk, 1993; Stephens and Wilkstrom, 2000).[4]

Another benefit is bringing an end to inter-municipal competition (Stewart, 2000). Competition can create problems related to foregone public revenue; costly infrastructure

[4] The Hayward Report (1993) used this form of argument when advocating for amalgamation in the Halifax region. Alternatives, such as special purpose bodies and inter-municipal agreements, were said to lead to siloes and reduce the ability of municipalities to holistically consider issues and services.

expenditures; suburbanization of retail activity to the detriment of the downtown core; and costly tax concessions (Bradford, 2003). However, the simple act of re-drawing political boundaries may not necessarily soften these tensions. In fact, Tindal explains that when amalgamations bring together diverse areas – such as those that straddle urban-rural divides – differences may potentially be heightened and even exacerbated.

It is important to note that competition between municipalities does not necessarily lead to negative results. Public choice theorists see a benefit to competition in encouraging innovation and producing efficiencies (Bish). Others have suggested that large, unitary governments are essentially monopolistic and therefore will tend to provide inefficient services in the absence of geographically close competitors (Boyne, 1992).

2. **Capacity: The ability to meet the complex requirements of municipal government**

Improvements cited in the literature can potentially come in the form of better service coordination, reduced duplication, as well as the ability to recruit and retain qualified staff in merging municipalities.

If local governments cooperate and pool their resources, for instance, they may be able to create a more stable tax base as well as offer a wider range and better quality of municipal services.[5] Following from this argument is the idea that a larger jurisdiction would, by virtue of its size, resources, and centrality, possess greater administrative capacity as well. For example, pooled resources may lead to the ability to attract highly qualified candidates to where their talents and expertise would be more effectively utilized (Tindal).

Another potential benefit is more effective regional planning. Consolidation may provide the municipality with an increased capability to deal with issues of environmental protection, infrastructure investment, and waste management, particularly in areas that are experiencing rapid social and physical transformation (Vojnovic, 2000). Larger jurisdictions can potentially reduce bureaucratic obstacles that may exist in a more fragmented structure, providing a single authority that has "greater organization, expediency in decision-making, and increased political accountability (Vojnovic, 1997)."

Skeptics, however, argue that restructuring can sometimes lead to greater levels of bureaucratization and to little or no change in the cost of services. A recent study by Western University, for example, argues that forcibly merged Ontario municipalities hired more staff than those that were not consolidated. The authors claim that, from 1995 to 2010, municipalities that were not restructured increased their workforces by 1.77 full-time workers for every 10,000 residents. By contrast, those that were amalgamated hired 3.25 workers for every 10,000 residents.

---

[5] DeLoe, Giantomasso and Kreutzwiser (2000) examined local government capacity to provide drinking water protection. They found that size was an important factor in municipal capacity (i.e., geographic, technical, institutional, and financial expertise).

However, at least one city – Ottawa – has denied that its workforce has grown sharply since amalgamation, noting that 94 per cent of the increase in full time positions was as a result of additional provincial and federal legislated and mandated programs as well as additional front line services provided to residents.[6]

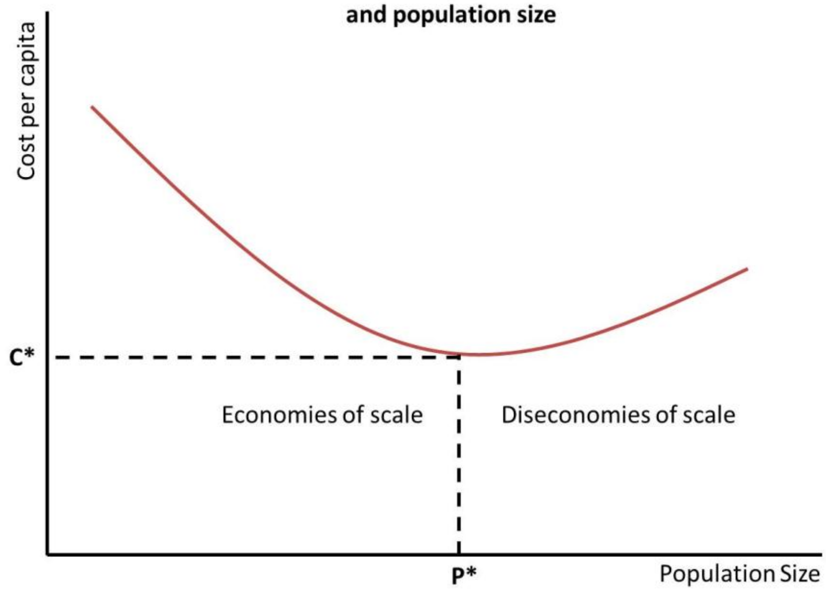
This case is an excellent example of how determining the direct influence of amalgamation on municipal costs and services is often complex and challenging.[7] This finding will become particularly obvious when it comes to examining the impact of amalgamation on achieving efficiencies.

3. **Efficiency: The ability to achieve cost savings**

One of the most common reasons cited for restructuring municipalities is to find cost savings. Savings are said to occur by overcoming fragmentation, reducing duplication, and generating efficiencies through economies of scale (Rouse and Putterill, 2005).

As illustrated in Figure 2, economies of scale arise when the per-unit cost of delivering a service falls as the quantity of the service provided increases (Tindal). It follows that the more people served by a particular service, the less expensive it will be to deliver a single unit of that service. In general, having lower cost per capita is an indication of more cost effective services.[8]

Figure 2: Proposed relationship between costs per capita and population size



[6] The City of Ottawa also claims that researchers used faulty job data in their study.

[7] Boyne (1992) also notes the difficulty in disentangling structural effects from other variables such as fiscal, socio-economic, and political circumstances.

[8] LUARCC, Boyne (1992) and Mera (1973) note that cost per unit is only partially related to efficiency because of service level preferences. They find that wealth is a better predictor than size for per capita expenditures.

Yet past experience has shown that this is not always the case with municipal mergers.[9] Transition costs and harmonization of services (including compensation levels) can cause significant upward cost pressures. In addition, tax rates often differ between municipal units and restructuring can cause significant tax redistributions even when there is no change in overall costs or service levees.

In fact, a number of researchers argue that claims that consolidation brings about efficiencies through economies of scale are regularly proven inaccurate and that this line of reasoning does not provide a sound basis for undertaking municipal mergers (Sancton, 1996; Lyons, Lowery, and Dehoog, 1992). Indeed, some have found that the cost of services can actually increase post-amalgamation (Laval, 2000).

Researchers have found that when municipalities become too large, costs can become difficult to contain and efficiencies can be lost, leading to diseconomies of scale (see Figure 3). Citing Vojnovic, Kushner and Siegel observe that this can be attributed to "diseconomies of scale, higher wages resulting from a more specialized and professional bureaucracy, and the tendency for local governments within the new jurisdiction to move to the highest existing service standards among the consolidating member municipalities" (Kushner and Siegel).

Figure 3: An illustration of economies of scale

Economies of Scale: Municipality A and B each require a single snow plough to serve their communities. Municipality A has 4000 people while B has 2000 people. The cost per capita of the snow plough will be lower in A because their population is larger, giving them economies of scale. The more a piece of equipment or a facility is used, the lower the cost-per-use is.

Diseconomies of Scale: Municipality C and D each employ the same number of police patrols per person. Municipality C has 40,000 people and the police force is closely connected to the community. Municipality D has 400,000 people and the larger police force requires additional funds to patrol their community and coordinate resources. The cost per capita of police patrols will be higher in D because of the complexity of serving a larger population.

This finding is echoed by Dollery and Crase's (2010) analysis of structural consolidation in Australia. They noted that the economic benefits of consolidation were not significant in Australian examples (Dollery and Crase, 2010). Likewise, in his analysis of the HRM amalgamation and police services, McDavid proposes that higher costs actually emerged with consolidation because citizens were not satisfied with service levels and thus more manpower was required to provide adequate services (McDavid, 2003).

[9] The creation of Halifax Regional Municipality out of the cities of Dartmouth and Halifax, the Town of Bedford, and Halifax County was estimated to save $9.8 million in administrative costs. Transition costs (including severance and related adjustments) were $26 million alone. However, amalgamation occurred around the same time as service exchange, the introduction of a new solid waste system, and other fiscal pressures. Hence it is challenging to determine exact costs or savings from amalgamation (Sancton, 1996).

Instead, it may be more accurate to say that economies of scale can be achieved for some services through mergers, but not necessarily for all services. There is evidence to suggest that economies of scale are possible for capital-intensive services such as water, sewage, and transportation, as well as financial services such as billing and payables (Allen, 2003).

By contrast, labour-intensive services are said to lead to diseconomies of scale, such as policing (Boyne, 1992). However, several other factors including population density and the level of services are also important factors in determining municipal costs.

Based on these findings, it becomes clear that there is little consensus on the optimal size of a municipality in the literature.[10] Municipalities with populations between 25,000 and 250,000 do not show a consistent relationship between population and efficiency.[11] Several authors try to pinpoint optimal sizes, such as Allen (2003) who suggests that 100,000 is the upper limit for a municipality (albeit in Australia). Even studies that note that small municipalities can still have comparable costs per unit nonetheless define "small" as 5000 to 10,000 (Bodkin and Conklin, 1971, as cited in LUARCC). Based on the findings from the literature review, it may be more effective to focus on the optimal size for producing different services instead.

The complex relationship between service type size and cost efficiency has given rise to a theory of optimal governance. Bish proposes that while larger municipalities may achieve economies of scale in providing certain services, smaller governments can cost less overall by taking advantage of specialization and partnerships. Through the use of contracts and joint agreements, smaller municipalities can obtain services from larger producing organizations that benefit from economies of scale, while continuing to provide services independently that have diseconomies of scale.

4. Representation: The ability to be more responsive to citizens

Finally, restructuring is said to potentially lead to improved and streamlined decision-making for councils because they are large enough to encompass the major aspects of their area (e.g. land use planning), have a greater pool of assets and alternatives, and provide sufficient system capacity to address issues (Dahl and Tufte, 1973). The counterargument is that larger governments may be less responsive and accessible to citizens, communities will suffer a loss of local identity, and citizens will be less involved in the governance of their local services.

---

[10] Even the philosopher Plato has ventured a guess at the optimal size of a city, arguing that the ideal size in Ancient Greece was 5040 citizens (from Dahl and Tuft, 1973).

[11] A literature review commissioned by a municipal consolidation board in New Jersey found that higher costs in larger municipalities were not due to administrative costs, which typically account for only three to six percent of municipal budgets. Instead, the report speculates that the higher level of services delivered in urban areas may be the key cause of higher costs.

As Dahl and Tufte (1973) note, there are some trade-offs between size and democracy. However, they also argue that there a number of factors that influence the degree to which citizens participate in democratic government. These factors include their sense of satisfaction in participating; the cost to participate in terms of time, energy, and money; the expected long run benefit (or cost) of participating; and the perceived effectiveness of participating (Dahl and Tufte 1973). Furthermore, they also found that educational attainment and income levels correlate with the degree to which citizens participate. In other words, there are numerous factors that influence citizen participation in their government.

A common concern with municipal mergers is that communities will suffer a loss of local identity and will no longer be involved in the governance of their local services. Some theories state that fragmented local government allows for greater representation by offering a larger number of groups the ability to influence decision-makers (Dohan, 1990). Boyne (1992) also notes that larger, unitary governments obscure the connection between taxes paid and a particular service provided, and make it more difficult for communities to elect to receive a local service or not.

The reduction of the number of councillors in mergers, authors suggest, has ramifications for the nature and quality of representation that can be delivered. As Dollery and Crase (2010) argue, in smaller, fragmented constituencies, voters are in closer contact with their elected officials and feel as if they can make a greater influence and greater voter turnout. Thus, the literature suggests that consolidation can result in a reduction of per capita representation.

A central discussion within the literature is the compromise that must be made between potentially divisive democratic debate, efficient decision-making and the reduction in the number of elected officials to represent citizens. Authors agree, however, that representation needs to be a consideration in consolidation in order to ensure that local government does not jeopardize perhaps its greatest asset – its proximity to citizens.

Figure 5: Summary of Findings from the Literature Review

	Potential Benefits	*Potential Risks*
Cohesion	Increased ability to make decisions for a region and address externalities	Loss of competition & creative potential of multiple jurisdictions
Capacity	Increased ability to meet complex requirements of municipal government	Over bureaucratization
Efficiency	Potential to achieve savings through economies of scale	Transition and leveling up costs may erase economies of scale
Representation	Potential to improve council decision making	Dilution of responsiveness and democratic accountability

Jurisdictional Scan

This section provides a short review of municipal structural reform in Canada since the 1990s, organized by province.

Background: Structural Reform in the 1990s

While forced consolidation has become less common since the early 2000s, the previous decade saw tremendous structural change driven both voluntarily by municipalities and involuntarily by provincial governments.

Restructuring during this period was largely driven by increasing urbanization and lifestyle changes. Traditional municipal boundaries no longer corresponded to population settlement patterns, with rural areas becoming increasingly urbanized and neighboring communities growing into each other.

These factors contributed to the "metropolitan problem" (Tindal and Tindal, 2004), giving way to regions with urbanized city centres surrounded by multiple bedroom communities. The result was often an unequal burden between municipalities in paying for services as well as challenges for urban planning and economic development.

Beginning in 1990, the response to these issues in several Canadian provinces was municipal consolidation. Municipal units were brought together – either voluntarily or through programs driven by their prospective provincial governments – so that one government could make decisions for the entire region.

Nova Scotia

Nova Scotia undertook a modern review of municipal restructuring in the 1970s. The Graham Report took the position that municipalities should have a minimum population of 60,000 and advocated for amalgamation in Halifax, Pictou, and Cape Breton Counties; however, the recommendations were not acted upon at the time (Sancton, 1996). It was not until the 1990s, in response to significant pressure to find cost savings, that municipal consolidation was revisited on a large-scale.

The Local Government Task Force Report, issued in 1992, was the last major examination of structural reform in Nova Scotia. The Report asserted that fragmented decision-making, the complexities and limitations of myriad inter-municipal agreements, and the potential for economies of scale all pointed towards the need for comprehensive restructuring.

Specifically, the authors identified four types of existing boundary issues:

A. Multiple municipal units within one continuous settlement pattern
B. Substantial urban development on the periphery of a city or town
C. Towns without sufficient capacity to provide basic services
D. Municipal boundaries dividing a major economic base from the residences of the majority of the labour force

The Task Force recommended proceeding with amalgamations on the premise that there would be either substantial savings, substantially improved decision-making, or both. The areas slated for amalgamation were prioritized into three groups: critical, less critical, and for future consideration.

1. Critical
   1.1. Cape Breton County (Issues A, B, C & D)
   1.2. Pictou County (Issues A & D)
   1.3. Halifax County (Issues A & B)
   1.4. Colchester County (Issues A & B)
   1.5. Kings County (Issues A & B)

2. Less Critical
   2.1. The Task Force identified 16 instances where current development patterns did not match municipal boundaries. [12]

3. Future Consideration
   3.1. The Task Force noted (without naming units) that there were some smaller rural municipalities that may benefit from amalgamation.

The Task Force examined and rejected several models of local government (special purpose bodies, de-incorporation of rural areas, and two-tiered governments), and ultimately advocated for the creation of unitary local governments to replace the units identified as critical.

The Task Force proposed the appointment of implementation commissioners to oversee the details of the amalgamation of each of the critical areas. Commissioners were eventually appointed for Cape Breton and Halifax Counties, which resulted in Cape Breton Regional Municipality and Halifax Regional Municipality. Queens County and Liverpool voluntarily agreed to become a regional government as well, forming the Regional Municipality of Queens.

The only other structural change to occur in Nova Scotia since these amalgamations was the dissolution of the Town of Canso, on July 1, 2012, in the District of Guysborough following a long period of economic and population decline. The Province of Nova Scotia covered some of the costs associated with the transition. However, the final report of the Nova Scotia Commission on Building Our New Economy has since called for a comprehensive review of municipal structure.

[12] Port Hawkesbury/Point Tupper/Port Hastings; Mulgrave/Auld's Cove; Canso/Dover/Hazel Hill; Antigonish/(urbanized ring of county land); Mount Uniake/Halifax; Enfield/Elmsdale/Shubenacadie; Windsor/Falmouth/Three Mile Plains; Hantsport/King County; Middleton/Nictaux; Bridgetown/Carleton's Corner; Annapolis Royal/Lequille/Granville Ferry; Yarmouth/Hebron/Milton Highlands; Shelburne/Sandy Point; Liverpool/Brooklyn; Bridgewater/Hebbville; Lunenburg/(Adjacent development)

New Brunswick

Restructuring was considered in the early 1990s in New Brunswick in the areas of Moncton and Miramichi. In the case of Moncton, amalgamation with the neighboring communities of Dieppe and Riverview was ultimately rejected in order to preserve French language rights. A regional service board was proposed instead. By contrast, consolidation was successfully undertaken in Miramichi, officially creating New Brunswick's fourth largest city in 1995.

More recently, the 2008 *Finn Report* recommended the redrawing of municipal boundaries so that all municipalities would have a population of at least 4,000 people, and a tax base of at least $200 million. The structural reform recommendations have not been implemented.

The Province of New Brunswick has since established a system of Regional Service Commissions in legislation. While the Commissions are not a second tier of municipal government nor do they have the authority to levy taxes, they do perform some similar functions in regards to providing and managing a consistent level of services across New Brunswick.

Newfoundland and Labrador

The Province of Newfoundland and Labrador embarked on a municipal consolidation program in the early 1990s. While it was put on hold following the cod moratorium, some amalgamation did take place in the St. John's region and in Grand Falls-Windsor at the time. St. John's also gained more regional responsibilities for communities outside of its borders. Instead, the Province turned to promoting regional economic growth.

More recently, restructuring took place in 2010-2011 on Fogo Island and between Little Catalina and Trinity Bay North, respectively. Both amalgamations were driven by local communities, but the Province did agree to cover the debt of the municipalities involved, fund transitional costs, and make infrastructure investments.

Prince Edward Island

Following two reports on municipal reform – the *Royal Commission on the Land* (1990) and the *White Paper on Municipal Reform* (1993) – a commissioner was appointed and recommended changes to the Charlottetown and Summerside areas. Charlottetown absorbed its surrounding suburbs while five municipalities were amalgamated in Summerside, both in 1994.

Ontario

From 1998 to 2001, the Harris government passed a series of provincial laws which amalgamated a large number of municipalities. This period of reform succeeded in reducing the total number of municipalities almost in half, including the conversion of seven units into the City of Toronto. Municipalities were permitted to undertake a voluntary merger; however, early in the process the Province appointed a commissioner who aggressively amalgamated a large number of units, setting an example of the risks of not voluntarily merging (Seigel, 2003).

Quebec

Between the years of 1996 and 1999, the Province of Quebec provided financial motivation for merging smaller units (under 10,000 in population). These included incentives for amalgamation studies and transition costs, but also the loss of financial support from the province if the municipality refused to participate in the study program. Over 245 municipalities participated in an amalgamation study and 103 units did undergo mergers resulting in 49 new amalgamated units (Wihry, 2006).

In 2000, the provincial government announced its intention to force the amalgamation of more municipalities in Quebec. The result was that 205 units were reduced to 40. This restructuring included the inclusion of 28 units into the new City of Montreal, and 13 units into the new City of Quebec. In addition, "Metropolitan Communities" (MC) were created for the Cities of Quebec and Montreal with authority for regional planning and services such as land use, economic development, and transportation. The MCs were governed by members of the lower-tiered councils rather than through direct election.

Following a provincial election and change in government, the Charest government allowed for a citizen led de-amalgamation process in 2004. The process involved a petition representing at least 10% of the population, and two referendums each requiring the support of at least a simple majority of votes and 35% of all eligible voters. Upon successful completion of these requirements, the former subunit could leave the consolidated unit, but would exist as a subservient lower tier with limited powers and responsibilities. As a result, 15 units successfully met these requirements, and 11 proceeded with de-amalgamation.

Manitoba & Saskatchewan

Some restructuring has occurred historically in Saskatchewan and Manitoba through small scale annexations and the amalgamation of Winnipeg in the 1970s. More recently, Saskatchewan launched the *Task Force on Municipal Legislative Renewal* in 1998 to study municipal governance, the relationship between the province and municipalities, and municipal legislation. While a forced amalgamation program was considered following the publication of this report, it was ultimately not pursued by the Province.

There have been few large scale amalgamation programs in Manitoba or Saskatchewan until now. Under the recently passed *Municipal Modernization Act*, the Province of Manitoba is requiring any municipality with a population of less than 1000 to merge with a neighbouring unit. The plan would affect over 80 local governments.

Municipalities are currently in the process of determining merger partners and preparing transition plans which were due by December 2013. Mergers are expected to take place by January 2015 but can be delayed upon application to the Minister until 2019. While many have cooperated with the process, some municipalities have objected to the plan. On December 11, 2013, the Association of Manitoba Municipalities (AMM) filed legal action against the Province of Manitoba on a number of procedural grounds.

Alberta

Historically, Edmonton and Calgary have grown through annexations of surrounding areas. This approach has sometimes been fractious and has led to some tensions between the major cities and their neighbors. One of the most recent examples was a dispute between Calgary and then-Municipal District of Rocky View (MDRV). In the early 2000s, MDRV pursued a new development on Calgary's northern border over the city's objections (Sancton, 2009). This approach has since given way to regional partnerships in the Calgary (through the Calgary Regional Partnership) and Edmonton areas (through the Capital Region Board).

Elsewhere in the province, there are a number of other regional efforts underway, such as numerous joint service agreements and regional service agencies.

British Columbia

The enabling legislation for municipalities in British Columbia prohibits forced amalgamations (*Community Charter*, s. 279). As of 2003, a majority vote from the population of all existing units showing support for the merger is required before an amalgamation can take place. While this provides little legal protection should the government change the legislation, it indicates a trend against top-down restructuring.

Since the 1990s, some restructuring has occurred in BC but on a voluntary basis. Approximately 35 amalgamations took place between 1985 and 2000, including in Abbotsford and Matsqui. There have also been two cases of amalgamation in regional districts. In 2008, the Regional District of Comox-Strathcona on Vancouver Island split into Comox Valley and Strathcona. Meanwhile, in 2009, a regional district and local government in north-eastern British Columbia merged to form the Northern Rockies Regional Municipality.

Finally, the Province has also devolved authority for public transit to the Greater Vancouver Regional District along with matching revenue sources while removing responsibility for hospital financing. Overall, however, the Province has largely taken a hands-off approach to municipal restructuring.

Instead, British Columbia is perhaps more notable for its two-tiered system of regional government. Developed gradually since the 1960s, regional districts have responsibility for regional planning and intermunicipal services. They are governed by a Board of Directors made of elected representatives from each member municipality and members receive multiple votes according to their size. Local units can also opt out of regional services.

Two-tiered municipal governments will be elaborated upon in the next section.

Figure 6: Summary of Findings from the Jurisdictional Scan

- In Ontario and Quebec, and to a lesser extent in Nova Scotia and New Brunswick, there has been an emphasis on structural reform
- More regional cooperation approaches in Western Canada and British Columbia
    - Leads to focus on governance over government, process (strategic planning, resolving conflict, building consensus) over structure
    - Manitoba's *Municipal Modernization Act* (2013) is a major new development
- Overall, many two tiered systems have been eliminated in Canada

More on Two-Tiered Local Government

While less common in Nova Scotia,[13] two-tiered municipal governments have been used as an alternative to large, single tiered systems in other parts of Canada and beyond. This section provides some background information on two-tiered municipal government and their comparison to unitary systems.

Two-tiered governments are a form of federative municipal government. In general, the upper tier takes on responsibilities related to regional planning such as economic development and services such as public transit and solid waste. Meanwhile, the lower tier focuses on more localized issues such as participation, access, and local identity.

Some view two-tiered local government as a compelling alternative to consolidation because it retains an element of local control. Nonetheless, critics view it as a "second best solution" because it adds another layer of government, adding to the complexity of an already intricate municipal system (Sancton, 2009).

Generally, the council of an upper tier municipality is comprised of mayors, deputy mayors and councillors selected from the lower tier municipalities, though some upper tier municipalities have a portion of their councillors selected directly by the electorate. The head of the upper tier municipality can be selected either through a warden system or via direct election as well.

Support for two-tiered systems is evident amongst some notable local government scholars. For instance, Harry Kitchen (1995) believes that regional governments can better address and control spillovers, ensure a consistent level of standards, and provide choice in service quality and quantity.

Indeed, there is some evidence to suggest that services achieve the lowest per unit cost by being offered at different scales of production. As mentioned in the literature review, the cost per capita of services decreases as population increases. However, other factors – including population density and the type and level of services – are also important factors. Furthermore, communities have different preferences, needs, and size which can still be addressed in the two-tiered system.

Having multiple tiers of local government can help to address both of these elements by producing different services at different levels. Services such as street maintenance are said to achieve economies of scale when offered over a large area while services such as policing can achieve diseconomies of scale.

Most two-tiered governments were formed in Canada in the 1960s and 1970s. Many have since been abolished through amalgamation into single tier municipalities (Tindal and

[13] The Graham Commission (1974) recommended the establishment of 11 two-tiered county governments covering the whole province. Only CBRM currently resembles the boundary proposed by the Graham Commission.

Tindal, 2004). In fact, Sancton (2009) notes that most of Canada is governed by unitary local governments. Arguments in favour of unitary local governments suggest that they are simpler, avoid duplication, are more efficient, and provide clearer lines of accountability (Tindal and Tindal, 2004).

Furthermore, many of Canada's two-tiered governments were amalgamated – in part – due to the fractious relationship between the upper and lower tiers, especially where representatives were directly elected to the upper tier (e.g. Winnipeg, Metro Toronto, Regional Ottawa-Carleton).

Options

There are a wide range of options available to address structural challenges in Nova Scotia, from municipally to provincially driven. The Fiscal Review Working Group considered the following "off the shelf" options: triggered reviews, targeted restructuring, timed reviews, threshold-driven mergers, and incentives.

Examples will be offered for each of these options from other jurisdictions where they are currently being or have been implemented.

1. Triggered Reviews

In this option, any municipality that does not meet a minimum threshold on a set of financial indicators, as determined by UNSM and DMA, would be required to undertake a viability review - including financial analysis and community consultation - to assess the future viability of the municipality. The review would examine the reasons behind the failures and propose solutions to address them, including structural change if necessary. This approach was recommended recently as part of the Towns Task Force.

The Province, UNSM, and the AMA have developed a set of Financial Condition Indicators (FCI) to assist in assessing the viability of municipalities. As part of the Towns Task Force recommendation, those municipalities who fail to meet recommended minimum thresholds on multiple indicators over a three year basis would be recommended to undertake a viability review. The thresholds will be determined jointly by the UNSM and DMA. Public engagement would play a key role in such a study.

To see the application of this approach to the current Nova Scotia context, please see Appendix 1.

2. Targeted Reviews

This approach was used in the Local Government Task Force. It identified three groups of at-risk municipalities for potential amalgamations and ranked them according to urgency. Boundary issues were the underlying motivations for the targeted amalgamations proposed by the Local Government Task Force.

In its recommendations, the Task Force hoped to address the following:

1. Multiple municipal units within one continuous settlement pattern
2. Substantial urban development on the periphery of a city or town
3. Towns without sufficient capacity to provide basic services
4. Municipal boundaries dividing a major economic base from the residences of the majority of the labour force

To see the application of this approach to the current Nova Scotia context, please see Appendix 2.

3. Timed Reviews

This option involves the regular review of municipal boundaries, similar to those conducted by the Utilities and Review Board (UARB) and Provincial Electoral Boundaries Commission for provincial, municipal, and school board electoral boundaries in the province.

The Nova Scotia Utility and Review Board (UARB) reviews Municipal and School Board Boundaries every eight years. This arms-length, quasi-judicial body considers the number of electors, relative parity of voting power, population density, community of interest and geographic size. By contrast, the Provincial Electoral Boundaries Commission reviews provincial electoral boundaries every 10 years through an independent panel of experts. It is concerned with relative voting parity but can also take into account population changes as well as minority and language rights. An investigative commission would be able to conduct fact-finding, as well as conduct public consultations, and receive submissions.

This option was considered by the Nova Scotia Local Government Task Force. Commissioner Hayward noted the importance of a collaborative rather than conflict oriented process, and noted that it should include conflict resolution and negotiation.

4. Threshold Approach

Two Canadian provinces have recently used threshold driven mergers to pursue the consolidation of small and struggling units.

The Province of Manitoba is currently requiring any municipality with a population of less than 1000 to merge with a neighbouring unit. The AMM has since filed a suit opposing the plan on procedural grounds.

In New Brunswick, the *Finn Report* (2008) on local government recommended a redrawing of municipal boundaries so that all municipalities would have a population of at least 4000 people, and a tax base of at least $200 million. The authors took this baseline approach to ensure that local governments would have sufficient financial capacity and citizen participation in the immediate and long-term.

The Finn Report also considered factors such as:

- Presence of existing municipal structures
- Growth & settlement patterns
- Nature of the economy & employment
- Service centres & commuting patterns
- Educational institutions
- Language
- Geography

To date, the recommendations of the *Finn Report* have not been implemented in New Brunswick.

Please see Appendix 3 for application of the Manitoba Model to the current Nova Scotia context and Appendix 4 for application of the New Brunswick Model to the current Nova Scotia context.

5. Incentives

Incentives may be offered by the Province to induce municipalities to voluntarily consolidate. Incentives include, but are not limited to:

- Paying off operating deficits
- Implementation costs
- Severance pay
- Building/technology allowances

A series of informal interviews were held over the phone with stakeholders from other Canadian provinces to determine what incentives (if any) are currently offered to municipalities to undertake voluntary restructuring. Participants included representatives from provincial municipal affairs departments and municipal associations. The only respondents that did not respond to requests for an interview were in Quebec.

As the interviews uncovered, the incentive approach is currently used in Newfoundland and Labrador, Alberta, and British Columbia. The Federation of Prince Edward Island Municipalities (FPEIM) has proposed the creation of a transitional fund to the Province of Prince Edward Island but, to date, it has not been implemented. The recent Review of Canso/Municipality of Guysborough Governance Reform (2014) also recommended the establishment of a Municipal Governance Renewal Fund in Nova Scotia. This recommendation has not been implemented thus far.

Finally, between 1998 and 2003, the Province of Ontario offered transition funding to municipalities amalgamating both voluntarily and involuntarily. This funding is no longer available, however, and all costs related to reviewing and determining whether to merge are now left to affected municipalities.

A. Newfoundland and Labrador

The Province of Newfoundland and Labrador offers the following incentives to municipalities to voluntarily pursue restructuring:

1. Staff to facilitate the process
   a. Manager of Integrated Community Sustainability Partnerships
   b. Regional Office staff assigned as necessary
2. Potential Grant to cover feasibility study
3. Potential Access to Capital Works Funding

4. Financial assistance to write down debt where it is an impediment
5. Potential Grant to cover certain soft transitional costs, based on population of combined communities at last Census

A recent example of the kinds of incentives offered by the Province of Newfoundland and Labrador include the voluntary amalgamations of Fogo Island and Trinity Bay North. In both cases, the Province agreed to cover transition costs, the debts of the municipalities involved, and make infrastructure investments.

For more on the NL process, please see Appendix 5.

B. Alberta

The Province of Alberta offers a number of tools to encourage municipal sustainability and cooperation. The Regional Collaboration Grant Program (RCP) provides funding for municipalities to pursue restructuring as well as shared services, mediation, municipal internships, and more. Since 2010, the RCP has provided a total of $57.2 million to municipalities to encourage regional collaboration and viability. The total budget allocation for 2013/14 is $28.8 million.

In consultation with Alberta's municipal associations, the Province has also recently developed the Municipal Sustainability Strategy (MSS). The strategy offers a self-assessment toolkit, a capacity building toolkit as well as a commitment to continue enhancing the suite of tools available.

A key part of the MSS is also the viability review process. While not targeted at structural reform of a municipality per se, it is focussed on determining whether a municipality is viable, and if not, determining what changes can be made to make a municipality viable. Depending on the circumstance, dissolution of the municipality could be an outcome of the process. This process is chaired by Municipal Affairs, and the ministry provides the necessary research and support for the process.

If a municipality dissolves, Alberta will provide some funding ($50,000) to offset some of the associated administrative costs. In the past, the Province also offered some capital grants for infrastructure but the funding is no longer available. Municipalities have been actively lobbying the ministry to reinstate the grant.

C. British Columbia

Finally, British Columbia also offers three types of grants to municipalities considering restructuring. Firstly, Restructure Planning Grants offer up to $40,000 to assist communities in undertaking a viability study and a public consultation process.

Secondly, Municipal Restructure Assistance Grants are provided to assist communities pursuing restructuring. Grant amounts are based on population size. Transitional assistance is also provided to help with police costs where the new or restructured municipality has over 5,000 people. A parallel program from the Ministry of Transportation provides transitional assistance to municipalities who assume responsibility for roads.

Thirdly, Restructure Implementation Grants are provided to assist communities with the implementation of incorporations, restructures, and significant changes in local service structure, such as interim administration or transfer of improvement districts to local government.

For more on the BC process, please see Appendix 6.

While the incentives outlined here have mostly been financial in nature, alternative supports have been offered by provinces as well, including in-kind supports and advice regarding legislative requirements. Others, such as Saskatchewan, have also removed impediments to voluntary municipal restructuring by creating mechanisms in legislation for municipalities to pursue mergers on their own. Finally, voluntary mergers were also advocated by the Towns Task Force.

Evaluation of Options

Using the Guiding Principles of the Working Group, each of the options are evaluated here. The results of the summarized evaluation are contained in the table below (Figure 7), where each option has been evaluated along the dimensions of democracy, equity and fairness, viability and capacity, and efficiency and effectiveness.

Along these dimensions, the Triggered review option scored the highest, while the Timed and Targeted approaches both scored the lowest. The Incentives approach was ranked second, followed by the Threshold approach. The following is a breakdown of the evaluation of each option:

> **Triggered** – The Triggered approach passes the democratic criteria because it is transparent and financial condition tracking should work to improve accountability. It also addresses accessibility criteria, as any evaluation would involve a public consultation phase and if the FCI were publically available, any resident would be able to monitor the performance of their municipality. Similarly, the Triggered approach meets both the equity and fairness dimension because the criteria that trigger a review would be applied across all municipal units. The FCI, which would act as the trigger mechanism, is designed to ensure that all municipal units are viable and have sufficient capacity and any review would aim to address shortcomings in these areas. It is important to note that structural change may or may not be one of the areas suggested for possible reform by such a viability review. Finally, the FCI would act to inform a review by identifying specific areas of concern regarding fiscal viability or capacity, which would allow for an efficient review process, the outcomes of which would result in informed and effective decision making. This approach scores highly along all four dimensions.
>
> **Incentives –** The Incentives approach meets the democracy and equity and fairness dimensions because it would be available to all interested municipal units and the decision to undertake a review or pursue a restructuring would rest with the municipal unit. Similarly, any incentive program would aim to ensure that municipal units are viable and have sufficient capacity to conduct their affairs. However, given the voluntary nature of the program, it may not be sufficient, in isolation, to encourage efficient or effective decision-making around whether or not a municipality should pursue restructuring.
>
> **Threshold** – Given that the threshold approach involves the determination of an arbitrary threshold, below-which affected municipal units must undertake a consolidation, this approach performs poorly on the democracy and the equity and fairness tests. On the other hand, the threshold approach would aim to address viability and capacity issues, while at the same time allowing for efficient decision-making, through direct and unambiguous options for consideration.

Targeted – Similar to the Threshold approach, the Targeted approach scores lower on the democracy test because again, due to the lack of local control in the process. Furthermore, due to the nature of the process, a Targeted review would be unlikely to ensure both viability and capacity would be secured, focusing instead on settlement patterns and municipal boundaries if it follows the 1992 Local Government Task Force approach. On the other hand, a Targeted approach would promote regional thinking and would likely promote efficient and effective decision-making, particularly in terms of facilitating economic development and eliminating inter-municipal competition.

Timed – A Timed approach would remove some elements of local control over the process as reviews would be periodically conducted by an outside entity. Equity and fairness would be preserved; however, as the reviews would explore all municipal units and the reviews would be undertaken by an arm-length organization, such as the UARB. Similar to the Targeted approach, a Timed Review model – such as one based on the Provincial and Municipal and School Board Boundaries Reviews processes - employs a narrow focus on relative voting parity, as opposed to viability and capacity more broadly. Finally, running periodic, province-wide reviews would likely be resource-intensive, and may not ensure efficient decision-making, as periodic reviews may come too late to address any problems that may arise quickly within a municipality.

Figure 7

	Democracy	Equity & Fairness	Viability & Capacity	Efficient & Effective
1 – Triggered	Transparent, accountable, accessible ✓	Applied to all units ✓	FCI helps to promote ✓	Informs review; recommended timeframe ✓
2 – Incentives	Respects local autonomy ✓	Every unit can apply ✓	Viability review involved ✓	Open-ended ×
3 – Threshold	Less local control ×	Applied bluntly ×	Intended to ensure viability ✓	Quick solution ✓
4 – Targeted	Less local control ×	Targets only identified units ×	Focused on settlement issues vs. viability ×	Promotes regional thinking ✓
5 – Timed	Less local control ×	Arms-length body oversees ✓	Takes narrow view of viability ×	Lacks demand sensitivity ×

Recommendations

The context for any review of structure should be based on objective data, where possible, or a clear identification of the issues structural change might resolve. A review of structure should be based on the intent to improve the provisions of services at the local level, to the betterment of Nova Scotia taxpayers. As such, it is recommended that:

Recommendation 1 - The Province will formalize FCI tracking as the tool that will be used to monitor the financial health of municipalities.

Currently, the financial indicators used to develop the Financial Condition Index are the best objective data that is available for monitoring the financial health of a municipality in Nova Scotia. The Financial Condition Index will be formally adopted as the standard tool for assessing the financial health of municipal units (future adjustments notwithstanding). Each year, FCI is calculated from the financial reports municipalities already submit. All municipalities will be assessed according to the established thresholds as determined jointly by UNSM and DMA. In all cases, after the assessment is complete, the CAO (or equivalent) for each municipality will be responsible for confirming the validity of the data and providing any additional information the municipality wishes to add that is relevant to the report. After the report is finalized, the CAO (or equivalent) for each municipality is responsible for presenting the information to council and signing off on the final FCI. Municipal advisors and DMA finance staff will work with the CAOs during this process as necessary.

Should a municipal unit exceed a threshold of red-flag indicators, as determined jointly by the UNSM and DMA, that municipality will be responsible for submitting a report to the province explaining the reasons for their flagged indicator results and outlining a path to rectify the situation in subsequent years, or presenting suitable justification for the flag. Municipal advisors will also begin working one-on-one with CAOs and council to try to address the flagged issues, where needed. In the event that a municipality is unable to improve their performance in the second year, the Minister of DMA will issue a letter to the municipality's council notifying them that they have one year to rectify the situation or a review will be triggered. The Minister may also issue a letter to other affected municipalities informing them that a review may be triggered that will require their participation.

Recommendation 2 – The Province, with UNSM and AMA, will develop materials to help ensure that municipalities understand the FCI and have access to best practices to improve their financial health.

The Province will work with the UNSM and AMA to develop materials such as tool kits, guidance documents, and workshops for the benefit of all municipalities. These materials will help to ensure that municipalities understand the FCI and have access to the best practices available to improve their performance.

Recommendation 3 – The Province will develop a suite of programs designed to assist any municipality that chooses, or is required, to initiate a consolidation process.

Municipal reviews and restructuring processes are expensive, especially so for smaller units and those already struggling. As such, the Province will develop a comprehensive suite of programs available to municipalities that choose, or are required, to undertake a restructuring process. At a minimum, these programs will aim to eliminate the disincentives that a receiving municipality might face when absorbing a dissolving municipality. While each case will be unique, and the chosen measures and price associated with individual processes will need to be negotiated between all the parties involved, the province will make it clear to all municipalities that a suite of programs is available to all. The working group has identified the following as possible incentive programs: Debt reduction/forgiveness (perhaps to a "provincial average" level of municipal debt); infrastructure investments (legacy fund); transition funding; Alternative Dispute Resolution (mediation cost sharing).

Recommendation 4 - After three consecutive years of red-flagged FCI indicators exceeding the threshold, municipalities will be subject to a comprehensive review.

In the event that a municipality is unable to improve, or declines in performance on the FCI over three years, the Province will initiate a standardized review process for the municipality. The Province would pay for the review, and as such, they would retain the right to select the reviewer.

The review will be broad in scope, initially moving to establish the nature of the issues facing the municipality (e.g. structure, viability, capacity, etc.). Terms of reference of a review must include a plan for public consultation. The review will establish binding outcomes and corresponding timeframes for the municipal unit, other affected municipalities and the Province, as appropriate.

Given that there is a possibility that, at least in the first year, a number of reviews will be triggered simultaneously, the Province may wish to consider the option of establishing a dedicated group of seconded provincial and municipal officials to triage and conduct the reviews. Ideally such a group would consist of subject matter experts (e.g. senior staff from TIR, Finance, ERDT, municipal government, etc.), who would be well positioned to establish the necessary outcomes for municipal success. Additionally, such a group would be ideally suited to prepare the necessary reports for the UARB in the event that restructuring were deemed to be a necessary outcome from any review.

Recommendation 5 – Beginning on March 31, 2015, the FCI tracker will be applied as a trigger for reviews for any municipality that has exceeded the red-flag trigger threshold for three consecutive years.

Beginning on March 31, 2015, the FCI will begin triggering reviews in any municipality that has already accumulated three consecutive years of 6 or more red-flag indicators.. This timeframe will provide municipalities with an opportunity to attempt to improve their performance, in consultation with their Municipal Advisors. Additionally, the timeframe will allow municipalities to become familiar with the new FCI tracking process.

Recommendation 6 –Municipalities will be encouraged to voluntarily request a review at any time, for any reason.

There are a number of reasons that a municipality may benefit from a structural review. As such, municipalities will be encouraged to pursue opportunities under the provincial incentive program (please see R12 for more details) to initiate a review, at any time, should they see fit.

The working group believes that there is value in reviewing structural issues arising from settlement patterns or land use planning issues, and municipalities are encouraged to request reviews for these reasons. At this time, the data is not available for a statistical justification to trigger a review for these issues.

It should be noted that any municipality (municipalities) that voluntarily request a review will be held to the same requirements as those municipalities that trigger a review (for example, the outcomes are binding, and Action Plan must be submitted, etc.).

Recommendation 7 - In extraordinary circumstances, where it is jointly agreed upon by the UNSM and SNSRM that there is a need, a municipality could be targeted for a review process.

While it is clear that the triggered approach is the standard for the proposed review process, in extraordinary circumstances where both the UNSM and DMA have determined that there is a municipality in need, the review process could be initiated. In this case, it must be determined that a substantial change in circumstances for a municipality will result in a declining performance on the FCI in the long term, and short term action is necessary to help prevent this from occurring.

Recommendation 8- The review will provide all parties with binding outcomes that will identify the conditions necessary for municipal viability.

The review will identify outcomes which will be binding on all affected parties, including the province. These outcomes are intended to ensure the continuing viability of those affected municipal units. The review may also provide recommendations for achieving the binding outcomes. The province and the affected municipalities are required to develop an Action Plan that outlines how the binding outcomes will be achieved, which may have suggested actions that differ from those recommended by the review.

Recommendation 9 - The reviewed municipality, other affected municipalities and provincial officials will have 90 days to develop an Action Plan to achieve the outcomes identified in the review.

It is likely that during the course of a review, other municipalities will be drawn into different components of the review process. It is similarly likely that the outcomes of some reviews will have implications for both the Province and other municipalities, in addition to the municipality which triggered the review process. As such, all affected parties to a review will participate in the development of an Action Plan that must be submitted to the Minister of DMA no later than 90 days after the Review was presented to the municipalities and Province. In the event that the reviewed municipality and other affected municipalities disagree on how to achieve the outcomes identified in the review, they may use mediation to facilitate the development of an Action Plan. The Minister will have the right to withhold provincial grants from any municipality refusing to partake in the development and implementation of the Action Plan, if it has been determined by the review that the municipality should be involved.

Recommendation 10 - The Province, upon receipt of the Action Plan, will issue a Ministerial Order within 30 days. If the Province does not receive an Action Plan within 90 days, the Province will issue a Ministerial Order.

Once the affected parties to the review have submitted the Action Plan to the Province, the Minister shall issue a Ministerial Order within 30 days either approving the Plan, or providing alternative direction. In the event that an Action Plan is not submitted within 90 days, the Minister will issue a Ministerial Order providing direction for the affected municipalities. The Minister will have the right to withhold provincial grants from any municipality refusing to partake in the Action Plan as approved by the Ministerial Order.

Recommendation 11 - Municipalities will submit progress reports to the Province periodically once a transition process has begun. FCI tracking will continue.

Once the Action Plan is in place and is being implemented, the affected municipalities will provide regular progress updates to the Province. Time will be required to evaluate the plan and measure progress made towards the identified outcomes from the review. During this time, FCI tracking will continue.

Recommendation 12 – In the event that a review reveals that the challenges facing a municipality are such that they cannot be addressed through structural changes or a realignment of service standards, OR a municipality implements their Action Plan and improvements are not realized, then a tailored public policy process will be launched.

There may be a case where the review will determine that the issues facing a municipality will not be improved by addressing structural changes or a realignment of service standards through shared servicing. In addition, a municipality (or group of municipalities), after implementing the Action Plan may, for extenuating circumstances, not see resulting improvements on their FCI. In these circumstances, it may be determined that the municipality is facing intractable viability issues. At this point, the municipality (or municipalities) will be moved into a tailor-made, public policy process that will allow residents, provincial officials, and surrounding municipalities an opportunity to develop a unique approach to addressing the future needs of that municipality.

Recommendation 13 – No new villages will be created and no new powers will be given to villages beyond those that currently exist.

In the event that one or more municipal units have been identified for dissolution during a review process, the dissolving municipalities will not have the option to devolve into villages. As outlined in the Canso-Guysborough Review[14], the transition to a new government structure is a challenging process for both municipal officials and residents of the municipality. Anything that distracts from the dissolution process should be resisted.

Recommendation 14 – All incorporated villages in Nova Scotia should be phased out. Existing villages should be given the opportunity to apply for town status, merge with an adjacent town, or dissolve into their encompassing rural municipality as they see fit.

The consensus of the working group is that within Nova Scotia's municipal framework, villages are antiquated and in their current form, are inconsistent with the guiding principles of the Fiscal Review.

Historically, village status was a necessary precondition for communities of local residents within a rural municipality to be able to raise tax revenue and pursue certain social goods that rural municipalities were legally unable to provide (e.g., water and wastewater services)[15]. However, under the MGA, rural municipalities now have the same authority to provide services as towns. Furthermore, rural municipalities are able to levy area rates to provide additional services that local residents may request from their council. Indeed, many municipalities feel that village powers have been rendered moot by the authorities granted to rural municipalities under the MGA.

> *It is the opinion the working group that, since the MGA came into force in 1999, villages have become an inefficient level of government that create administrative redundancies.*

Efficiency & Effectiveness

In addition to the overlap of service delivery capabilities, villages can sometimes pose challenges to the encompassing municipality when negotiating with the Province on specific projects. Scenarios of this nature arise because the jurisdiction afforded to villages is a subset of the jurisdiction that their encompassing municipality occupies. Furthermore, village residents, in addition to their village councils, have representation at the municipal

---

[14] Canso/Municipality of the District of Guysborough Review of Governance Reform Initiative, McInnis & Associates, 2013

[15] The last village to incorporate was Hebbville, in 1975.

level through their elected councilor(s). Thus, village residents have two levels of elected representation, which may have different mandates and priorities, occupying the same sphere of jurisdiction. This can lead to confusing or even degraded lines of accountability in situations where different representatives of the same electorate find themselves in contention with one another.

Equity, Fairness, Viability & Capacity

The villages of Nova Scotia occupy a wide spectrum of population, capacity, transparency, and level of service delivery. Included below is a table presenting several statistics on villages for comparison purposes:

Village	Assessment ($)	Dwelling Units**	Taxes Collected***	Public Admin as % of Total operating Budget***
Aylesford	40,757,000	1038	$77,283	16.2%
Baddeck	85,563,500	882	$399,630	9.7%
Bible Hill	261,073,300	3650	$1,670,435	23.5%
Canning	41,645,600	1035	$128,784	9.3%
Chester	340,900,300	1075	$646,347	8.3%
Cornwallis Square	253,324,200	-	$305,925	12.3%
Dover***	-	-	-	-
Freeport	16,280,900	-	$46,967 (2010)	18.9% (2010)
Greenwood	155,508,600	2142	$327,540	27.6%
Havre Boucher***	-	590	-	-
Hebbville	Not reported	780	Not reported	Not reported
Kingston	194,540,400	2170	$550,666	21.5%
Lawrencetown	27,945,900	783	$179,989	13.8%
New Minas	357,428,200	2393	$1,991,825	19.7%
Port Williams	123,308,600	667	$314,601	13.7%
Pugwash	52,263,300	606	$163,763 (2013)	39.5% (2013)
River Hebert	21,330,573	595	$10,097	34.9%
St. Peters	Not reported	643	$182,247	18.8%
Tatamagouche	36,469,400	918	$152,699 (2011)	17.7% (2011)
Tiverton	7,300,100	-	Not reported	Not reported
Westport	13,949,200	-	Not reported	Not reported
Weymouth	24,934,500	769	$36,293 (2011)	15.4% (2011)

* Assessment data on villages is from 2013. All values are Capped total assessment.
** 2011 Data from Community counts, – indicates data unavailable.
*** 2012 unless otherwise noted
*** Dover & Havre Boucher are villages in name only. Services are provided by the municipality.

From the chart provided above, it should be clear that not all villages are created equal. For example, Bible Hill, New Minas and Chester all have assessments that exceed (at least) the smallest 20 towns; Port Williams rivals Mahone Bay by the same measure; and Cornwallis Square has almost the same assessed value as the Town of Lunenburg. At the other end of the spectrum, five villages have not filed financial reports with DMA in 5 years (two of which are officially inactive); two have not filed in 2 years, and one did not file last year. The remaining villages all fall somewhere in between those two extremes.

Villages are not currently required to submit financial reports to the Province with the same level of detail as municipalities. As such, it is difficult to assess how effectively they deliver services. Nevertheless, some approximations can be drawn from an exploration of the limited financial information that DMA does have. For example, the cost of general government services – public administration – as a percentage of the total operating budget for a number of villages can be calculated. According to this measure, the average portion of a village budget dedicated to public administration is about 20%, which is roughly the same as the average for towns. However, it is important to remember that villages operate within rural municipalities, and as such, village residents pay taxes to both their village governments and their rural municipal governments.

> *On average, village residents pay an additional $78 per household just to support their second tier of public administration. It is reasonable to assume that, at a minimum, this additional cost could be virtually eliminated if village residents were to rely on their municipal governments to provide the additional services they desire.*

Given that the Province does not collect significant levels of data on villages in Nova Scotia, it impossible to apply consistent standards to the structural review process. Nevertheless, the working group believes that a municipal government structure that includes villages does not align with the vision for Nova Scotia's future outlined in The Report of the Nova Scotia Commission on Building Our New Economy. In that report, the pressing need to reform municipal government and regional service structures is outlined, with the goal of improving service efficiencies, value for money, and the alignment of tax policies to promote economic growth.

For example, as explored above, village residents currently pay for two levels of government; their village government and their municipal government. Furthermore, village representatives and municipal representatives can sometimes find themselves at odds about what is in the best interests of the same group of constituents. By phasing out incorporated villages, the Province should be able to:

- Improve service efficiencies by eliminating a second tier of government;
- Increase the value for money that village taxpayers receive; and
- Trim the property tax burden for those same villagers.

Democracy

Should villages cease to exist, local residents within a municipality will still have options available to them if they wish to band together to advocate for a particular cause, issues or desired level of service provision. For example:

- Community Councils could be used to replace the village structure. Community Councils allow a subset of councilors for a given municipality to come together to consider local matters, make recommendations to Council, and provide opportunities for public input.

- Ratepayer Associations could also be used as a replacement to the village structure. A Ratepayer Association typically consists of a group of residents from a specific geographic community that come together to address issues within their boundaries of representation and act as one voice for their particular area.

Currently, Halifax is the only municipality that uses Community Councils, but a modified version could be adopted by rural municipalities to address the fact that many municipal councils are much smaller than Halifax's 16 seats. In the event that local residents desire new infrastructure or some other locally based project, they could request through their Community Council (or their councilor, or their Ratepayer Association) that an area rate be applied to their community and the generated funds be applied to the project. This model should allow for the local representation that some residents may desire, without the challenges and costs associated with a two-tiered system of government, as explored in the Jurisdictional Scan.

Looking Ahead

Given the above arguments, incorporated villages across the Province should be phased out and existing villages should be given the opportunity to:

- Apply for town status to the UARB;
- Merge with an adjacent town; or
- Dissolve.

In practice, it is likely that many most will be drawn into the municipal reviews that will result from the other recommendations contained in this report. If however, after several years, a number of villages are still outstanding, the surrounding municipality may take advantage of the formalized review process outlined under Recommendation 6 - Municipalities will be encouraged to voluntarily request a review at any time, for any reason. At that point, remaining villages will likely be compelled to reform to meet the binding outcomes of the review. Finally, consistent with R13:

- No new villages will be created;
- No new powers will be given to villages beyond those that currently exist;
- The MGA should be updated to remove the option for towns to become villages; and
- Once all incorporated villages in Nova Scotia have been phased out, villages should be removed from the MGA.

The Tracking, Review, Implementation Process

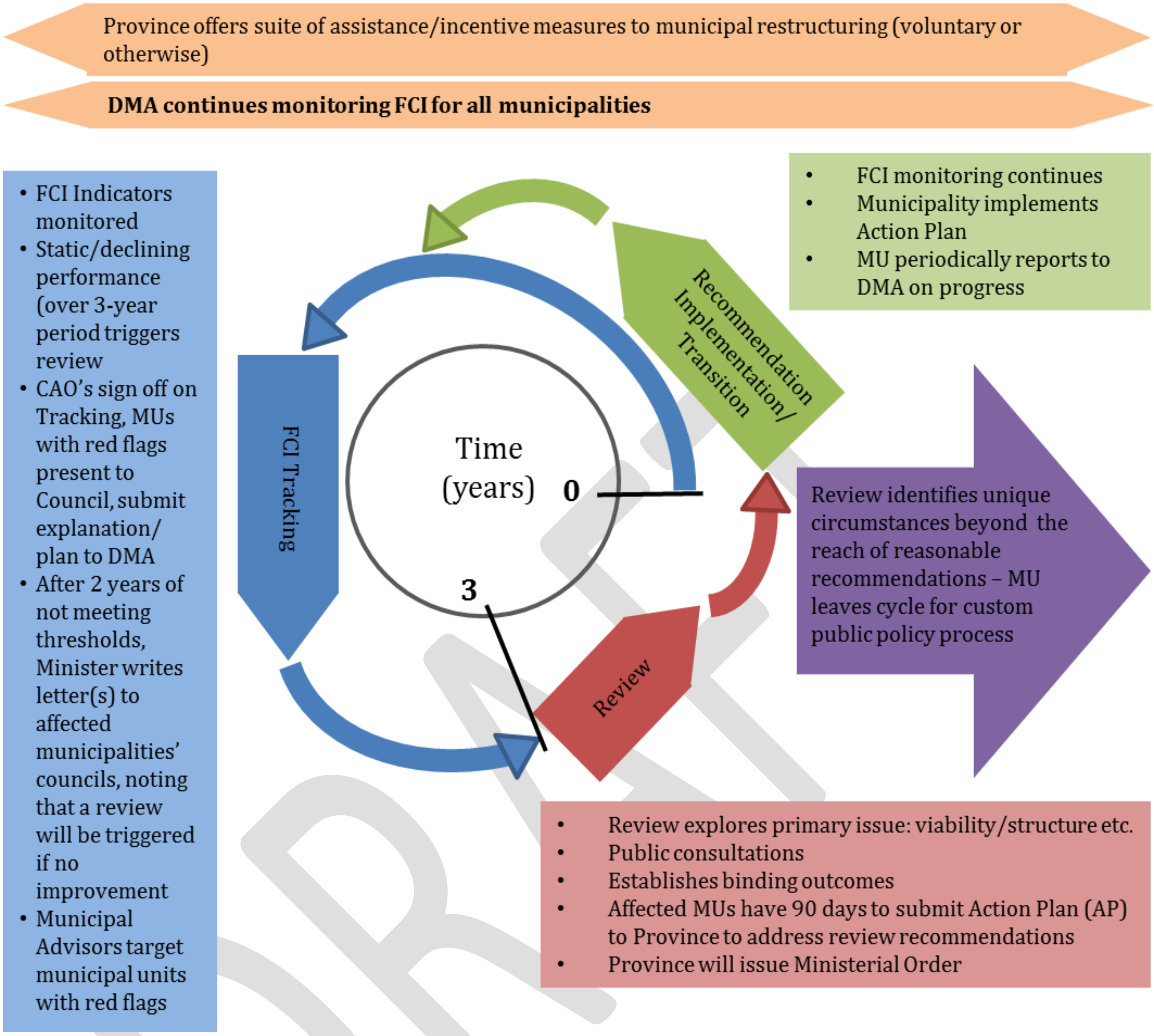
The diagram below, Figure 8, outlines the major components of the envisioned process that will result from the implementation of the recommendations contained in this report. In its entirety, the diagram represents the cycle through which any municipality would travel if, over a three year period, its FCI indicators consistently fall below the trigger threshold determined by the UNSM and DMA. It should be noted that FCI tracking will apply to all municipalities every year and CAO's will be expected to sign off on their annual indicator summaries. It is only those municipalities that experience three consecutive years of red-flag performance in excess of the trigger threshold that move on to the red and green sections of the cycle.

Once a municipality has experienced three consecutive years of FCI indicators beyond the threshold, a review will be triggered, which is captured in the red component of the diagram. The Province will pay for the review, which will be broad in scope and may involve adjacent municipalities and provincial departments and officials. The review will ultimately put forward binding outcomes that the municipality, and possibly other municipalities and the Province will be responsible for achieving. At this point, all affected parties will be responsible for generating an Action Plan, which will be submitted to the Minister of DMA.

After the review process and the Action Plan is implemented, the affected municipality or municipalities will restart at year zero with respect to the FCI red-flag tracking process, as per the green section of the diagram. This will provide them with a three year opportunity work towards achieving the outcomes identified in their reviews. During this time, FCI tracking will continue, and municipalities will report on their progress to the Province. In the event that things improve, and the Municipality begins to achieve better FCI results, then FCI tracking will continue and the cycle will not repeat again unless necessary. If however, a municipality is still unable to improve their performance, the cycle will repeat and a second review will be triggered in three more years.

In the event that a review (either the initial review or subsequent reviews) reveals that the challenges facing a municipality cannot be addressed by factors under the control of the affected municipalities, then the affected municipalities will be launched into a tailor-made public policy review process. This component is captured in the purple arrow of the diagram.

Finally, underlying the FCI tracking and review process will be a suite of programs made available by the Province to any municipality looking to pursue restructuring. Given that the needs of different municipalities will be different, the actual assistance provided by the Province will have to be negotiated on a case-by-case basis. Nevertheless, all municipalities should be made aware that this is suite of programs is available to them at any time.


Province offers suite of assistance/incentive measures to municipal restructuring (voluntary or otherwise)
DMA continues monitoring FCI for all municipalities
• FCI Indicators monitored
• Static/declining performance (over 3-year period triggers review
• CAO's sign off on Tracking, MUs with red flags present to Council, submit explanation/ plan to DMA
• After 2 years of not meeting thresholds, Minister writes letter(s) to affected municipalities' councils, noting that a review will be triggered if no improvement
• Municipal Advisors target municipal units with red flags
FCI Tracking
Time (years)
0
3
Recommendation Implementation/ Transition
• FCI monitoring continues
• Municipality implements Action Plan
• MU periodically reports to DMA on progress
Review
Review identifies unique circumstances beyond the reach of reasonable recommendations – MU leaves cycle for custom public policy process
• Review explores primary issue: viability/structure etc.
• Public consultations
• Establishes binding outcomes
• Affected MUs have 90 days to submit Action Plan (AP) to Province to address review recommendations
• Province will issue Ministerial Order

Moving Forward

Nova Scotia is a unique place to live, work, and play and municipalities play a key role in shaping this distinctive way of life. With a strong sense of place, compelling heritage, and vibrant culture, our communities have much to be proud of. It is critical that local governments remain viable in the long-term in order to preserve the best that Nova Scotia has to offer.

Looking to the future, it is nonetheless clear that challenges face local governments. Declining and aging populations along with economic growth concentrated in the Halifax region will present issues for many of our communities. Along with the increasing costs of providing services, current trends in municipal revenue and expenditure rates appear unsustainable. These circumstances require leadership from both municipalities and the Province to be successfully overcome.

As this paper has outlined, addressing municipal structure may be one way to confront the issues facing municipalities. Many of the foundations necessary for structural reform are already in place, including:

- Stakeholder support in many areas
- Existing partnerships
- Strong municipal leadership

While not a cure for all of Nova Scotia's challenges, there are nonetheless opportunities in re-examining municipal structure, such as:

- Ensuring an adequate tax base to support the level of services expected by citizens
- Achieving a relatively comparable level of services at a relatively comparable level of taxes across the province
- Minimizing inter-municipal competition for scarce resources
- Improved economic development and regional planning
- Ensuring long-term viability of local communities
- Attraction and retention of highly qualified staff

There may also be potential barriers to overcome, including:

- Political
- Fear of loss of local identity
- Local stakeholder opposition in some areas
- Concern about losing access to elected representatives
- Fear of loss of local autonomy
- Historical relationships
- Process can be long and complicated

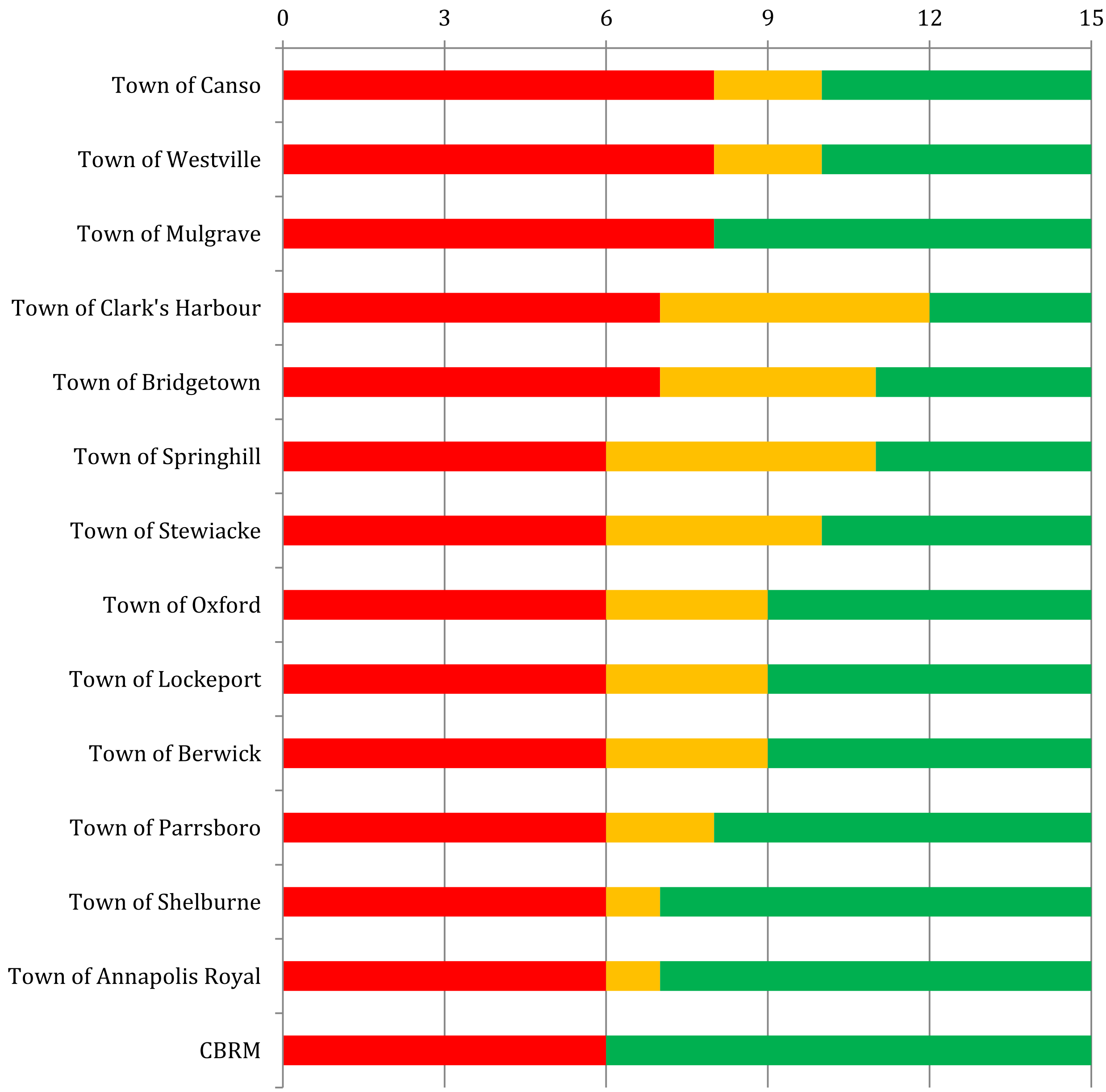
- Financial implications
    - Shift in tax burden
    - Taking on debt of other municipalities
    - Infrastructure deficits

Despite these potential issues, there is a clear sense that the status quo is no longer an option. Municipalities must be in a position to withstand significant pressures expected in the coming years. Municipal structural reform will be an important mechanism in preserving the health and vitality of our communities now and into the future.

Appendices

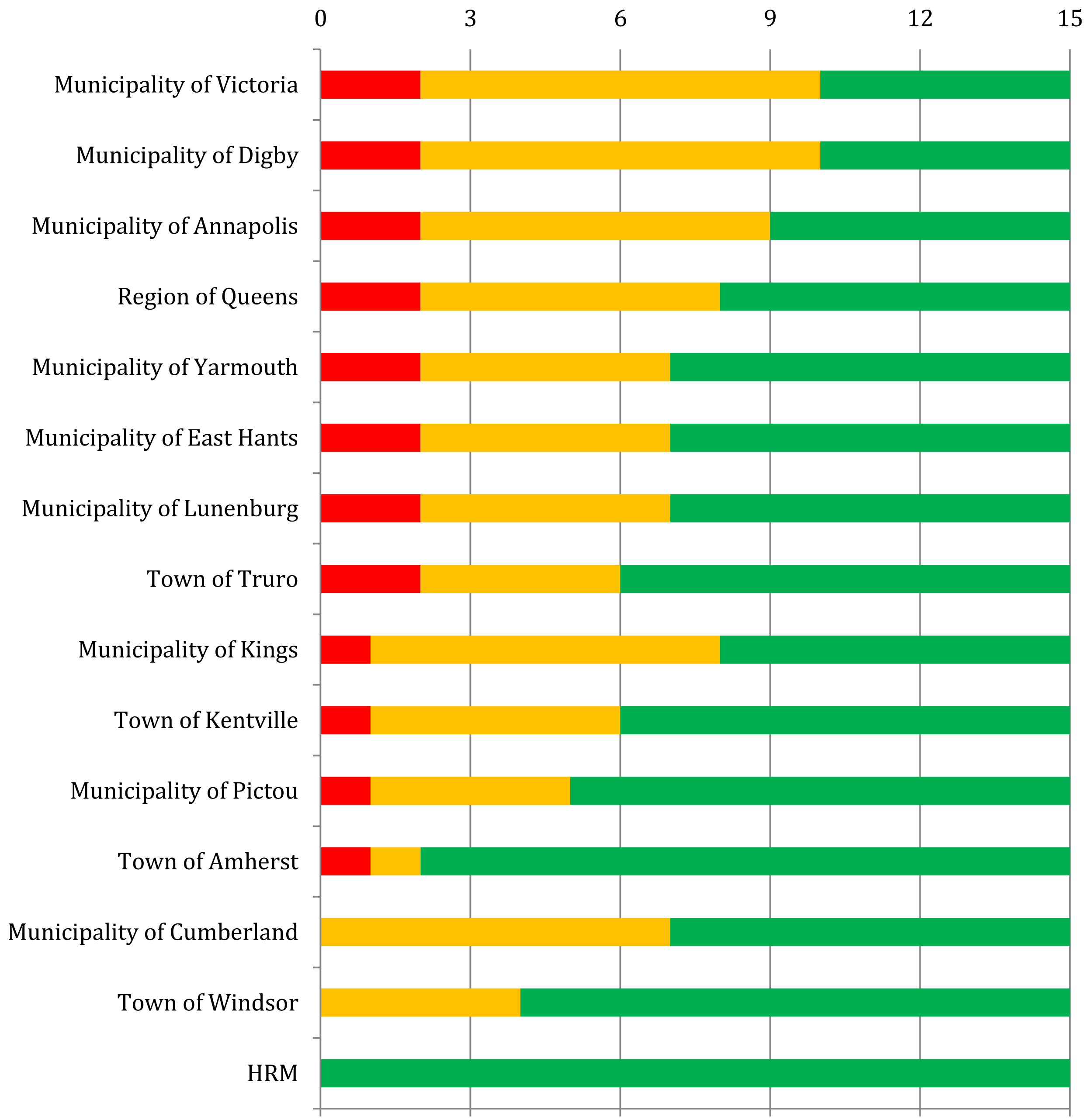
Appendix 1: Towns Task Force Approach

Units with 6 or more FCI indicators beyond threshold



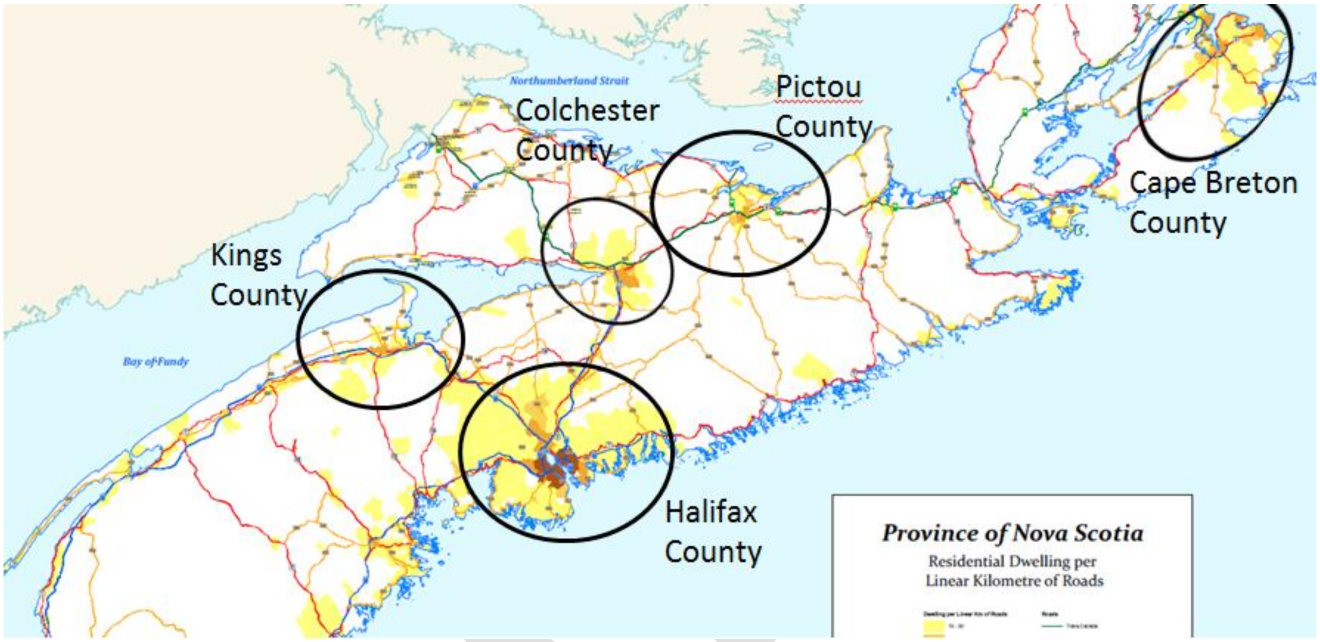
Source: DMA

Units with no more than 2 FCI indicators beyond threshold



Source: DMA

Appendix 2: NS Local Government Task Force Model[16]



Source: DMA

[16] Areas identified in The Local Government Task Force Report (1992)

Appendix 3: Manitoba *Municipal Modernization Act* Model

(Units with populations under 1000 required to merge with neighbour)

Units	Census (2011)
Town of Annapolis Royal	481
Town of Lockeport	588
Town of Mulgrave	794
Town of Clark's Harbour	820
Town of Mahone Bay	943
Town of Bridgetown	949

Data: Statistics Canada

Appendix 4: New Brunswick *Finn Report* Model

(Requires municipalities to have both a minimum population of 4000 *and* a minimum UA of $200 million)

Units	Pop. (2011 Census)	UA (2013/2014)
Town of Annapolis Royal	481	54,085,617
Town of Lockeport	588	28,096,197
Town of Mulgrave	794	42,294,239
Town of Clark's Harbour	820	36,870,773
Town of Mahone Bay	943	117,078,349
Town of Bridgetown	949	45,869,423
Town of Oxford	1151	66,352,358
Town of Hantsport	1159	82,679,842
Town of Parrsboro	1305	58,972,239
Town of Stewiacke	1438	70,866,377
Town of Shelburne	1686	82,881,681
Town of Middleton	1749	100,657,980
Town of Digby	2152	113,681,179
Town of Lunenburg*	2313	241,000,138
District of St. Mary's	2354	171,838,896
Town of Berwick	2454	127,942,559
Town of Trenton	2616	107,751,629
Town of Port Hawkesbury*	3366	208,177,918
Town of Pictou	3437	155,774,755
Town of Windsor*	3785	208,013,067
Town of Westville	3798	128,522,158
Town of Springhill	3868	139,449,445

Data: Statistics Canada, DMA

Appendix 5: Newfoundland and Labrador Restructure Process

Source: Department of Municipal Affairs, Province of Newfoundland and Labrador

Phase I – Community Request

1. Upon receipt of a written request to explore regional cooperation opportunities, the Manager of Integrated Community Sustainability Partnerships (ICSP) will contact the communities to arrange an initial meeting.

2. The Manager of ICSP will advise the Director of Local Governance and the applicable Regional Director of the request and plans for discussions.

Phase II – Initial Discussions

1. The initial meeting with the communities will occur as soon as practicable after receipt of the written request. Additional meetings, if desired, can be scheduled.

2. Preliminary meetings will explore:

- what prompted the communities to make the request;
- identify benefits and barriers to the process; and,
- identify community representatives to be nominated to the Needs Assessment Committee.

Phase III - Needs Assessment Committee

1. The Minister may appoint persons, representatives of the municipalities affected and a departmental representative, to assess the needs of communities with respect to regional cooperation opportunities. This committee can be referred to as the Needs Assessment Committee.

2. The Minister may establish a Terms of Reference (TOR) for the Needs Assessment Committee. The TOR may include:

- identify the needs of the communities affected;
- identify issues that could be addressed in a feasibility report;
- recommend, in writing, to the Minister the appropriate actions to be carried out.

Phase IV - Feasibility Study

1. The Minister will publish a Notice of Intent to order a feasibility study in a newspaper circulating in the affected area and post in a public area.

2. The Minister will order the preparation of a feasibility study and will appoint a commissioner to conduct the study.

3. The person conducting the study will hold a public hearing in the affected area.

4. The study will be conducted ensuring, at minimum, the issues identified by the Needs Assessment Committee are addressed.

Phase V- Negotiations

1. Upon receipt of the feasibility report, the department will request, from the communities, a written submission expressing their comments on the report; and a written transition assessment from the Needs Assessment Committee.

2. The Manager of ICSP will assess the report and the communities' submissions with the view of identifying potential means to facilitate regional cooperative initiatives.

3. Department of Municipal Affairs officials may meet with the communities to negotiate a final settlement.

4. The Minister and Mayors/Community Representative of the communities may enter into a Memorandum of Understanding.

Phase VI – Necessary Approval

1. The Manager of ICSP will prepare the necessary approval documents requesting the negotiated regional cooperative initiative.

Phase VII – Transition and Ceremony

1. The Needs Assessment Committee oversees the transition of the regional cooperative initiative.

2. A formal ceremony is held and will include the Minister, Mayors and Councilors and Community Representatives.

3. The format of the formal ceremony (i.e., timing, location, type of event, communications, etc) will be determined by the Needs Assessment Committee and the Department of Municipal Affairs.

Potential Incentives to Cooperate:

1. Staff to facilitate the process:
    a. Manager of Integrated Community Sustainability Partnerships
    b. Regional Office staff assigned as necessary
2. Potential Grant to cover feasibility study
3. Potential Access to Capital Works Funding
4. Financial assistance to write down debt where it is an impediment
5. Potential Grant to cover certain soft transitional costs, based on population of combined communities at last Census

Appendix 6: British Columbia Restructure Process

Source: Local Government Department, Province of British Columbia

1. Preliminary	• Initial contact from community to Ministry • general information provided	• Evaluation of the local context for Minister • Explanation of process for public - potential public meeting attendance
2. Restructure Committee	• Creation of broadly representative local restructure committee • Committee's main task is to oversee preparation of restructure study, and manage public consultation	• Minister sanctions study process - 'approval in principle' • staff provide advice on the formation of committee and design of local discussion process
3. Restructure Study	• Terms of reference, proposal call, selection of consultant • Purpose of study is to obtain objective information on fiscal impact of restructure, implications for local services and political representation, etc.	• Minister approves restructure planning grant • Staff act as resource as necessary
4. Decision	• study findings presented to community • committee makes recommendation to Minister whether or not hold a vote	• Minister provides offer of restructuring assistance • Minister Orders a restructure vote
5. Implementation	• Vote held • If vote passes, implementation process	• Staff prepare Letters Patent • Minister takes Letters Patent to Cabinet • staff coordinate Ministry post implementation assistance

Provincial-Municipal Fiscal Review

Local Roads Review

Draft Options paper

2014

TABLE OF CONTENTS

INTRODUCTION

The Provincial-Municipal Fiscal Review is a joint project between the Association of Municipal Administrators – Nova Scotia, Union of Nova Scotia Municipalities and the Province of Nova Scotia exploring relationships between municipalities and provincial government. The steering committee of the Fiscal Review requested some research and options on local road responsibilities. A local roads working group was formed to examine the lifecycle costs of local roads and current provincial-municipal maintenance arrangements. The local roads working group is comprised of representatives from the provincial government, two regional municipalities, two rural municipalities and two towns.

Provincial Municipal Service Exchange

The working group began by examining the *Provincial Municipal Service Exchange (1995)* Agreement. The main objectives of the Service Exchange Agreement were to create strong financially viable local government, develop a fair and transparent Provincial-Municipal partnership and to rationalize service provisions by all government.

The Service Exchange Agreement resulted in the transfer of services between municipal and provincial jurisdictions. It was determined that the province faced a greater financial commitment for the services provided, and therefore the parties agreed municipalities would pay a pre-determined fee to the province to offset the difference. The fee was calculated to offset the costs of all services exchanged under the Provincial Municipal Service Exchange Agreement and is based on the kilometers of local roads within a rural municipality. The fees paid by municipalities to the province started $3,500 per kilometer and is adjusted annually by the Consumer Price Index for Canada, as prepared by Statistics Canada. The number of kilometers used to calculate the amount payable to the province was predetermined to yield the service cost in each municipality. Therefore, the number of kilometers used for the calculation is not necessarily equivalent to the total kilometers of local roads within a municipality. Under the Service Exchange Agreements, local roads constructed pre-April 1, 1995 are maintained by Nova Scotia Department of

Transportation and Infrastructure Renewal (NSTIR). Local roads constructed after April 1, 1995 are the responsibility of the municipality in which they are constructed and would not be included in the calculation of the fee.

PROJECT OBJECTIVES

The objectives of the local roads project are as follows:

- Rural Municipality Roads
  - Define a local road in a rural municipality and town
  - Create an inventory of local roads
  - Develop an estimate of lifecycle cost for 1 km of rural road per year
- Provincial Roads in Towns
  - Review of collector/arterial grant
  - Consider impact of bridges
  - Consider implications of discouraging amalgamation
- Examine the Potential for Improved Coordination and Shared Services

PROJECT FINDINGS

Current Situation

Regional Municipalities

Regional municipalities (Halifax Regional Municipality - HRM, Cape Breton Regional Municipality - CBRM & Region of Queens Municipality- RQM) have taken ownership of some local roads constructed pre-April 1, 1995, from the administration and control of NSTIR to the administration and control of the individual regional municipality. The local roads within the central regions of a municipality have been transferred to the regional municipality and most of the local roads in the outskirts of the region are still maintained by NSTIR. Only HRM has taken over some local roads from the administration and control of NSTIR. Within the regional municipalities there is a great deal of coordination between the NSTIR and respective regional municipalities to identify efficiencies and reduce cost.

This level of coordination has allowed regional municipalities and NSTIR to capitalize on geographic efficiencies and reduce maintenance costs by trading local road responsibilities on a per kilometer basis. The regional Municipalities in Nova Scotia maintain sufficient public works resources to provide local road maintenance establish an acceptable level of service and work closely with NSTIR local offices to reduce costs and identify efficiencies.

Rural Municipalities

Rural municipalities in Nova Scotia are responsible for the maintenance of local roads constructed after April 1, 1995. All local roads constructed pre-April 1, 1995 continue to be under the administration and control of NSTIR. As the majority of roads in rural municipalities are maintained by NSTIR, most rural municipalities do not possess the necessary equipment and resources to service local roads which fall under their jurisdiction. Furthermore, local municipal roads in Rural Municipalities are often short segments scattered throughout the county resulting in higher average maintenance costs per kilometer. Much of the maintenance and snow removal work is contracted to third party contractors. The levels of service often vary within a rural Municipality due to the contractors' resources, capabilities and the remoteness of the local roads. Due to the limited number of local roads controlled by rural municipalities, it is often not economically feasible for Municipalities to purchase and operate their own equipment for road maintenance.

Towns

Nova Scotia towns are responsible for maintaining all roads within the town boundaries. In many instances, provincial routes pass through town boundaries and are considered to fall under the administration and control of the town in which they are located. The majority of towns in Nova Scotia possess the equipment and resources necessary to maintain roads within their jurisdictions.

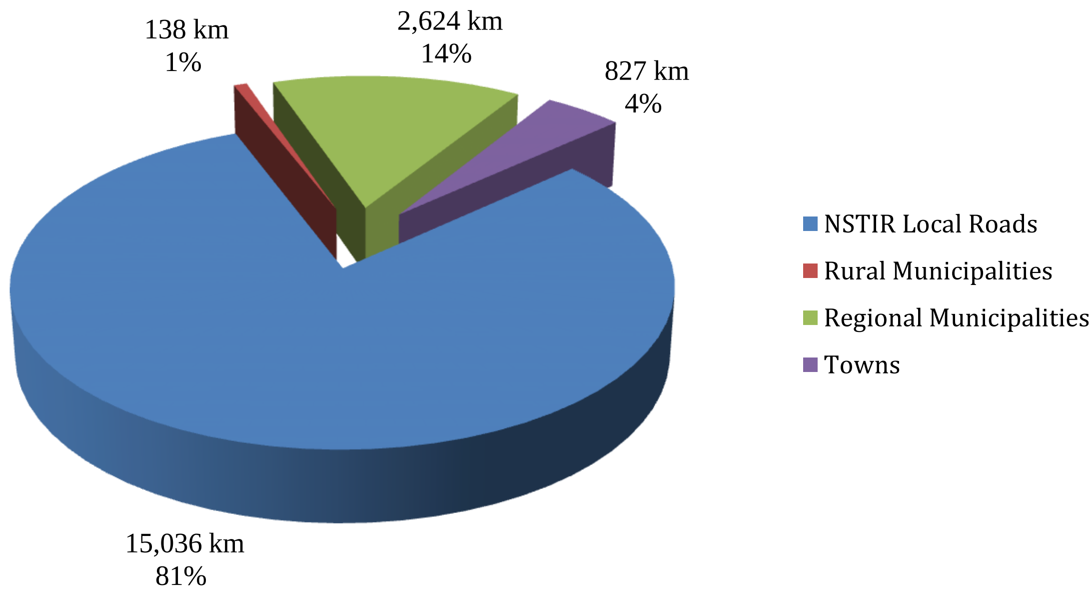


Figure 1 – Breakdown of Local Roads in Nova Scotia

As illustrated by the figure above, 81% of local roads in Nova Scotia are maintained by NSTIR, followed by the three regional municipalities (HRM, CBRM & RQM) who maintain approximately 14%. The thirty towns and twenty-one rural Municipalities in Nova Scotia maintain 4% and 1% of local roads, respectively.

On a national scale, the ownership and responsibility of local roads has shifted significantly to local government. Nationally, locally owned roads make up approximately 52.4% of road ownership and provincially owned roads are approximately 40%, as of 2002. Much of the local roads in the Atlantic Provinces are maintained by provincial government, whereas the local roads are predominantly maintained by local government in Central and Western Canada.

Currently, rural municipalities pay a fee of $4,930 per km of local road determined under the Service Exchange, which amounts to approximately $3,672,850[C1] in annual revenue to NSTIR. The annual maintenance cost of local roads in rural municipalities to NSTIR is approximately $85,818,840[C2]. This yields a difference of $82,145,790 annually in the maintenance and service of local roads to NSTIR, which is not accounted for in the Service

Exchange. However, the above fee is not paid to NSTIR for the maintenance of local roads but to offset the costs of all services exchanged under the Provincial-Municipal Service Exchange.

Local Roads Definition

A definition of local roads was formulated. For the purpose of this project, local roads are roads which meet all of the following criteria;
Local roads in towns:

- All paved town roads which have not been classified as arterial or collectors will be considered local roads; and,
- Roads in place to primarily provide land access to properties

Local roads in rural municipalities:

- All paved G,H,I and J Class roads as per NSTIR classification in rural municipalities
- All municipal Type A local roads, all local roads constructed after April 1, 1995 under the administration and control of the Municipal Unit in which the road is constructed, as per NSTIR Policy PO1004
- Roads in place to primarily provide land access to properties, excluding private roads and lanes.

Local Roads Inventory

An inventory of local roads in Nova Scotia has been developed and can be found in Appendix – 1 Local Roads Inventory. A current list of local roads constructed prior to April 1, 1995 was provided by NSTIR as they are currently maintained by the province. The kilometers of local roads in rural municipalities and towns constructed post April 1, 1995 was obtained from municipal financial reports and variances were checked / confirmed by contacting the municipal unit who provided the report. As shown in Figure 1, it can be determined that approximately 99% of local roads in rural municipalities are maintained by NSTIR.

Currently, all roads within town limits are owned and maintained by the Town in which they are located. There are approximately 827 kilometers of local roads in Nova Scotia

Towns and approximately 251 kilometers of collector and arterial roads. Arterial and collector roads are provincial routes that cross through towns, and the towns assume responsibility of maintaining these roads within their boundaries.

Lifecycle Costing

For purposes of this project, it was deemed valuable to separate the capital and maintenance costing of local roads. It is important to note that the figures below are based on a sample of actual expenditures and do not reflect the recommended/planned maintenance costs to maximize the service life of the asset.

Maintenance and Service Costs

Maintenance costing data was collected from the following regions and the total service and maintenance cost per kilometer of local road was calculated as shown in Table 1.

Table 1 – Maintenance Costing Summary

Region	Kilometers of Local Road	Total Service & Maintenance Cost per km
NSTIR	15,022.0	$6,700
HRM	2,307.0	$13,416
CBRM	316.0	$13,700
Municipality of Kings	21.2	$26,771
Municipality of Colchester	27.1	$12,769
Town of Kentville	47.4	$14,979
Town of Windsor	24.5	$17,723

A weighted average calculation of the total maintenance cost per kilometer of road using the numbers above would yield a cost of $7,767 per kilometer of local road. This figure is highly influenced by NSTIR, HRM and CBRM's data which is not representative of the cost to rural municipalities and towns, due to difference in economies of scale. The weighted average maintenance cost per kilometer of local road (excluding NSTIR, HRM and CBRM) is $17,118, which was found, for the purposes of this study, to be a more appropriate figure for the maintenance and service cost in rural municipalities and towns.

Capital Cost

The capital cost of constructing a local road includes the engineering, labour and direct materials (such as gravels, asphalt and fill). To determine the current capital costs per kilometer of local road, both towns and rural municipalities were surveyed and yielded the following results.

Table 2 – Capital Costing Summary

Capital Costing Summary	
Type 1 Gravel	$ 53,067
Type 2 Gravel	$ 120,000
Asphalt	$ 255,607
Earthworks	$ 90.933
Contingency (10%)	$ 52,990
Engineering (10%)	$ 52,990
Sub-Total	$ 635,880
Unit cost per 1 Km of Local Roads (Net HST)	**$ 663,134**

As demonstrated by the Table 2, the capital cost for constructing 1 kilometer of local road is approximately $663,134. This estimate is based on new road construction and does not include sidewalks, traffic control, underground infrastructure or major culverts.

Roads have an estimated useful life ranging between 25-30 years, depending on various factors such as; the quality of construction, maintenance, life extending treatments applied, traffic type and volume. Using the $663,134 unit cost per km of local road, the annual depreciation reserve required would range from $22,100 to $26,500 per km per year. The annual reserve required to provide for the future replacement of the NSTIR local roads in rural municipalities would range between $332 million to $398 million annually, not including any pre-existing deficit. Similarly, the annual reserve required for regional municipalities would range from $57.9 million to $69.5 million.

TOWNS ROADS

Arterial and Collector Roads Grant

There are approximately 251 kilometers of provincial roads which pass through town boundaries in Nova Scotia, considered collectors and arterials. As demonstrated by Figure 2, approximately 77% of town roads in Nova Scotia are considered local roads. The remaining 23% are considered arterials and collectors.

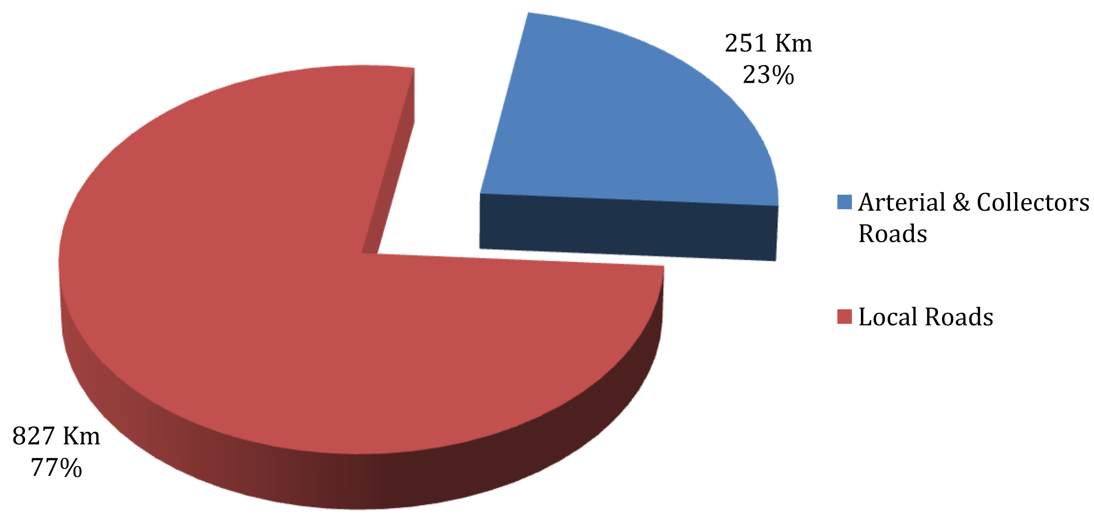


Figure 2 – Breakdown of Road Classification in Towns

The provincial roads in towns are used primarily to travel throughout the province and connect to other towns and rural municipalities. The collector and arterial roads within town boundaries are also maintained by the Town in which they are located. Currently, there are no provincial grants to towns which offset the maintenance of these roads. The use of these roads is predominantly mixed in rural communities as they are primarily constructed to move traffic throughout the province but also may allow land access to individual properties. There is a total of 1,078 kilometers of road within town boundaries in Nova Scotia. The maintenance and capital costs associated with arterials and collectors are generally higher due to the increased traffic flows and freight traffic. Due to the nature and mixed use of these roads, it was determined by the Local Roads Working Group that a provincial grant should be in place to offset a portion of the maintenance costs to towns. A provincial grant should be based on the percentage of the maintenance budget per kilometer of road to reflect the mixed use. Alternatively, a grant for mix use arterial and collector roads could be based on the difference between NSTIR maintenance cost and the predetermined service exchange fee which rural municipalities pay to NSTIR. From a budgetary perspective, this will equate to NSTIR's handling of roads in rural municipalities.

Bridges

Currently NSTIR is responsible for all of the substructure components of bridges in rural municipalities and towns. Any works on the surface components of bridges is cost shared between NSTIR and the municipal unit where the bridge is located. Due to the complexity of bridge maintenance and construction, specialized staff is required to inspect, design and oversee bridge works. It is believed that due to the number of bridges in Nova Scotia and the required expertise to maintain them, it is not financially feasible for rural municipalities and towns to assume responsibility of the bridge substructure. There is consensus amongst the working group that the province, rural municipalities and towns are content with the current treatment of bridges in Nova Scotia.

Implications for Discouraging Amalgamation

There is a large variance in the treatment of local roads within Nova Scotia with respect to town and rural municipalities. At the current fee structure, rural municipalities pay $4,930 per kilometer of roads to NSTIR to offset the cost variance of the service exchange. The actual maintenance cost of a kilometer of local road, by a rural municipality or town in Nova Scotia, is approximately $17,118. This creates an annual difference of $12,188 per kilometer of local road to the benefit of rural municipalities.

When exploring amalgamation between a town and a rural municipality, the transfer of local roads can create a large burden to a proposed regional municipality. Also, Nova Scotia towns finance the maintenance of local roads through the town tax rates, similar to other municipal services such as water, sewer, etc. This places a larger tax burden on home owners residing within town boundaries as towns provide the same services as a rural municipality, in addition to road maintenance. The transfer of the liability for future capital replacement of the Town roads is an even more significant barrier to amalgamation.

IMPROVED COORDINATION AND SHARED SERVICES

A key cost driver to the maintenance costs of local roads in municipalities is the scattered layout of roads constructed after April 1, 1995. Commonly, many of the newly constructed roads are extensions of existing subdivisions and residential neighborhoods scattered across a rural Municipality. As is the case in several municipal units, it is possible to trade local road responsibility with NSTIR in order to improve efficiency and decrease costs. Municipalities can trade responsibility of local roads with NSTIR on an equivalent per kilometer basis, to concentrate maintenance operations in specific locations. This policy has been utilized in HRM, CBRM and other rural municipalities and resulted in cost savings to the municipality and NSTIR. Also, municipal units have the option under *NSTIR Policy 1004 – Maintenance of Local Roads* to pay NSTIR a fee of $7,688 per kilometer (as of October 31, 2012, adjusted annually based on the CPI average percent change) to provide winter maintenance. Currently, many rural municipalities contract the winter maintenance operations to a third party at a much greater cost.

There are also opportunities for decreasing the maintenance costs of local roads by pursuing shared services amongst neighboring towns and rural municipalities. Areas of a municipality bordering a town can be serviced by the town and avoid unnecessary travel by a municipality's operators or hired contractors. This arrangement would be coordinated by the municipality and the adjacent town/s to determine a suitable fee structure on a per kilometer basis.

ALTERNATIVES CONSIDERED

OPTION #1

Transfer of local road responsibilities in rural municipalities to municipal administration and control

Advantages

- Municipal control over priority and level of service
- Opportunity for collaboration and shared services amongst neighboring towns and municipalities

Disadvantages

- Financial and human resources challenges in purchasing and mobilizing the necessary equipment
- Lack of familiarity with operations can cause challenges at the initial stages of implementation and expose municipalities to potential liabilities
- Total service costs will increase due to lost economies of scale provided by NSTIR
- Significant investment in local roads would be required to improve the current condition of roads at the end of their service life and ones that have exceeded it.
- Would place greater burden on rural municipalities due to their area and population density in comparison to towns.

The average service cost of a kilometer of local road in a rural municipality is approximately $17,118; there are currently 12,809 kilometers of local roads in Nova Scotia maintained by NSTIR. This would result in an average service cost in excess of $219 Million[C3]. Under the current conditions it is estimated that the cost of servicing local roads in rural municipalities (municipally owned & NSTIR) is $88.56 Million[C4]. This could initially result in an added cost to Nova Scotia residents of $130 Million[C5]; it is expected that this annual cost would decrease as municipalities establish operational efficiencies. This would result in significant property tax increases for rural residents.

OPTION #2

Transfer of local road responsibilities (towns and rural municipalities) to NSTIR administration and control

Advantages

- Cost savings as NSTIR has established the experience and resources to service local roads

Disadvantages

- No local control over the level of service (decrease in the level of service would be expected as local roads are not NSTIR's primary focus)
- Increase liability to the province
- Longer response times in case of emergencies as there is a larger geographic area to cover and local roads are a lower priority for NSTIR (can be mitigated by ensuring sufficient staff and equipment resources are added).
- Conflicts in coordinating reconstruction and maintenance operations of underground municipal services affecting roads.
- Increased costs to NSTIR due to initial equipment shortages as smaller single axle trucks and loaders would be required to service local roads with sidewalks and in busier streets.
- Difficulties in coordinating winter maintenance efforts with NSTIR for roads and municipal units' sidewalk maintenance.
- Conflict over development between municipalities and towns and the province as additional road infrastructure will result in increased costs.

The transfer of all local road responsibilities in rural municipalities and towns to NSTIR would result in an estimated annual service cost increase of $8.15 Million to the province. Although the cost of this scenario is estimated to be less than the current structure, it is expected that level of service issues may arise. Rural municipalities and towns would be responsible for paying a fee to offset NSTIR's actual maintenance cost of all local roads. The suggested fee collected by NSTIR would likely be greater than NSTIR's current average maintenance cost per kilometer due to increased overhead and equipment requirements. Also, the cost of snow removal within subdivisions is greater than the cost of snow removal on rural roads where snow can be moved to the side of the road.

OPTION #3

Allow all municipal units, who wish to participate, to pay a predetermined fee to NSTIR to service and maintain local roads

Advantages

- Provides municipal units with the freedom of selection depending on their local priorities (cost vs. level of service)
- Equitable treatment for towns and rural municipalities by allowing towns the option to participate should they choose to do so
- Provides cost savings to towns and municipalities who currently pay substantially more than NSTIR's cost to service roads
- Promotes collaboration and shared services amongst municipal units who choose to service their local roads
- Utilization of economies of scale established by NSTIR (centralized administration, material and equipment purchases, etc.)
- Provides consistent standard of service across all local roads

Disadvantages

- Increased liability to the Province
- Access and reconstruction issues with respect to municipal water and wastewater infrastructure assets beneath NSTIR roads.
- May encourage unsustainable municipal growth and urban sprawl
- Would require long-term commitments from municipalities to transfer responsibilities to NSTIR due to cost of purchasing additional equipment and hiring skilled personnel.
- Increased costs to NSTIR due to initial equipment shortages as smaller single axle trucks and loaders would be required to service local roads with sidewalks and in busier streets.

- Difficulties in coordinating winter maintenance efforts with NSTIR for roads and municipal units' sidewalk maintenance.
- Conflict over development between municipalities and towns and the province as additional road infrastructure will result in increased costs.
- Confusion by citizens over who is responsible for maintenance. People will be passed back and forth between counsellors and provincial staff.

This alternative would allow all municipal units the option to engage NSTIR to service and maintain local roads for at least the current actual service cost to NSTIR for a kilometer of local road. As the fee would be based on the number of kilometers in the agreement, the municipal units would have the flexibility to select roads which do not require a strict level of service to be maintained by NSTIR. Also, this would create equality in the cost and management of local roads between towns and rural municipalities. Municipal units have the option of servicing local roads in selected zones as chosen by the municipality should they require a greater level of service than NSTIR can adhere to or service the roads at a lesser cost.

OPTION #4

Maintain the current structure and management of local road responsibilities in Nova Scotia

Advantages

- Established system, does not require complicated implementation measures

Disadvantages

- Unbalanced effects on tax rates in towns and rural municipalities as there are large differences in service cost between towns and rural municipalities
- No local control over the level of service by municipalities

There is a large cost variance in the maintenance of local roads between rural municipalities and towns under the current management of local road responsibilities. The increased burden to towns has resulted in higher tax rates. This can discourage further development and deter growth, placing Nova Scotia towns at a disadvantage in attracting residents and businesses. The long term effects of this approach could jeopardize the towns' ability to become economically sustainable.

OPTION #5

Transfer of local road responsibilities and ownership in rural municipalities to municipal administration and control in core areas and allow all municipal units to pay a predetermined fee to NSTIR to service and maintain local roads as defined in this paper, outside the core areas.

Advantages

- Equivalent treatment of local roads in town and rural municipalities
- Minimizes access and reconstruction issues with respect to municipal underground infrastructure.
- Provides consistent standard of service across all local roads outside the central regions.
- Provides cost savings to towns and municipalities who currently pay substantially more than NSTIR's cost to service roads.
- Provides municipal units with the freedom of selection depending on their local priorities (cost vs. level of service)
- Promotes collaboration and shared services amongst municipal units who choose to service their local roads.
- Maintains current NSTIR economies of scale in providing local road maintenance.

Disadvantages

- Inconsistent level of service between centralized regions and outlying areas
- Difficulty in developing an equitable method of determining the boundaries of the centralized regions.
- May discourage the construction of sidewalks and underground services in rural municipalities

In this scenario roads, ownership and maintenance of roads within the core regions of a rural municipality or a town would be transferred to the municipal unit. This would result in rural municipalities taking over road responsibilities in the areas which are likely to be serviced and would minimize issues arising from coordinating municipal works and NSTIR road works. Rural municipalities would also have the option to contract local road maintenance to NSTIR for local roads outside the central region. Any transfer of local road ownership must consider the impacts of transferring liabilities arising from the capital upgrades. The estimated annual depreciation reserve required for local roads in rural municipalities is between $332 million to $398 million; not including any pre-existing deficit. This infrastructure gap would have to be addressed should any transfer of local road ownership occur.

As towns have much smaller areas and higher population densities, for most towns, the entire town would likely be considered a central region. Therefore towns would likely continue to be responsible for capital and maintenance works within their limits. This option would work in conjunction with a grant designed to offset a part of the maintenance and capital cost of collector and arterial roads in towns. Should this be implemented a grant to rural municipalities must be considered to offset the capital and maintenance costs of collector and arterial roads in core areas of the municipalities.

This option would also have lesser implication on NSTIR as additional smaller equipment required for maintaining local roads in densely populated areas having curbs, sidewalks would not be required. Also, NSTIR would see a decrease in the total number of local roads which NSTIR provides maintenance.

This option is very similar to the arrangement between NSTIR and regional municipalities such as HRM and CBRM. In CBRM, the municipality maintains all roads within the previous towns' boundaries and newer roads constructed in the county. HRM currently maintains all local roads within the HRM core. A trade was made between HRM and NSTIR to account for NSTIR owned roads within the HRM core region.

Assessment of Alternatives

A preliminary risk assessment of the alternatives considered has been prepared as summarized in Table 3.

Table 3 - Assessment of Alternatives

Alternatives	Potential Risks	Impact (H/M/L)	Mitigation Measure
OPTION #1 - Transfer of local road maintenance responsibilities in rural municipalities to municipal administration and control.	Insufficient human and financial resources to provide minimum level of service	H	Employ a phased approach in conjunction with provincial leadership and funding
	Exposure to liability in early stages of implementation due to lack of previous experience	H	Provide training by NSTIR to local governments
	Increase in service costs due to lost economies of scale	M	Identify opportunities for inter-municipal collaboration in the early stages
OPTION #2 - Transfer of local road maintenance responsibilities (Towns and rural Municipalities) to NSTIR administration and control.	Decrease in the level of service provided to local communities	M	Establish performance measures for NSTIR local maintenance efforts
	Increase in provincial liability	L	N/A (greater service area yields greater risks)
	Longer response time in case of emergency	H	Establish emergency response measures with NSTIR in case of major storm events.
OPTION #3 - Allow all municipal units, who wish to participate, to pay a predetermined fee to NSTIR to service and maintain local roads.	Increase in provincial liability	L	N/A (greater service area yields greater risks)
OPTION #4 - Maintain the current structure and management of local road responsibilities in Nova Scotia.	Little control over the level of service provided by NSTIR to municipalities	L	Work with NSTIR to establish required levels of service and corresponding cost increase
	Equitable management of local roads (towns & municipalities)	H	Consider town grants in order to offset the cost differences

OPTION #5 - Transfer of local road responsibilities in rural municipalities to municipal administration and control in core regions - allow all municipal units to pay a predetermined fee to NSTIR to service and maintain local roads outside the central areas.	Municipal exposure to liability in early stages of implementation due to lack of previous experience	H	Provide training by NSTIR to local governments and encourage collaboration and knowledge sharing between Towns and rural municipalities.
	Inconsistent service region boundaries amongst municipal units	M	Develop a clear and equitable method of determining boundaries in consultation with municipal units and representatives.
	Transfer of large capital liability and infrastructure deficit	H	Develop a long term financial plan outlining provincial contributions towards the capital upgrades of roads

RECOMMENDATIONS

Recommendation 15 - Rural municipalities will now be required to pay TIR the full maintenance recovery cost (approx. $6700 per kilometer plus annual CPI increase) for maintenance of the 745 km of local roads maintained under the Service Exchange agreement. If rural municipalities so choose, TIR will also service (at cost + capital – approx. $13,500 per kilometer plus CPI) the 138 km of roads that rural municipalities are currently fully responsible for. In addition, the Province will engage in an education campaign to ensure that all municipalities understand the policies and practices that TIR has in place to trade-off roads maintenance responsibilities or ownership where possible so as to ensure that maximum efficiency.

Appendix #1 - Roads Summary by Municipal Unit

REGIONAL MUNICIPALITIES	Total Local Roads	NSTIR Local Roads
Cape Breton Regional Municipality	316.0	797.7
Halifax Regional Municipality	2307.6	1018.4
Region of Queens Municipality	0.0	411.4
TOTALS	**2623.6**	**2227.5**
Percentage of Total	**54%**	**46%**
RURAL MUNICIPALITIES		
Municipality of the County of Annapolis	11.0	696.6
Municipality of the County of Antigonish	11.3	702.3
Municipality of the County of Colchester	27.1	1,283.7
Municipality of the County of Cumberland	0.8	1,119.9
Municipality of the County of Inverness	-	1,195.7
Municipality of the County of Kings	21.2	1,198.5
Municipality of the County of Pictou	-	1,546.9
Municipality of the County of Richmond	19.0	581.0
Municipality of the County of Victoria	3.0	528.6
Municipality of the District of Argyle	3.4	239.0
Municipality of the District of Barrington	4.2	111.0
Municipality of the District of Chester	3.5	178.3
Municipality of the District of Clare	-	370.3
Municipality of the District of Digby	10.4	348.3
Municipality of the District of Guysborough	3.0	343.9

TOWNS	Town Local	Arterials & Collectors
Town of Amherst	66.5	12.2
Town of Annapolis Royal	2.7	3.2
Town of Antigonish	17.9	7.1
Town of Berwick	8.1	4.9
Town of Bridgetown	2.0	4.2
Town of Bridgewater	51.2	15.8
Town of Clark's Harbour	9.0	3.5
Town of Digby	23.6	7.0
Town of Hantsport	10.6	2.6
Town of Kentville	32.8	14.6
Town of Lockeport	6.2	3.9
Town of Lunenburg	21.9	6.4
Town of Mahone Bay	5.5	6.6
Town of Middleton	13.1	6.2
Town of Mulgrave	13.9	10.1
Town of New Glasgow	53.9	16.6
Town of Oxford	13.6	8.5
Town of Parrsboro	15.7	16.5
Town of Pictou	62.8	7.3
Town of Port Hawkesbury	25.9	2.1
Town of Shelburne	33.1	6.4

Municipality of the District of Hants East	11.9	425.9
Municipality of the District of Hants West	2.0	333.1
Municipality of the District of Lunenburg	0.6	793.4
Municipality of the District of Shelburne	6.0	266.1
Municipality of the District of St. Mary's	-	210.8
Municipality of the District of Yarmouth	-	335.4
TOTALS	**138.3**	**12808.8**
Percentage of Total	**1%**	**99%**

Town of Springhill	32.5	9.5
Town of Stellarton	28.5	11.5
Town of Stewiacke	12.6	5.5
Town of Trenton	26.7	5.0
Town of Truro	75.2	17.8
Town of Westville	70.4	13.2
Town of Windsor	17.9	6.6
Town of Wolfville	22.7	5.5
Town of Yarmouth	51.1	10.4
TOTALS	**827.4**	**250.8**

Provincial-Municipal Fiscal Review

Operating Grants Review

Draft Options Paper

2014

Table of Contents

INTRODUCTION

Every year, the Province, through the Department of Municipal Affairs, distributes tens of millions of dollars in grants to municipalities. For example, $32 million is distributed as an unconditional operating grant through the equalization program and the Towns Foundation Grant (which is valued at $1.5 million), with an additional $6 million in unconditional operating grants provided through a partial HST rebate. A further $29 million is paid out annually to municipalities as a grant in lieu of property taxes for provincial buildings and Nova Scotia Power (NSPI) assets. Additionally, Municipal Affairs is responsible for administering federal funding to municipalities from the Building Canada Plan, including the Federal Gas Tax Fund and the New Building Canada Fund.

Despite this money, Nova Scotia's municipalities are facing significant financial and demographic headwinds, which are increasingly raising questions about the long term viability of some communities. At the same time, the Provincial Government is facing similar pressures, with respect to an aging population and slow economic growth. Accordingly, this report seeks to explore the current grants structure that the Province maintains for municipalities, to ensure that it supports and promotes the long term viability of Nova Scotia's municipalities in an efficient and sustainable way. The Working Group feels that it is vital for all of the regions of Nova Scotia to be successful, and thrive in their own way.

The Provincial-Municipal Fiscal Review Working Group was originally struck to review the Provincial equalization program. However it quickly became apparent that the program could not be explored in isolation. The working group came to the conclusion that all grant programs for municipalities had to be reviewed together as a package. And through this comprehensive review, it has become clear that there is no simple way to address the needs of Nova Scotia's municipalities while respecting the Province's fiscal reality. At the same time, it is the consensus of the Working Group that Nova Scotia's current grants framework – the equalization program in particular – is failing to ensure the long term viability of Nova Scotian municipalities.

This paper outlines the current grants framework in the Province. It subsequently explores a number of different options for reforming existing grant programs and creating new ones through a framework of principles and objectives identified by the group. The paper then concludes with several recommendations that are intended to help ensure that municipal grants are better aligned with the stated goals of supporting economic development, assisting municipalities invest in critical capital projects, and ensuring that municipalities are able to effectively identify, confront and address issues of capacity, and long-term viability.

MUNICIPAL AFFAIRS' CURRENT GRANTS STRUCTURE

The current grants framework in Nova Scotia comes from a number of sources, including Nova Scotia Power, the Provincial Government's general revenues, and the Federal Government, through the Building Canada Plan.

Under existing legislation, NSPI is exempt from property taxation. Instead, it makes an annual payment to the provincial government which, in turn, disburses that money to municipalities for a number of items such as the HST Offset Grant, the Equalization Grant, and the NSPI Grant in Lieu (NSPI GIL) of taxes.

The distribution of the full payment in lieu of taxes is at the Minister's discretion after consultation with UNSM as per section 18(5) of the *Nova Scotia Power Inc. Privatization Act*. In 2013-2014, the NSPI payment to the Province was at $37.7 million and it was distributed to municipalities in the following way:

- $20.1 million through equalization,
- $11.6 million through the NSPI GIL (based on NSPI asset values in municipalities), and
- $6 million through the HST offset

The Provincial Government contributes an additional $37 Million (in 2013-14):

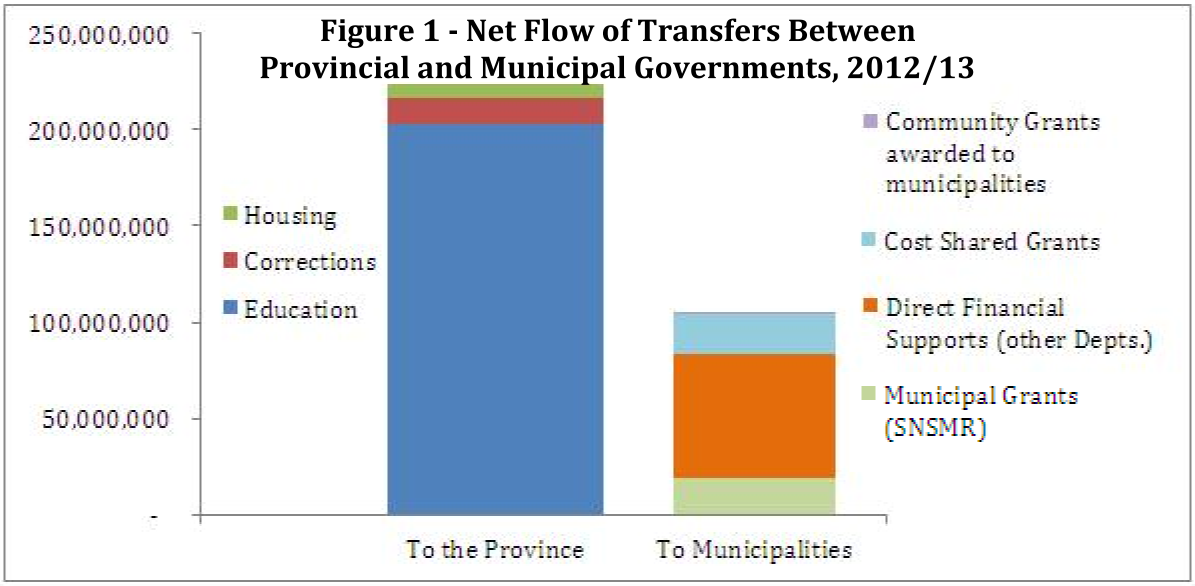
- $10.4 million through equalization,
- $1.5 million through the Towns Foundation Grant, and
- $17.5 million through the Provincial grant in lieu of taxes program.

As well as several million more through various other smaller programs which are explored in greater detail below.

Meanwhile, the Federal Government, through the Building Canada Plan has committed about $276 million over five years for Nova Scotia through the Gas Tax Program, and additional millions of dollars through the Building Canada Fund.

For the purposes of this exercise, the Working Group only explored the programs funded with monies form the NSPI GIL and those funded through General Revenue.

In 2013, provincial grants (excluding grants in lieu of taxes) as a percent of total municipal expenditures ranged from 21.5% in the high end, to 0.2% in the low end. Municipal contributions to the Province for education, corrections and housing equaled between 7.4% and 33.4% of municipal expenditures. The result of these transfers back and forth between the Province and municipalities, is that some municipalities received a small net transfer from the Province, but on average, municipalities were net contributors to the Province. This relationship is illustrated below in Figure 1, for the 2012/13 fiscal year.



Equalization

The equalization grant is an unconditional grant intended to help municipalities maintain basic levels of service at a reasonable levels of taxation. The concept of a formula-based redistributive unconditional operating grant for municipalities in Nova Scotia began with the Graham Commission report in 1974. Prior to this, the provincial allocation of grant money was mainly done through "emergency assistance" on an ad hoc basis. This led to little accountability or equity in the grant system. The Commission Report states that "principles of fiscal equity, simply stated, is that similarly structured individuals should receive about the same levels of public service and incur about the same tax burden as they would in any other locality in the province." The Commission developed a grant program with this in mind. Their proposal led to the development of the equalization program the province currently uses, which consider both expenditures and taxable assessment.

In practice, the first elements of an equalization program came into place in Nova Scotia in 1980, with an operating grant that had both general revenue and equalization components to the grant. At that time, funding was tied to provincial revenue growth, and the equalization component of the grant introduced the concept of "standard expenditures" and uniform assessments as a measure of "taxable assessment". Subsequently, a number of changes have been introduced to the program, mainly due to various financial pressures over the years. For example, in 1983, the province removed the indexing of the funding. In in the mid 1990's, the grant was renamed the Equalization Grant, and the general operating revenue was removed. The amount of the grant was also to be set by Cabinet on an annual basis.

The equalization grant is distributed to municipalities based on each unit's "ability to pay", their "need", and the annual grant budget. Ability to pay is measured by taking the product of a municipality's uniform assessment[1] and the standard tax rate for their class – there are two classes, with class 1 municipalities covering towns and regional municipalities and class 2 municipalities covering county and district (rural) municipalities. Need is measured by taking the product of a municipality's dwelling units and the class average cost of standard expenditures per dwelling unit. The equalization grant is partially funded by the Province and partially funded through the payment in lieu of property taxes received from NSPI. The total budget in 2014/15, including a $50,000 foundation grant provided to all towns, is $32 million.

The concept of having a grant that helps less affluent municipalities is long standing. With the removal of the general operating grant, Equalization became the main grant provided to municipalities, and is the only grant program that takes ability to pay and need into consideration in the allocation.

Nova Scotia Power Grant In Lieu of Property taxes

In order to determine a municipality's share of the GIL, the percentage of NSPI asset values located in a municipality is measured relative to total NSPI asset values. This proportion is used to determine the municipality's share of the total NSPI GIL which was valued at $11.6 million in 2013/14.

Originally, the total NSPI payment in lieu of property taxes was much lower than it is now. However, in 2003, the payment was increased by $8.25 million to $31 million (indexed to inflation). This increase marked the shift towards allocating a portion of the grant to municipalities based on their share of NSPI asset values. The remaining is allocated through the equalization grant formula and the HST Offset Program.

It is generally accepted that the NSPI payment in lieu of property taxes should benefit all municipalities in Nova Scotia. As such, the amount is allocated to municipalities in ways that share this benefit. The allocation through the GIL recognizes that some municipalities (i.e. those with NSPI assets) should receive additional benefit due to the fact that they host and provide services to NSPI property within their municipality.

HST Offset Program

In 1997, the Nova Scotia Power Privatization Act was amended to include additional payment-in-lieu of taxes payable by NSPI. The Province determined that the increased

[1] Using uniform assessment as the basis for calculating standard revenues is known as calculating the "corporate ability to pay". Corporate ability to pay is predicated on the idea that Uniform Assessment is a measure of the wealth of a municipality and as such, it is a measure that determines how much revenue a municipality can raise. Alternatively, residential ability to pay is based on average tax effort, which is determined by comparing average tax burden to average income.

portion of the NSPI payment would fund a Municipal Harmonized Sales Tax (HST) Offset Grant. This program was intended to partially offset the effects of increased costs to municipalities as a result of the implementation of the HST; prior to the HST, municipalities were exempt from paying the Provincial Sales Tax. The Federal Government also returns money to municipalities, based on their expenditures, to offset their HST payments.

The value of the grant received by each municipality is based on the expenditures they made 2 years prior. And while the program was originally envisioned to rebate $10 million back to municipalities, the program budget capped out at $6 million in 2003, where it has remained since. It is important to note that this program differs from the HST rebate that municipalities receive from the Department of Finance[2].

HST Villages

The HST Villages Program reimburses a portion of the HST paid by villages by providing an unconditional operating grant. This is a submission based program, where each village receives a percentage of its federal rebate that is equal to the average percentage received by all municipalities under the HST Offset Program for Municipalities. The budget for 2013/14 was around $70,000.

Municipal Capacity Building

The Municipal Capacity Building program provides financial assistance for initiatives that are designed to facilitate and/or promote excellence in local government such as funding for hosting or attending conferences and workshops or contributing to collaborative community initiatives. The grant is intended to help municipalities build capacity.

Provincial Grant in Lieu of Taxes

Grants in Lieu

Grants in Lieu of Taxes (GILT) are governed by the *Municipal Grants Act*, and they are payable in respect of provincial property or provincially occupied federal property. The grants are set to equal the full taxes that would otherwise be payable in respect of the property if it were not exempt from taxation. In 2013/14 the total grant payments were valued at $17.8 million.

Fire protection grant

A number of provincial properties are exempt from the GIL, including most university buildings, schools, hospitals, etc. However the Province recognizes that municipalities still bear the cost of providing services to these properties, and so the Province provides a fire protection grant to municipalities. The value of the grant is based on the product of

[2] Currently, the Department of Finance rebates 57.14% of the provincial portion of the HST to municipalities.

applying a provincial fire protection rate to the value of the GIL exempt provincial properties. In 2013/14, the total grant was valued at $1.4 million.

Farm Property Grant

The Farm Property Grant is legislated under section 77 of the Municipal Government Act which states the province shall pay municipalities a grant for exempt farm property. The farm property exemption is legislated under section 46(1) of the Assessment Act which states that “All land, excluding any buildings or structures thereon, classified as farm property shall be exempt from taxation under this Act or any other public or private Act of the Legislature authorizing a tax on the assessed value of property.”

The rate paid is not based on a rate times assessment formula but instead a per acre rate. The per acre rate increases annually by the average annual increase in the CPI for Canada. Properties who receive the break in property tax must be active farm properties and classified as “resource” property. To be assessed under “resource” property, the property must be used for agricultural purposes. In 2013/14, this grant was valued at $1.7 million.

Provincial Capital Assistance Program (PCAP)

The Government of the Province of Nova Scotia recognizes that the cost of undertaking water supply, wastewater collection and treatment and solid waste management projects can place significant financial burdens on municipal governments and taxpayers alike. The Provincial Capital Assistance Program is an application based program that is designed to enable the Government of Nova Scotia to contribute towards the cost of high priority municipal infrastructure projects and help reduce costs to an affordable level. A provincially funded grant program to support these challenges enables municipalities to meet these needs without requiring significant property tax or user fee increases to citizens. In addition, by providing funding for pre-design studies, municipalities are able to meet funding requirements for current federal funding programs.

Funding from PCAP assists municipalities in qualifying for federal funding by providing grants towards pre-design studies. Grants will cover up to 50% of the cost of eligible infrastructure projects and up to 50% of the cost of engineering studies and investigations.

In 2013-14, the budgeted amount was $3.75 million; this requires program staff to rank the applications for funding according to the severity of the problems being addressed and other factors. Priority ranking are given to projects designed to eliminate serious environmental and health problems (actual or potential).

Nova Scotia Transit Research Incentive Program (NS-TRIP)

NS-TRIP provides funding to support capacity building initiatives intended to generate new and improved public transit services in rural and unserviced urban areas of Nova Scotia. Depending on the project, applicants can apply for up to 75 per cent of the total eligible costs, to a maximum grant of $50,000. Applicants can receive funding for one project per year under the program. The funding will be used to support a broad range of activities, all of which must be directly related to enhancing the service capacity of new or existing public transit organizations in Nova Scotia.

Community Transportation Assistance Program / Accessible Transportation Assistance Program (CTAP/ATAP)

CTAP/ATAP provides financial assistance to municipalities and non-profit community-based organizations involved in the delivery of inclusive (accessible) door-to-door transportation services in rural areas of the province. The goal of the program is to provide operating and capital funding to support sustainable and inclusive (including persons with disabilities, low income earners and seniors) community based transportation services in low population density regions of the province.

Community Accessibility

This grant is used to assist non-profit community organizations and municipalities with the removal of barriers in public buildings and other venues to persons with disabilities. By providing funding for accessibility upgrades to public buildings, accessibility for persons with disabilities improves allowing them to participate more fully in community events and have access to public buildings. Increased accessibility promotes community spirit, healthy lifestyles for all residents, tourism and additional economic activity in rural areas. In addition, it assists in leveraging funding from municipalities and other government and non-government organizations for community improvements.

Emergency Services Provider Fund (ESPF)

The Emergency Services Provider Fund (ESPF) is available to first responder organizations, including volunteer fire departments to assist in the purchase of fire-fighting and emergency situation equipment. These organizations provide critical emergency services to communities across Nova Scotia. Having access to appropriate equipment is crucial to providing citizens with high quality service.

Legion Capital Assistance Program

The Legion Capital Assistance Program (LCAP) is a program intended to assist Royal Canadian Legions across Nova Scotia with capital upgrades to their facilities. Legions house events and community activities and do not always have the funds necessary to complete all necessary repairs or make desired upgrades. This programs helps assist Legions in maintaining their infrastructure.

Evaluating Criteria

Throughout this work by the PMFR Working Group several evaluation criteria were used to assess the impacts of and changes to grants programs, or new programs being considered. The criterion used to evaluate the numerous grant models presented to the working committee included the following:

- Fairness
- Stability and elasticity
- Structure
- Transparency
- Administrative burden

When assessing the fairness of the models, classifications should compare like municipalities and it must be able to measure ability to pay and need, as well as distinguish between core and discretionary services. To establish the stability and elasticity of models, they should be resistant to manipulation, and they must not be prone to significant swings in allocations - unless those swings are related to local economic changes. To assess the third criteria, structure, models must not discourage structural change or be a disincentive to amalgamation and shared services. Fourthly, the model must be transparent or improve transparency. Finally, a model should have a manageable administrative burden, both in terms of setting up the program, and then maintaining the program.

In addition, the Working Group was also interested in ensuring that the suite of programs that was ultimately advanced for recommendation was comprehensive in nature, aiming to address three discrete areas of municipal activities. The grants suite is intended to support economic development, assist municipalities invest in critical capital projects, and ensure that municipalities are able to effectively identify, confront and address issues of capacity, and long-term viability.

CONCERNS WITH EQUALIZATION

Throughout this work, it became clear that the Working Group had a number of specific concerns about the Equalization program in its current form. Subsequently, and as explored below, many attempts were made to try to adequately address these shortcomings.

Definition of standard expenditure

Standard expenditures are used to determine the need of a municipality. It is calculated by computing the average cost of delivering policing and fire protection services, the cost of transportation services (excluding transit), and half the cost of solid waste and wastewater services for an average dwelling unit in a class. As such, the standard expenditure for a rural municipality is calculated separately from a town or regional municipality. In general, it is considered a best practice to distinguish between discretionary and non-discretionary services to reduce the opportunity for a municipality to fund discretionary services through another jurisdiction's tax base; however, there are a number of concerns with the definition of standard expenditure.

In particular, some functions which are a requirement of provincial legislation, including governance features such as council and election costs are not included in the current definition of non-discretionary services. Additionally, while the use of average expenditures to define the cost of standard services is expedient, this methodology only quantifies the average of what exists, rather than defining the minimum needed to provide core services.

Equalization may disincent structural reforms

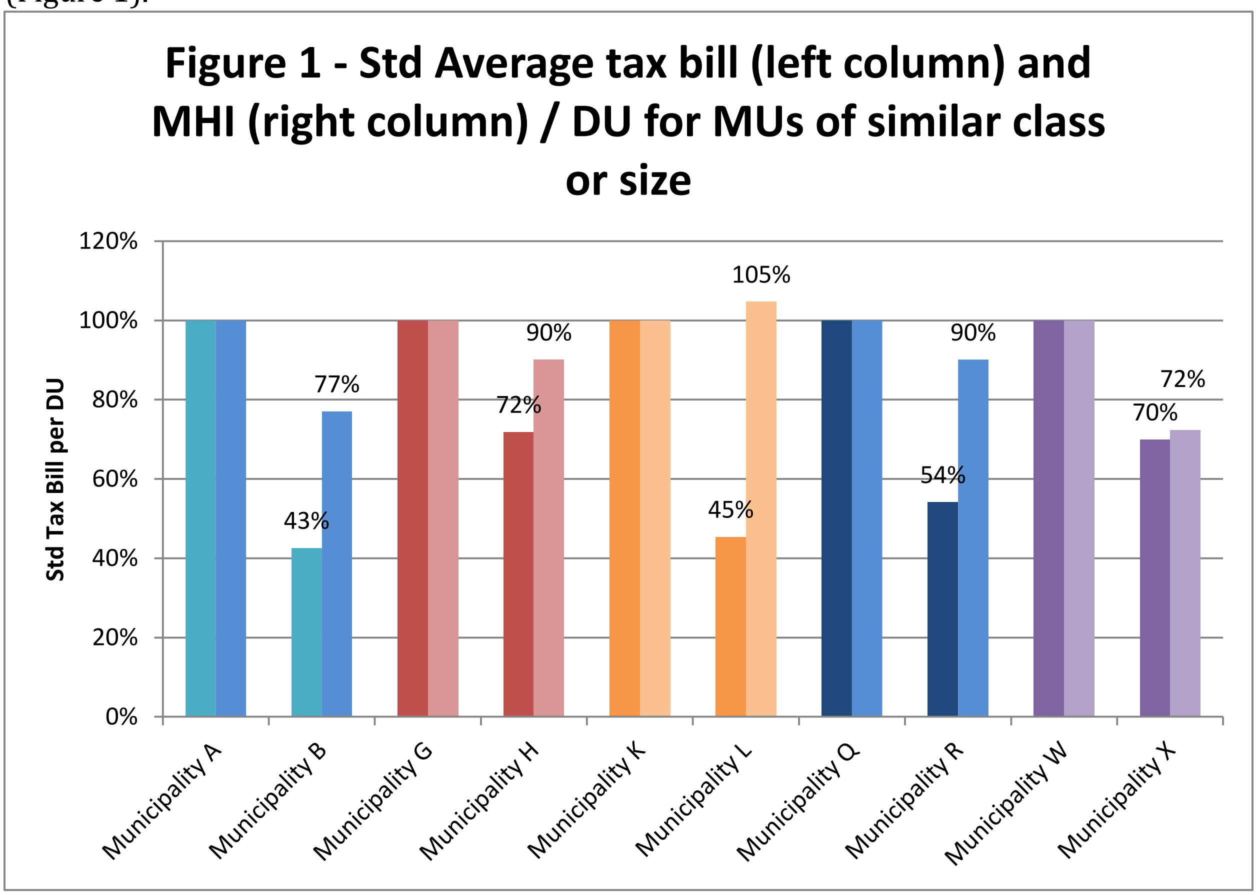
Currently, towns and regional municipalities are grouped in one class, and district and county municipalities are grouped into another. The premise behind defining classes is that urban communities have greater need for municipal services, including capital intensive and highly regulated services such as wastewater and transportation services. Defining classes allows for the grouping of units into higher and lower need classifications. However, if a town and a county decide to amalgamate, they become a single unit classed with other rural county and district municipalities. Dwelling units in the former town would then be defined as having lower need, despite the town-like nature of the services and community. As a result, the amalgamated municipality is likely to see a smaller operating grant than the former municipalities did when they were separate[3]. Thus, it can be argued that in its current form, the provincial equalization program actually creates a disincentive for municipal units facing serious fiscal capacity issues to seek structural change because they may in fact end up losing money.

[3] If however all the municipalities in a county were to amalgamate into a regional entity, the reverse situation would likely apply, where the equalization entitlement would increase.

Equalization may not direct funds to units with most challenging fiscal capacity issues

During the examination of the equalization program, it became apparent that the current formula is based on several assumptions that the group was uncomfortable with. In particular, the current equalization formula calculates 'tax burden' in a way that may not direct funds to communities with the weakest fiscal capacity. The current formula calculates corporate ability to pay by applying a standard tax rate for each class to the uniform assessment (UA) of each municipality. However, UA does not completely reflect a units ability to generate revenue because it does not consider the ability of residents to pay their taxes.

As a result of these assumptions, it is conceivable that a municipality with a low uniform assessment could artificially maintain a relatively low tax effort as a result of their equalization entitlement. This is a problem for several reasons, but the primary issue is that given that equalization payments are drawn from a fixed pot of money, every dollar transferred to a jurisdiction that could be doing more to help themselves, is a dollar that is not received by those municipalities which are exerting a higher level of tax effort, but are still unable to fund their operations. This phenomenon is illustrated the graph below (Figure 1).



The above chart compares several paired municipalities of similar size or class along the dimensions of average standard tax bill (as calculated by the current equalization formula – left column) and median household income[4] (from the 2011 National Household Survey – right column). The pairings are identified by colour and they are ordered such that the values of the paired municipalities situated on the right are calculated with respect to the paired municipality on the left (e.g. Municipality B's values are calculated with respect to Municipality A's values). The municipalities are also paired such that the municipalities on the left side of each paring receive no (or relatively little) equalization, and the paired municipalities on the right receive some (or more) equalization (i.e. Municipality K does not receive equalization, Municipality L does receive equalization).

This chart is intended to illustrate the disconnect between the equalization formula and residential tax effort. It is important to highlight here that equalization was never intended to consider residential tax effort, it explicitly focuses on corporate ability to pay. Nevertheless, the group felt that by completely ignoring the ability of residents to pay their taxes, it is possible the program may by sending limited and valuable resources to jurisdictions that may not need it. For example, on average, the households of municipality L have incomes that are 5% higher than households of municipality K, but the equalization formula determines that municipality K deserves equalization, while municipality L does not. In general, for the paired municipalities on the right, significant differences between the relative value of the average standard tax bill and the median household income suggest that additional revenue generating capacity may exist in the municipality.

Equalization may artificially sustain municipalities that are no longer viable

On the other side of the spectrum, there are some municipalities, particularly smaller units, that are exerting a high level of tax effort, but are still receiving relatively large portions of their budgets in the form of transfers from other levels of government. In these cases, it could be argued that equalization has transitioned from a life preserver role to a life support system. Equalization may be artificially maintaining the viability of some municipalities that may be better served by structural reform or some other shift away from the status quo. For example, as outlined in the Canso/Municipality of the District of Guysborough review, the Town of Canso was a municipality in "survival mode" for 20 years, propped up by provincial transfers, but facing substantial declines in service standards and infrastructure investment. However, now that they are simply a community within the encompassing municipality of Guysborough, they are beginning to reap the benefits of amalgamation, including new recreation services and new infrastructure investment that otherwise would not have occurred.

[4] There are of course limitations with using median household income (MHI) to estimate residential tax effort – such as the fact that it is only available in census years and it is only available at the county level for some municipalities. However, MHI has been adopted as the measure to calculate residential tax effort for the Financial Conditions Index: http://www.novascotia.ca/dma/finance/indicator/definitions.asp?def=29.

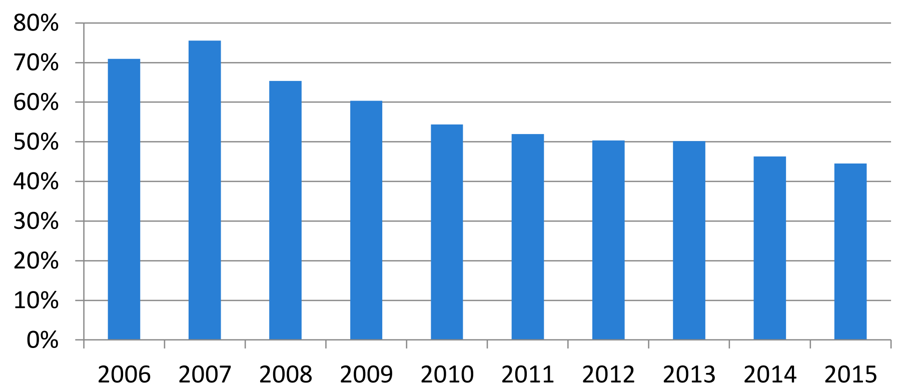
Full Funding

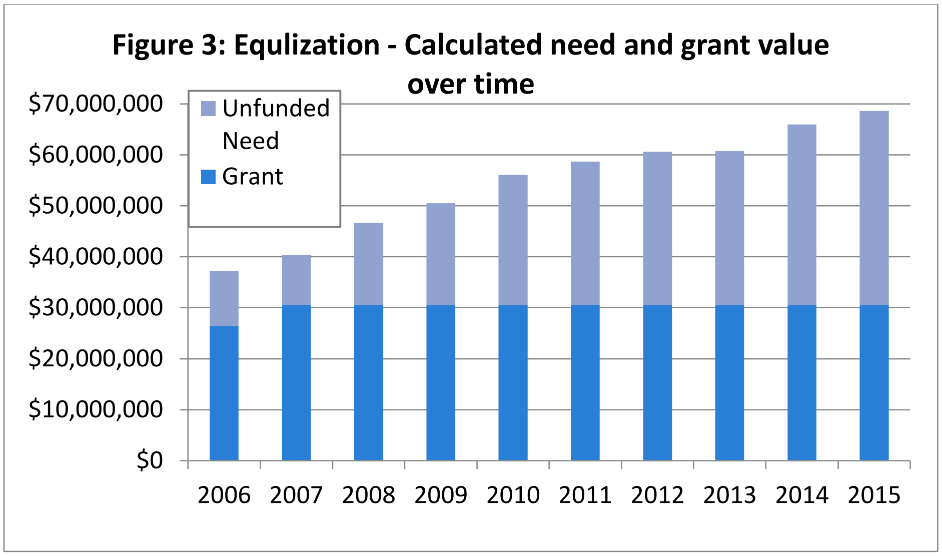
Currently, the value of the equalization grant is fixed and it has been for 9 years. In addition, the value of the grant does not match the “need” calculated by the formula (see Figure 2 and 3 below). Indeed, the estimated “need” of municipalities has grown every year for the past 9 years - at least - and the fixed value of the existing grant has never met this value. The grant also fails to reflect increasing municipal costs associated with significant new capital requirements as a result of federal and provincial regulation. As such, it lacks responsiveness to certain types of cost pressures. In fact, the formula is resistant to anything but the most significant changes in municipal circumstances.

On the other hand, the value of the gap between the “need” calculated by the existing formula and the equalization grant is entirely dependent on the inputs used in the equation. In fact, calculated entitlements can change wildly with even minor changes to the formula. For example, in 2014/15, if HRM were removed from the equalization calculation, the calculated need for all municipalities would drop from $68 million to around $25 million. In that scenario, the equalization grant would, in its current form, be over funded by $8 million (including the Town Foundation Grant).

Additionally, while the use of average expenditures to define the cost of standard services is expedient, this methodology only quantifies the average of what exists, rather than defining the minimum needed to provide core services. Additional work would be required to determine an acceptable minimum level of core services.

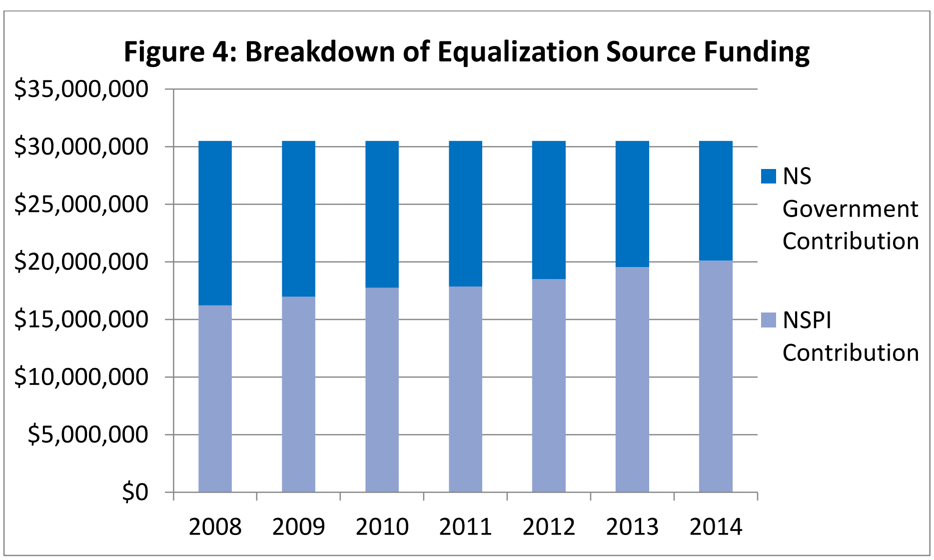
Figure 2: Equalization Funding Ratio - Grant Value as a % of Calculated Need





Increasingly Funded by NSPI Grant in lieu of taxes

Given that the equalization budget has remained unchanged over the last several years, and the budget is increasingly funded through the NSPI payment as it grows with CPI, equalization in Nova Scotia is increasingly being met by transfers from NSPI – municipal money – instead of transfers from the Province's general revenue (see Figure 4). This has led some to argue that the Province is shirking its commitment to the program, and instead simply redistributing a pot of money that belongs to municipalities to begin with. In particular, municipalities with large NSPI assets have taken issue with this arrangement, as these municipalities feel that they would get a better deal if the NSPI GIL was determined and distributed based on local commercial tax rates applied to the assessed value of NSPI assets within a municipality.



Current System in Nova Scotia

As explored in the attached Appendix, unconditional municipal operating and capital grants are often provided in other jurisdictions across Canada, but they vary considerably in complexity and purpose. The most simple are provided on a per capita basis, and do not contain any further redistributive components. Some operating grants are distributed using a measure of fiscal capacity or ability to pay, which provides funding for units with a lower tax capacity per capita. Nova Scotia's equalization formula is recognized as a best practice because it includes a measure of ability to pay as well as a measure of need that differentiates between discretionary and non-discretionary services. At the same time, while Nova Scotia's formula includes key concepts and is recognized as the best basis for a redistributive program, there has been much debate throughout the history of the program as to whether the current definitions represent the optimal approach. Furthermore, throughout the discussions of the working group, a number of questions have been raised regarding the actual achievement of the identified goals of the program, as identified above in the above section on Concerns with Equalization.

Equalization Models Considered and Rejected

In an effort to address some of the concerns and limitations with equalization that were explored above, a number of different equalization scenarios were examined by the Group. For example, some of the models that were developed looked at:

- funding equalization based on the full calculated need of municipalities;
- allocating funding based on county lines;
- introducing a resident-ability-to-pay component to the formula;
- increasing the number of classes from two to five;
- equalizing individuals directly through the income tax system;
- determining need for equalization funding based on the density of dwelling units per linear kilometer of road for each municipality;
- the status quo with HRM removed from calculation; and
- increased standard expenditures

Several of the models that were explored are explained in detail below.

Status Quo Fully Funded

The Status Quo fully funded model incorporates the same factors and calculation features as the existing equalization grant by assessing need based on standard expenditures, and corporate ability to pay based on uniform assessment. This model was reviewed because one of the most significant issues raised by municipalities is that the current formula calculates a basic funding need of more than $60M, while the grant budget is roughly half of that at $30.5M. If the calculation truly reflects actual need and ability to pay, then an additional $30M is required for local governments to provide reasonably comparable basic services at reasonably comparable levels of taxation.

In terms of whether this model is fair, it was an improvement over the status quo because it reduced the gap for municipalities with higher need and weaker fiscal capacity due to the fact that the grant would match the calculated need. However, this model does not address issues of fairness around resident ability to pay. Indeed, given the models limitations outlined above, this would exacerbate ability to pay issues by increasing the support given to any municipality that may be able to do more to help themselves.

A fully funded equalization grant would increases elasticity because the value of the grant would change with need. However, this model would increase the disincentive to amalgamate because the standard expenditure calculations vary significantly by class; differences that are amplified by the greater value of the grant. On the other hand, this model improves transparency by removing the prorating step, which reduces complexity, and there are no increases in administrative effort or changes in the ability to evaluate the success of the grant.

Status Quo + Roads

The Status Quo plus Roads Grant model keeps all features of the existing grant, except the towns foundation grant would be replaced with a roads grant. The roads grant would provide $5,000 per kilometre to all towns, including Region of Queens Municipality and Cape Breton Municipality. This model was examined to address the concern that towns are not receiving the same assistance with transportation services as rural municipalities[5].

This model does not improve equity as compared to the existing model because it maintains the use of core service need and ability to pay, and still does not address resident ability to pay. It also maintains the same level of fairness compared to the current model due to the fact that there is little opportunity for reporting decisions to impact calculations, along with their being some level of agreement on the definition of standard expenditures.

However, with a fixed pot of money, and with no measure of capital expenditures included within the model, this formula is not elastic. Therefore, the formula is still resistant to significant changes in funding. As well, one of the shortcomings of this model is that, like the last, it provides a greater disincentive to amalgamate. This is because as the town roads grant increases in value, it creates a greater difference between the amounts of equalization a town would receive if it were to merge with a rural municipality. In terms of transparency, it offers the same as the current model because there are no significant changes in complexity, administrative burden, or the ability to evaluate effectiveness of the grant.

Density + Standard Expenditures

The Density plus Standard Expenditures model incorporates the principles of measuring both need and corporate ability to pay as the existing grant, but changes the classification system. Density of communities, which is measured in number of dwelling units per kilometer of road, determines whether a dwelling unit is classed as a high or low service level. Community boundaries prepared by the provincial geomatics service are used to define community boundaries within rural and regional municipalities. A standard tax rate for each level of service is calculated and the rate applied to each community's uniform assessment to determine ability to pay. This model would also eliminate the town foundation grant so as to entirely remove classes from the grant calculation.

This model was examined because it improves the ability to accurately compare similar levels of service. For example, in the current formula a dwelling unit in Ecum Secum (rural HRM) is treated as though it is receiving the same service as in downtown Halifax, and a

[5] Road grant value would be netted against the standard expenditures of all recipient municipalities to reflect the increase in transportation assistance received by these units.

dwelling unit in Elmsdale (East Hants) is treated the same as a dwelling unit in Meat Cove (Victoria County). While this model does not change the standard services included in the calculation, it better attributes the types of services, and the associated costs, to the community level. Thus, it eliminates the disincentive to amalgamate, because the class of the municipality does not impact the modeling of the cost to provide service to the dwelling unit.

While this model is limited to core services, it does not address resident ability to pay. However fairness is increased with this model because using classification of need by density of community increases the ability to compare similar communities.

Similar to the previous model, there is no change in elasticity because the grant value is fixed, and it has no measure of capital expenditures included within the formula. The model is also structure neutral because the classification is done on the community level, so changes in municipal structure and title no longer impact the grant calculation. Lastly, transparency is reduced because including density of communities increases the complexity of the formula. In addition, obtaining data for the model requires additional resources from DMA and the Geomatics Centre, however, there should be no significant annual effort increase once the system is in place.

Status Quo + Resident Ability to Pay Model

The Status Quo with Resident Ability to Pay Model incorporates the same factors and calculation features as the existing equalization grant by assessing need based on standard expenditures, but calculates a resident ability to pay based on residential tax burden – to replace the corporate ability to pay. This model was reviewed because one of the shortcomings of the current formula is that it is possible that some municipalities with a relatively low tax burden could receive equalization payments. If the goal of equalization – to ensure Nova Scotians receive reasonably comparable basic services at reasonably comparable levels of taxation – then a resident ability to pay component is required.

In terms of whether this model is fair, the result is strongly dependent on the residential tax burden that is set as the threshold. Once a threshold is set, the calculation reverse-engineers a standardized rate for each municipality to achieve the burden. Regardless of the burden though, this system benefits those municipalities which are already doing a lot to help themselves, and it does so at the expense of those municipalities with lower tax rates and lower assessment values. On the other hand, this ability to pay system does benefit towns and regionals over rural municipalities, which, given the greater levels of services that urban municipalities are required to provide, was acceptable to the Group.

However, this model is weak for several reasons. While this model would increase elasticity for individual municipalities, with a fixed grant value, this model would be unable to improve elasticity for all municipalities, and it would likely decrease stability as it would be more sensitive to changing macroeconomic conditions. It also fails to address the disincentive to amalgamate – albeit there is no worse a disincentive than the status quo – because the system is still based on two classes. Additionally, this model reduces transparency by introducing a rate calculation component based on tax burden for each municipality – which increases complexity. There would also be significant – at least initially – increases in administrative effort to adopt this model.

Finally, the data necessary for calculating the residential tax burden – median household income – is only available at the county level for some municipalities, and only in census years. As such, it is entirely possible that the tax burdens of some jurisdictions are over or under-estimated because of the limitations of this important data-series.

Density + Ability to Pay Model

The Density plus Ability to Pay model incorporates the principles of measuring need as well as both corporate and resident ability-to-pay and changes the classification system. Similar to the model explored above, density of communities, which is measured in number of dwelling units per km of road, determines whether a dwelling unit is classed as a high or low service level. Community boundaries prepared by the provincial geomatics service are used to define community boundaries within rural and regional municipalities. A standard tax rate for each level of service is calculated and the rate applied to each community's uniform assessment to determine corporate ability to pay. Additionally, based on a common tax-effort threshold, a threshold-achieving rate is applied to the residential and commercial assessments of each municipality to establish whether additional revenue can be generated. Any additional revenue identified is then reduced by half and added to the anticipated revenue generated from the product of the UA and standard tax rate. The town foundation grant would also be eliminated so as to entirely remove classes from the grant calculation.

The outputs from this model strongly resemble the pure Resident Ability to Pay Model. In terms of whether this model is fair, the result is strongly dependent on the residential tax burden that is set as the threshold. However, regardless of the burden, this system benefits those municipalities which are already doing a lot to help themselves, and it does so at the expense of those municipalities with lower tax rates and lower uniform assessments. On the other hand, the ability to pay system generally benefits towns and regionals over rural municipalities; aligning the primary grant beneficiaries with the municipalities generally considered to be in the greatest need of assistance.

In principle, this model achieves everything that the equalization program should do. It considers the cost of delivering standard services, it considers corporate ability to pay, and it provides a mechanism for considering resident ability to pay; thus allowing for similar levels of core services at reasonably comparable levels of taxation. On the other hand, this model is rather complicated and would definitely reduce transparency in the calculations. There are also several administrative challenges around securing the necessary data to ensure that the calculation is reflective of the resident ability to pay in each municipality. Again, median household income data is only available at the county level for some municipalities, and only in census years, and there are significant challenges associated with collecting the data necessary to develop an accurate profile of municipal density.

County Based Equalization

The County Based model calculated need using one class of standard expenditures for all units, with HRM being excluded. Need was calculated similarly to the status quo model, while corporate ability to pay was based on the uniform assessment of the entire county. Equalization was calculated based on the difference between the ability to pay and the sum of the standard expenditures across the county. While this model compared both need and ability to pay, it considered all units effectively as regionals. The result was that largely rural counties received significant equalization transfers at the expense of more urban counties.

This model failed to improve the fairness properties of the status quo, instead making it more difficult to accurately calculate need for specific municipalities by treating all in the same way. It would however decrease the disincentive to amalgamation and increase stability because at the county level, nothing but the most significant changes in macroeconomic circumstances should sway the allocation of funds.

The biggest issue with this model however, is that it would require a secondary distribution mechanism to allocate equalization funds between municipalities within a county. And depending on the form that the distribution mechanism took, it could have significant impacts on issues of transparency, and administrative burden.

5 Classes

The 5 classes model was based on size and name (regional, rural, or town). For example, CBRM and HRM were grouped together, and the remaining municipalities were classified as small or large towns or rural municipalities. Similar to the status quo model, need was based on standard expenditures and corporate ability to pay was based on uniform assessment. This model was explored so as to better compare like municipalities with one-another.

This model proved to be stable and predictable; resistant to manipulation. In addition, it would not have presented an increase in administrative burden. However, the benefit that may have been created from greater homogeneity of classes was deemed insufficient to justify the significant shift away from the current distribution of equalization funds. Indeed, this model strongly benefited several municipalities at the expense of many others. Accordingly, it was determined to decrease the fairness of the program, while also doing nothing to address the disincentive to amalgamation. At the same time, by introducing three new classes, this model would decrease transparency.

Expanded Standard Expenditures

Finally, the Working Group explored an equalization formula that expanded the scope of standard expenditures. In addition to the current inclusion of expenditures for police and fire protection, transportation services (exclusive of transit), and fifty per cent of environmental services, the working group also explored including expenditures related to emergency management offices, amortization for accepted core services, and the remaining cost of environmental services. Other than these changes, the equalization formula was unaltered from the status quo scenario.

The primary result from this change was that the calculated need for municipalities roughly doubled to over $120 million. However, given the fixed value of the equalization grant, this model did little to change outcomes away from the status quo. In general, class 1 municipalities would receive an additional one per cent of the grant compared to the status quo, while class 2 municipalities received a little less money.

This model would not increase administrative burden, and it would improve transparency, as it would include a greater share of mandatory services provided by municipalities. And if the value of the grant matched the calculated need, this model would improve some aspects of fairness by supporting, to a greater degree, the fiscal capacity of the weakest municipalities. However, with a fixed value for the equalization grant, this model suffers from all of the shortcomings of the status quo model.

Reflection

As explored above, the Working Group studied many different scenarios and models in an attempt to address the identified issues with the existing equalization program. And while an extensive level of work went into developing options for alternative programs, there were several issues that could not be resolved:

- Data limitations - The group examined numerous alternatives to the inputs used in the current formula but in the end determined that all had data limitations that the working group were not comfortable with. Data limitations included the ease of collecting and compiling new data into a usable format, as well as the availability of reliable, relevant, and timely data.
- Unintended impacts - New calculations imposed on the equalization formula often resulted in significant changes to the mix of municipalities that received funding. In the end, the Working Group felt that in all cases, the resulting redistribution of funds were not justifiable when compared to the status quo.

Notwithstanding the data limitations and the unintended impact issues, the Group largely felt that the *density and ability to pay model* was, in principle, the model that most reflected the stated goals of the Equalization Program. However, the data limitations and the administrative burden of the model are, at this time, too significant to overcome. As such, the group is recommending that the Equalization Program be frozen for three years, while DMA engages their colleagues in other departments to get access to the necessary information required to re-design the equalization program.

Other Grant Programs Considered

Expand NSPI Grant to meet rate times assessment values

Currently, the NSPI Grant in Lieu of Taxes is valued at $11.6M in total and the grant is allocated to municipalities with NSPI assets based on the value of those assets. Under the principle that municipalities should be compensated for the services they provide, the Working Group explored the option of expanding the value of the grant to match the value of the product of a standardized commercial tax rate and the assessment values of NSPI assets currently on the assessment rolls. This would result in the grant increasing in value to around $22M. The result of such an adjustment would be that the 47 municipalities that currently receive the NSPI grant would receive larger grants. In particular, Victoria, Trenton, HRM, CBRM, and Annapolis Royal would be the largest beneficiaries.

Expanding the NSPI Grant in this way was determined to improve the current grant program in terms of fairness, stability and elasticity. While the introduction of the calculation of a standardized commercial rate convolutes transparency, it was felt that this complication is offset by the fact that municipalities will now receive a grant that is elastic and predictable, growing with the value of the assets, and fair, as the grant will now mimic the taxes paid by other, similarly valued commercial properties around the Province.

One important caveat attached to this recommendation is that this in no way is intended to modify the Payment in Lieu of Taxes that NSPI makes to the provincial government. Indeed, NSPI will continue to make payments to the Province as per existing legislation. Furthermore, at no time should the value of this grant exceed the value of the PILT that NSPI makes to the Province.

This proposal is recommended by the Working Group.

Roads Grant for Arterial and Collectors

Towns are currently responsible for maintaining about 250 km of Provincial roads – arterial and collectors – that fall within their boundaries, at significant cost. Acknowledging that these roads have value to both the towns and the Province generally, the Working Group explored a roads grant to help defray some of the servicing costs of maintaining these roads. The grant was calculated based on half of the cost TIR maintaining the arterials and collectors in each town, assuming a rate of about $7,700 per kilometer.

This grant would be valued at around $1 million and all towns would receive some funding. This grant would act to improve fairness with respect to the way in which the Province treats towns and rural municipalities on the issue of roads. Additionally, this grant is fairly simple in terms of calculation, and is, as such, transparent. This grant would also be predictable, and stable.

This proposal is recommended by the Working Group.

Commercial-to-Residential Tax Ratio Reduction Grant

The Working Group felt that the issue of high commercial tax rates, relative to residential rates, was an issue that should be explored through a grant option. As such, a grant that would target municipalities with a significant (greater than 3) ratio of commercial tax rates to residential rates was explored. Under this program, municipalities could apply to the Province for temporary (no longer than three years) financial assistance while they worked to reduce their ratio of commercial tax rates relative to their residential rates.

This program was deemed to be relatively complex, and as such, it was not transparent. Additionally, the Working Group felt that a program of this nature was simply an attempt to treat the symptoms of a more complex issue, and given all the complexity involved, the program would likely be subject to "gaming".

This proposal is not recommended at this time. The Working Group felt that there were better ways to address commercial tax issues, such as through an expansion of tax powers under the MGA.

Standardized Fire Protection Grant

The Working group also explored a rationalization of the Fire Protection Grant. Currently the rate that the Province pays to municipalities for fire protection is varied and arbitrary; failing to reflect the actual cost of delivering fire services to a municipality. To address this issue, a fire protection rate for each municipality was derived, and applied to the Provincial PILT exempt properties in each jurisdiction. The end result varied from municipality to municipality, with some receiving more money and some receiving less, but on net, the grant would increase in value by around $1.6 million.

While it was acknowledged that basing fire rates on the cost of the provision of fire services to a property made sense from a policy perspective, while also increasing transparency and fairness of this grant program, the group felt that this adjustment did not go far enough. It was felt that as an alternative, the group would like to explore simply expanding the Provincial PILT grant to cover all Provincial properties that are currently exempt.

This proposal is not recommended at this time.

Full PILT

The Province currently provides a Grant in Lieu of Taxes (GIL) to municipalities for certain properties within their jurisdictions. However not all properties are covered under this grant; in fact, many properties, including universities and hospitals are exempt, and no GIL is provided for those properties outside of the fire protection grant.

The working group felt that the Province should make GIL payment for all Provincial properties. As such, they explored the situation where the Province cancelled the fire protection grant and instead, made a GIL on all Provincial properties. This change would have resulted in the Provincial GIL program increasing by $19 million on net, with $14 million being funneled into the HRM.

Upon review of this program option, the Working Group felt that there is validity in further evaluation of the rationale for exempting certain properties from the PILT and expanding the Provincial GIL Program in this way. It was acknowledged that this move would likely increase transparency and fairness. However, it was also acknowledged that this would be an expensive program modification, and it would do little to support the long term viability of most municipalities.

This proposal is not recommended at this time.

Expanded PCAP

The Group acknowledged that there is a serious need to develop an Asset Management Program to track the state of existing assets and prioritize replacement and new-build requirements for capital projects. At the same time, there was agreement around the table that a greater degree of assistance from the Province for addressing infrastructure needs, and in particular, the infrastructure deficit faced by municipalities is necessary.

Given the application based nature of PCAP, it was not possible to model the results of expanding the program, but there was a consensus among the Group that using PCAP funds to develop an Asset Management program, and improve funding for infrastructure projects was a sound policy. There was also agreement that with an expansion of PCAP should come a longer list of eligible projects, including roads.

This proposal is recommended by the Working Group. Specifically, the Group felt that this PCAP expansion should be funded with the most of the remaining NSPI PILT money that is not currently allocated to municipalities with NSPI assets. This would total about $14.2 million.

Eliminate HST Offset Program

There was broad acknowledgement from the group unconditional operating grants were appreciated, but that the HST Offset Program did not support the objectives of the new grants suite that the Working Group wanted to advance. The Group felt that the money would be better used if it were allocated to another program that was geared towards capital investment, specifically, PCAP.

This proposal is recommended by the Working Group.

Town Mainstreet and Façade Improvement Grant

The Towns Task Force, a joint provincial-municipal initiative, recommended establishing a Mainstreet Program and a Façade program to provide municipalities with the means to assist businesses on main streets with small construction work. The goal of the program would be to support the development of attractive, distinctive and visitor-friendly downtowns and main streets. The total suggested funding of $1.5M would be distributed to municipalities or business improvement associations through an annual application process.

As a Towns Task Force recommendations requiring funding from the Department of Municipal Affairs, this grant was considered by the Working Group in relation to other funding requests. While the group acknowledges the potential benefit to municipalities, this program does not address the priorities of long term viability, expenditure pressures or municipalities' infrastructure needs.

This proposal is not recommended at this time.

Municipal Capacity Building

Finally, the Working Group was of the mind that additional resources were necessary to ensure that municipalities are able to address human resources capacity issues, as well as to support some of the structure recommendations that are being advanced by this group. As such, there was a consensus that the Province should develop a suite of programs dedicated to:

- Promoting innovation – ideally through an innovation fund,
- Supporting capacity building activities – such as through the Municipal Internship Program or other training programs, and
- Funding comprehensive municipal viability reviews.

To fund these activities, the Working Group feels the Province should take $1.5 million from the NSPI PILT, and add it to the $250,000 that is currently budgeted for municipal capacity building programs to create a robust, $1.75 million suite of programs.

This proposal is recommended by the Working Group.

Reflection

In total, the new and modified programs being advanced by the Working Group will require $21.1 million in new provincial spending. The Changes are summarized below in Table 1.

Grants Summary - All figures are in millions			
Grant/Program	**2013/14 Value**	**Proposed Value**	**Change**
HST Offset	$6	$0	- $6
NSPI GIL	$11.6	$22	$10.4
Arterials and Collectors Grant	$0	$1	$1
Provincial Capital Assistance Program	$3.75	$17.9	$14.2
Innovation/Capacity Grant	$0.25	$1.75	$1.5
NSPI Payment - Contribution to Equalization	$20.1	$0	- $20.1
Provincial Funding for Equalization	$10.4	$30.5	$20.1
SUM	**$ 41.65**	**$62.74**	**$21.1**
New Spending From Provincial Government (Budget Ask) - $21.1 Million			

RECOMMENDATIONS

Recommendation 16 – The group recognizes that the fundamental purpose of equalization still stands. However, there are identified issues with the equalization grant in its current form. Specifically, it discourages restructuring and does not always allocate funds to municipalities with the greatest need, as identified by other financial measures. As such, it is recommended that the equalization program be frozen at the 2014 levels to allow time for an alternative equalization grant to be developed based on improved data (such as reliable density measures to address the restructuring issue and household income figures to support an ability-to-pay-measure in the program). As well, consideration should be given to the standard service levels used to determine the municipal need. The improved operating grant, to start in 2018, will better addresses the needs of municipalities, and encourages the outcomes necessary for ensuring Nova Scotia's municipalities remain viable. Similarly, the Towns Foundation Grant would be frozen at its current distribution, regardless of structural change, and then be re-examined as part of the improved operating grant structure.

Recommendation 17 - Noting concerns over CBRM's viability, and noting that many options for improved viability available to most of the other municipalities in Nova Scotia (such as shared servicing, structural changes, etc.) are not realistic options for CBRM, it is recommended that the municipality and the Province conduct an immediate joint review to assess the viability issues facing CBRM. This review will make recommendations on how to best address the specific issues facing CBRM, including recommendations on appropriate provincial grants for the municipality.

Recommendation 18 – During the freeze period, the $30 million funded through equalization will be funded by the province.

Recommendation 19 – The NSPI Grant should be calculated based on rate times assessment for host municipalities, where one standard rate is determined for the entire Province. This recommendation will not impact the payment that NSPI makes to the Province. Indeed, NSPI will continue to make payments as per existing legislation, this recommendation only impacts how those monies are allocated among municipalities. Additionally, at no time will the value of this grant exceed the value of the PILT that NSPI makes to the Province.

Recommendation 20 – The Province will eliminate the HST offset program, as there is no sound policy rational for the program.

Recommendation 21 – The Province will create a program/suite of programs dedicated to promoting innovation and capacity building activities for municipalities, including the comprehensive municipal reviews recommended by this committee. To fund these activities, the Province should allocate $1.5 million from the NSPI PILT to the $250,000 that is currently budgeted for municipal capacity building programs.

Recommendation 22 – PCAP should be expanded by $14.2 Million – the remaining NSPI PILT monies – and the PCAP program should be broadened to include roads and other capital projects deemed critical by municipalities. It is intended that in the initial years of this program expansion, some monies should be used to develop an Asset Management Program for all municipalities outside the HRM[6].

Recommendation 23 - The Province will provide a provincial grant for arterial and collector roads (once a comprehensive inventory is developed). The grant will be allocated at a rate of $9,000 per kilometer of arterial and collector roads within a municipality's boundaries (this is approximately the difference between the average maintenance costs that towns pay for roads and TIR's cost).

[6] HRM is exempt because they have already invested in developing their own.

APPENDIX 1

JURISDICTIONAL SCAN

All Canadian jurisdictions provide some level of grant support to their municipalities; however the nature of these supports varies from province to province and territory to territory. For example, some jurisdictions, such as Nova Scotia, PEI, and Ontario offer, equalization programs to ensure that all municipalities within their respective jurisdictions are able to provide a core set of services at reasonably comparable levels of taxation. Meanwhile Saskatchewan and Manitoba maintain revenue sharing grants programs, where percentage of provincial sales tax revenue is allocated among its municipalities. An exploration of several different grants programs is provided below.

Ontario

The Province of Ontario offers a suite of grants to its municipalities under the Ontario Municipal Partnership Fund (OMPF), which has been redesigned for 2014. The OMPF is the Province's main transfer payment to municipalities and this year, it will provide a total of $550 million in unconditional funding to 388 municipalities across the province.

Two of the objectives of the OMPF are to:

- Support areas with limited property assessment; and
- Recognize the challenges of northern and rural municipalities, while targeting funding to those with more challenging fiscal circumstances.

To achieve these objectives, the Province has made four separate grants available under the fund. These grants include:

The Assessment Equalization Grant ($149M) - Intended to provide funding to those municipalities with limited property assessment resulting from lower property values and limited non-residential assessment. The grant amount is determined by calculating a total assessment differential (the total municipal assessment below the median per-household threshold of $245,000), and applying a $39.6 correction per $10,000 in total assessment differential.

Northern Communities Grant ($79M) - Allocated exclusively to northern communities. The grant is allocated on a per-household basis at a rate of $215 for each household in the community.

Rural Communities Grant ($138M) - Provides funding to rural municipalities. This grant provides highly rural municipalities with a per-household grant that scales with the degree of rurality of the municipality. For example, any municipality that measures 75% or higher on the Rural and Small Communities Measure (RSCM) will receive the full per-household grant amount of $135. Any municipality with a RSCM of 25% or less is ineligible for the grant. For those municipalities with an RSCM of greater than 25% but less than 75%, they receive a discrete percentage of the grant according to the formula: every 5 additional percentage points on the RSCM results in an additional 10% of the full value of the grant.

For example, a community that scores 35% on the RSCM would receive a grant valued at $27 per household, while another town that scored 50% on the RSCM would receive $68.5 per household.

Northern and Rural Fiscal Circumstances Grant ($50M) - Provides additional, targeted funding to northern and rural municipalities based on their individual municipal fiscal circumstances. This new grant for 2014 is provided to municipalities eligible for funding through the Northern Communities and/or Rural Communities Grants. In addition to the fixed per-household amounts provided through those grants, this new grant provides targeted support in recognition of the fact that not all northern and rural municipalities have the same fiscal circumstances.

The Northern and Rural Fiscal Circumstances Grant provides targeted funding to eligible municipalities based on their relative fiscal circumstances, as measured by the northern and rural Municipal Fiscal Circumstances Index; a tool that was developed in 2012. The grant is valued at 45$ per household and is allocated to municipalities in increments of 20%, from 0% - 200% ($0 - $90) depending on how a municipality scores on the northern and rural MFCI.

Saskatchewan

The Province of Saskatchewan offers a Municipal Revenue Sharing grants program. In 2014-15, the grants program will be valued at about $257 million (equivalent to 1 point of 2012-13 PST revenue) for urban, rural and northern communities. Of the $ 257 million, $123.2 million is allocated to the cities, $42 million to towns, villages and resort villages, $72.6 million to rural municipalities and $19.2 million to northern communities.

The grant values are determined as follows:

- Cities receive $206.83 per capita based on the 2011 census populations.
- Towns, Villages and Resort Villages receive a base amount of $2,025, plus $216.91 per capita based on the 2011 census populations.
- Rural Municipalities receive unconditional grants based on a formula that takes into consideration transportation and roads related data, as well as a per capita component, with the former more heavily weighted than the latter. Additionally, Organized Hamlets are funded (funding flows to their responsible rural municipality) at a rate of 60% of that provided to Towns, Villages and Resort Villages.

Alberta

Alberta offers two grants programs under the title of Municipal Sustainability Initiative (MSI), one is focused on capital projects, and the other is focused on operating needs. In 2013/14, the MSI – Capital program has a budget allocation of $846M, and the MSI – Operating program was valued at $50M. In both cases, the programs are available to all municipalities in Alberta, Métis Settlements, and the Townsite of Redwood Meadows Administration Society. To receive capital and operating funds, a project application or a single operating spending plan (respectively) is required and must be approved by the Minister of Municipal Affairs.

British Columbia

The Government of BC provides two different unconditional grants programs to its municipalities. Under the Small Community Grant, municipalities with populations under about 19,000 people receive grants based on a formula that that is built around a base amount, population, and assessment values. The intent of the grant is to assist small municipalities provide basic services at reasonable cost to taxpayers. The other grant is the Regional District Basic Grant. This is an unconditional grant to regional districts to assist with administration costs. The scale of the grant is based on regional district population in 50,000 resident increments; beginning at $120,000 for regional districts with up to 50,000 residents, and phasing out at 250,000 residents. Each regional district receives an additional $5,000 for each local community commission within the regional district.

Manitoba

The Government of Manitoba maintains a grants program called the Building Manitoba Fund (BMF), which is based on a tax sharing program, allowing municipalities to benefit from a share of provincial tax revenues that grow with the economy. The value of the BMF fluctuates from year to year, but it is set in legislation to be the greater of one-seventh of provincial sales tax revenues (1 point of net sales taxes) or 4.15% of provincial personal and corporate income tax estimates for the year, as well as 2 cents per litre and 1 cent per litre of gasoline and diesel fuel tax estimates (respectively) for the year.

In the 2014/15 fiscal year, the fund is valued at $313 million, and this money is used to support different infrastructure projects such as roads, bridges, water and wastewater, and recreational facilities, among other things. As well, the fund offers support, both capital and operating, for regular and mobility disadvantaged transit systems around the Province. Through this fund, the Province of Manitoba separates out Winnipeg from the other municipalities in the Province, with roughly two-thirds of the funding earmarked for Winnipeg.

Provincial-Municipal Fiscal Review

Revenue Options Review

Options Paper

14

Table of Contents

Opportunities to Improve Revenue Systems

Given the current financial and demographic pressures facing municipalities, an examination of new or alternative sources of revenue for municipal services is needed, if services are to be maintained. While an increase in revenue would help address current expenditure pressures, it must be balanced with the acknowledgement that additional revenues must come from somewhere. Calling for access to new tax bases or additional revenue from the Province will ultimately increase the taxes paid by Nova Scotians.

The benefit of creating a new revenue source for municipalities must outweigh the negative impact associated with the change. Careful consideration must be given to whether the additional revenue represents an improvement on the current arrangement for funding municipal services. This section of the report discusses revenue options. To enable a more thorough review of potential revenue options, a set of standard tax policy criteria were established.

Evaluation Criteria for Municipal Revenue Sources	
Vertical Equity	The tax burden is shared among citizens based on wealth. A tax that has good vertical equity means those with low incomes pay a smaller percentage of their income in tax than those with higher incomes. This criteria is also known as ability to pay, and tax regimes that have good vertical equity are referred to as progressive.
Horizontal Equity	People who have the same ability to pay should pay the same amount for equal services and there is minimal arbitrary tax rate variation.
Economic Efficiency	The tax does not greatly distort economic decisions. If a tax is economically inefficient that means that people change their behavior to avoid paying the tax.
Accountability	The tax is simple and transparent enough for taxpayers to understand. It also means that the body that spends the revenue should also be collecting it so that they are accountable for its use.
Adequacy & Elasticity	The tax base is big enough to pay for the services needed, and that the base grows with the economy so the rate does not need big adjustments.
Stability	That the tax base does not change unpredictably so that governments can forecast revenues, and taxpayers can predict their tax bills
Administrative Burden	The tax is not overly complex or costly to collect.

(Source: Mikesell, 1982; Rickards & Maeta, 1992)

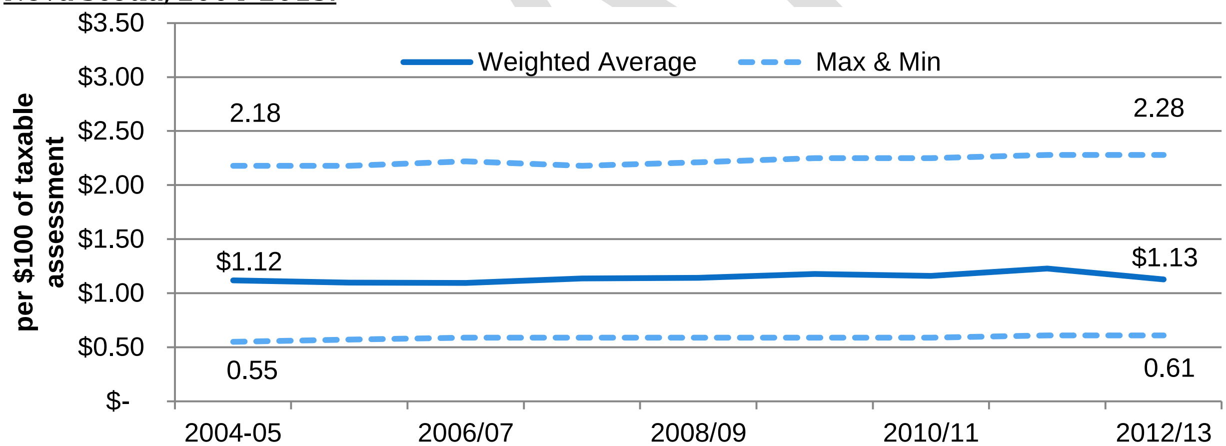
Municipal Revenue Options

Property Tax

Property tax is the largest source of revenue for Canadian municipalities, representing approximately 80% of total municipal revenue in Nova Scotia. In general, municipalities determine the amount of funds required to provide services to citizens, and then establish the necessary tax rate(s) required to raise those funds based on their market-based property assessment rolls. Market-based property assessments are used to allocate the cost of municipal services, such that residents of higher valued properties pay a larger share of the taxes.

In comparison with other tax bases such as sales or income, the property tax is stable, making it relatively easy for municipalities to plan for balanced budgets without dramatic changes in tax rates (see figure 1 below). In addition, the property tax generally provides consistent growth; on average taxable assessment has grown by an average of 5.8% a year while property tax revenues in Nova Scotia have been growing by 5.3% percent annually. The tax is also considered to be difficult to evade and the annual setting of the budget and the tax rate is highly transparent.

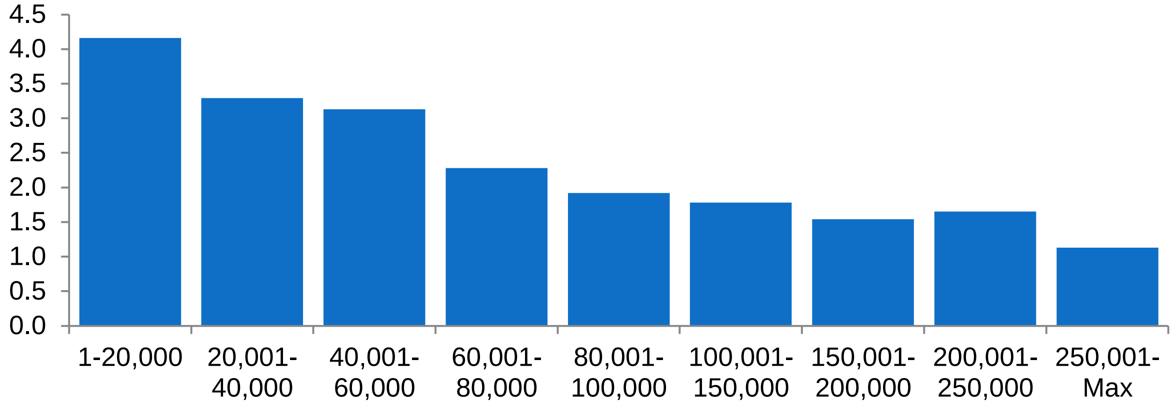
Figure 1: Average Residential Property Tax Rate, Weighted by Residential Assessment, Nova Scotia, 2004-2013.



There is however, considerable debate about whether the property tax is an equitable way to collect municipal government revenue. It is traditionally assumed individuals with higher incomes own more expensive homes, and therefore the assessment value works as a proxy for ability to pay. Some argue that over time the relationship between home values and ability to pay has diminished. Property tax is generally considered to be more regressive than income tax.

There is some empirical support for this claim: When property tax is expressed as a percentage of household income, the share of taxes paid decreases as income increases (see 2).

Figure 2: Property taxes as a percentage of household income, Nova Scotia 2012.



There are few factors that should be noted about this regressive pattern. First, households tend to spend a decreasing proportion of their total income as household income rises: wealthier households can afford to save a bigger share of their income, meaning less of it is consumed on necessities like food, clothing and shelter. As a result, a smaller share of income goes towards sales and property taxes as income rises. This pattern of consumer behaviour contributes to regressive elements of the property tax.

The second factor has to do with changing income over a lifetime. On average a person's income rises through the working years, peaking just before retirement, followed by a lower income in during retirement. Housing decisions do not fluctuate year to year: households generally buy property based on what they expect to be able to pay for, so property values more closely reflect total earnings over a lifetime rather than a single year of income. As a result, some economists argue that it is not appropriate to measure the regressivity of property taxes by comparing them to a single year of income.

Property taxes in Nova Scotia are below the national average, in absolute terms and as a percentage of household income, as seen in Residential property taxes do not currently provide a disincentive to residing in Nova Scotia, relative to the rest of Canada.

Lastly, property taxes should be situated within the context of total taxes collected. In Nova Scotia, fewer than 12% off all government taxes are collected by local governments[1]. The income tax is the largest tax and is designed to be progressive by having marginal tax rates that increase with income. Statistics Canada has found that the progressivity of income tax largely offsets the regressivity of property tax[2]. Taken as a whole, the burden of all taxes (collected by municipalities and the province) tends to be flat across income levels in Nova Scotia (see Figure 4).

[1] Statistics Canada. Table 385-0032 - Government finance statistics, statement of government operations and balance sheet, annual (dollars)

[2] "Property taxes", Statistics Canada, Catalogue No. 75-001-XPE. The authors found that after tax income inequality increases inequality 1.9 per cent because of property taxes and decreases 11.3 per cent because of income taxes.

Figure 3: Residential Property Tax Burden. Canada, 2012.

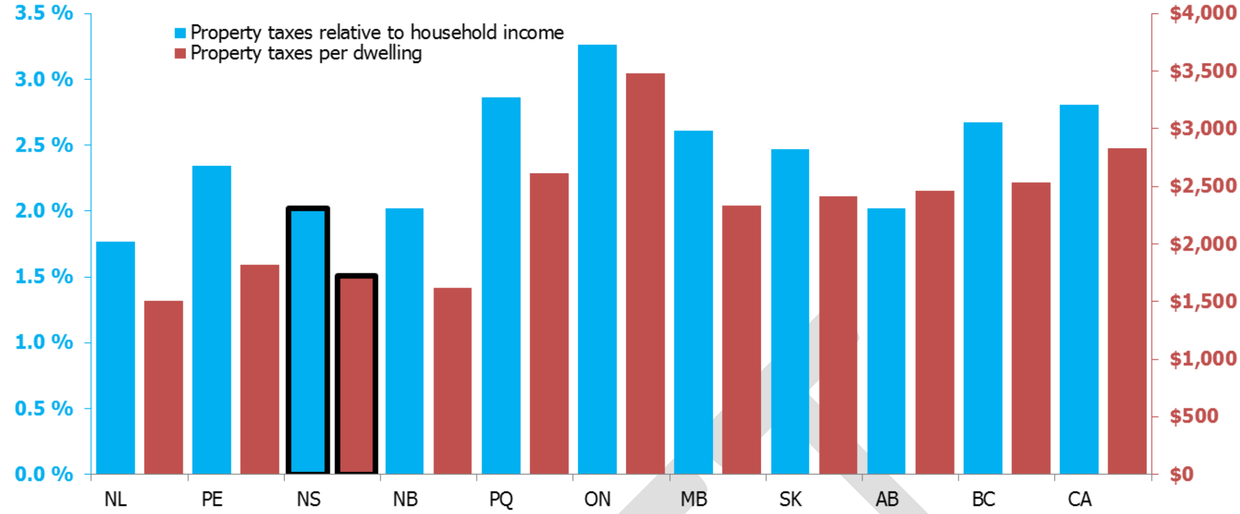
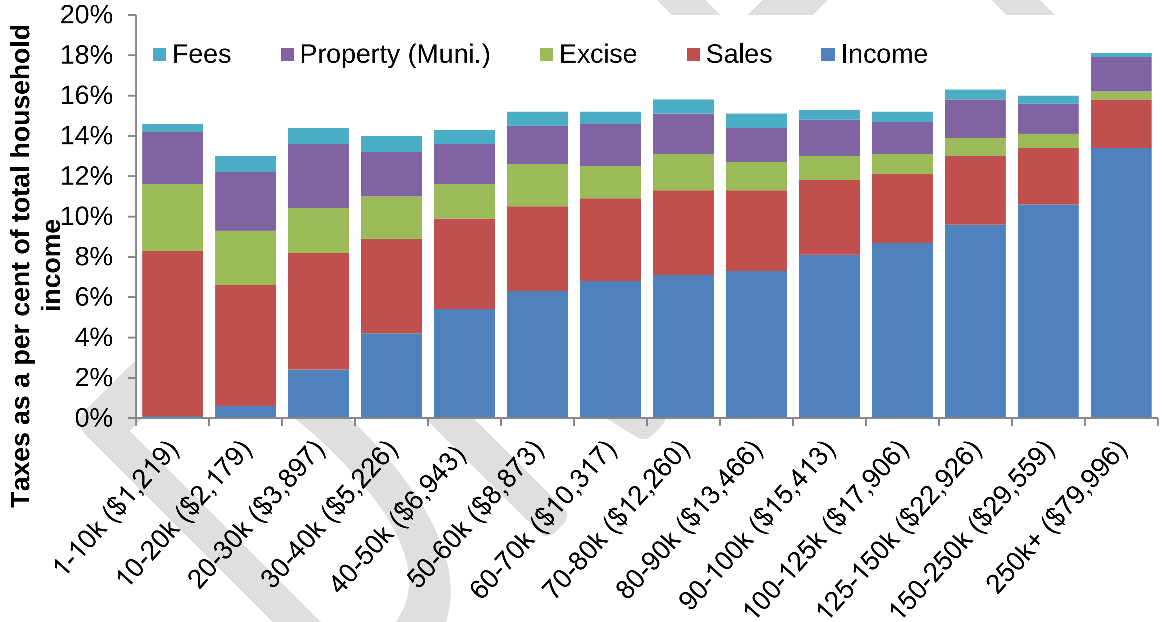


Figure 4: Provincial and municipal taxes relative to household income, by household income range. Nova Scotia, 2012.



Complicating matters somewhat, Nova Scotia has a Capped Assessment Program (CAP) in place, which limits increases on taxable residential assessment to inflation. A key feature of the CAP is that it makes property assessments more predictable for eligible residential taxpayers. Not all property is eligible for the CAP. For example, it does not apply to:

- new properties;
- properties sold in the assessment year;
- apartment properties with four or more units;
- properties owned by non-residents; or
- commercial properties.

The CAP program came about in response to complaints from some homeowners in high growth residential areas who were experience substantial increases in the assessed value of their property. The objective of the program was to ensure that no one would ever be displaced from their home as a result of substantial fluctuations in their tax bill.

Some municipalities have attempted to respond to complaints about these inequalities on their own, with property tax relief for low income households. Under sections 69 and 70 of the *Municipal Government Act*, municipalities in Nova Scotia have the authority to implement tax relief and tax deferral programs including rebates on property taxes, deferrals of payment or flexible payment options. The design of these programs is left to the discretion of each municipality. In 2011, SNSMR conducted a Low Income Property Tax Relief survey of all municipalities in the province. Out of the 29 municipalities that responded, 27 offer a low income tax relief program. The average low income threshold was $17,830 and the average exemption was $184.

Despite these municipal efforts, a review completed in 2011 determined that the CAP was a priority for the government of the day and it is still in place. Accordingly, Nova Scotia's property tax system must be evaluated with this in mind given the different distortions the CAP introduces into the property tax system.

Based on the discussion above about the relatively weak link between income sand house values, property taxes in general do not perform well along the measure of vertical equity. This situation is further exacerbated by the CAP system which shifts the tax burden from high value properties that have been capped for a number of years, to other properties such as those that have recently undergone a sale, a renovation, or multiple-unit apartment buildings. As such, the CAP program disproportionately protects taxpayers in high-valued properties and further weakens the link between income and property tax bills.

Because the CAP can change the tax base for houses with similar services and market values, it decreases the equity of the property tax system in Nova Scotia. As a result, properties on the same street with similar values can often end up paying different tax bills if one of the homes has been capped for a number of years, and as the difference between market values and capped values increase, the inequities increase. Given these considerations, the CAP significantly hampers the horizontal equity of Nova Scotia's property tax system.

On the other hand, because property taxes are difficult to evade and can be specifically applied based on where a taxpayer resides, property taxes, tend to be considered economically efficient. This measure is warped somewhat by the CAP, which, over time, may come to influence the decisions of homeowners to purchase or renovate a home, because the program shifts taxes onto these types of properties. Currently however, broader macroeconomic and demographic trends appear to have a stronger influence on housing decisions in Nova Scotia.

Property taxes also promote accountability, as they are highly visible, often appearing biannually in the mail boxes of many residents, allowing them to be closely scrutinized. Furthermore, because council sets the tax rates, there is a direct line of accountability between the voter, and those collecting the taxes.

Additionally, as explored above, growth in taxable residential assessment has allowed revenues to increase as the economy has grown, while property tax rates have remained stable. Furthermore, the ability to set property tax rates locally provides an elastic source of revenue. This, the system is adequate and elastic. It is also stable, both for municipalities at large, and with the CAP program in place, taxpayers as well.

Finally, in Nova Scotia, the Property Valuation Services Corporation (PVSC) is responsible for determining the assessment rolls for Nova Scotia's municipalities. The PVSC annually provides each municipality with an assessment roll containing the market and taxable (capped) value of all property in their boundaries; municipalities then use the information to set a tax rate, based on the cost of providing services. In PVSC's total expenses for 2013 were $17.5 million, resulting in per-account costs of $29.32 in 2012-13. This falls well below the national average of $35.26 per-account, indicating relatively good value-for-money and an acceptable level of administrative burden.

Given these features of the property tax, it is clear that there are benefits to the current method of funding municipal services, however, it is far from a perfect system, and as a result there may be other options which could more equitably fund municipal services. To determine if change was warranted, a series of revenue options were identified and reviewed against the criteria to assess whether they provided an improvement over the current reliance on property tax.

The evaluation of property tax along the standard tax criteria is shown on the following page.

Evaluation Criteria: Property Tax

Vertical Equity	☒ High income households pay a lower percentage of their income in property taxes, as compared with low income households. But housing decisions reflect expected lifetime income more so than income in a given year. Low Income Property Tax Relief programs can increase progressivity. Property tax is more regressive than provincial income tax (because of marginal rates) but less regressive than sales tax.
Horizontal Equity	☒ Council's ability to set rates based on individual communities offers better horizontal equity than a province-wide set of municipal rates (e.g. income or sales), but the residential CAP introduces a growing degree of arbitrary variation into household tax burden.
Economic Efficiency	☑ Property taxes are difficult to evade and can be applied specifically to the services provided to a given area.
Accountability	☑ Residential property tax is highly visible (less often charged at source than income or sales tax), which leads to increased scrutiny. Council's responsibility to set rates allows for a direct line of accountability between residents and those setting tax policy and spending priorities.
Adequacy & Elasticity	☑Growth in taxable residential assessment has allowed revenues to increase with growth in the economy, while property tax rates have remained stable. The ability to set property tax rates locally provides an elastic source of revenue.
Stability	☑ Residential assessment provides a stable source of municipal revenue. The residential CAP prevents large fluctuations in tax bills for some homeowners.
Administrative Burden	☑ The costs of assessment, per account, are below the national average.

Municipal Income Tax

As with previous provincial-municipal reviews, the merits of a municipal income tax were discussed. While no Canadian province provides access to the income tax base to its municipalities, the issue has been gaining more attention in Nova Scotia recently, thanks in part to reports by the Canadian Centre for Policy Alternatives (CCPA), the Atlantic Institute for Market Studies (AIMS) and the Nova Scotia Chamber of Commerce.

The central criticism put forth by these groups is that property tax is regressive. Progressivity is a measure of fairness, whereby a household tax burden is related to their ability to pay. To be considered a progressive tax system, the percentage of taxes paid as a share of income must increase with income. The income tax system in Canada achieves progressivity by increasing the marginal tax rates at higher income brackets.

The fiscal review committee, in conjunction with the Department of Finance, examined how the effects if residential property tax was replaced with a municipal income tax.

<u>Legislative Constraints of Collecting a Municipal Income Tax</u>

In 2012, the CCPA, AIMS and Nova Scotia Chamber of Commerce put forth various proposals to collect a municipal income tax. AIMs and the NS Chamber of Commerce would like to see property tax completely replaced by income tax and fees. CCPA propose that municipalities could continue to collect property tax, with additional revenues coming from income tax.

The Federal Government collects personal income taxes under the Canada-Nova Scotia Tax Collection Agreement on the Province's behalf. To pursue these proposals the Provincial Government would need to negotiate additional flexibility into this agreement with Federal and Provincial Government.

Currently however, the Province can collect additional income taxes. This could occur through an increase in marginal tax rates or surtax on provincial taxes. These additional revenues could then be distributed back to municipalities as transfers. The most transparent collection of taxes would be to introduce a surtax computed on provincial taxes[3]. These additional revenues would then be transferred back to municipalities through a grant program. The mechanism for transferring revenues back to municipalities could take several forms:

1. Pure attribution, which would attribute revenues to the residence of the taxpayer.
2. An equalized transfer, which would provide a dollar amount per dwelling amount to each municipality. This could also be formulaic based on an equal per dwelling

[3] The analysis of the surtax assumes the surtax is applied to gross provincial taxes. The net revenues then are affected by individual's non-refundable credits. A surtax could also be applied to net provincial income taxes so that non-refundable credits do not affect the surtax revenues.

amount and adjusted for differences in municipal government's costs or ability to collect revenues.

3. A hybrid of the two approaches could attribute a portion of the revenues to the place of residence, and a transfer a portion based on an equalized transfer

<u>Replacing Residential Property Tax with a Municipal Income Surtax</u>

The Department of Finance prepared a model to examine the impact of replacing residential property tax revenue with a municipal income tax. Using simulated personal income tax records from 2013 consistent with Provincial 2013-2014 budgeting assumptions they estimated the change in personal income tax rates that would be required to replace the estimated $702m in residential property taxes collected in 2012-2013 by municipal governments.

Replacing $702m residential property taxes would require the collection of a 28.7 per cent provincial surtax. Figure 2 indicates what the marginal tax rates would be after the application of this surtax.

<u>Figure 2: Personal income tax marginal rates under a 28.7 per cent surtax</u>

	Tax Rate	New Tax Rate	Percentage change
First Bracket ($0-$29,590)	8.79%	11.31%	2.52%
Second Bracket ($29,591-$59,180)	15.0%	19.24%	4.29%
Third Bracket ($59,181-$93,000)	16.7%	21.45%	4.78%
Fourth Bracket ($93,001-$150,000)	17.5%	22.52%	5.02%
Fifth Bracket (over $150,000)	21.0%	27.03%	6.03%

Marginal income tax rates in Nova Scotia are already among the highest in Canada. A 28.7 per cent increase would create a disparity in rates between Nova Scotia and the rest of the country, as seen in Figure 3 below.

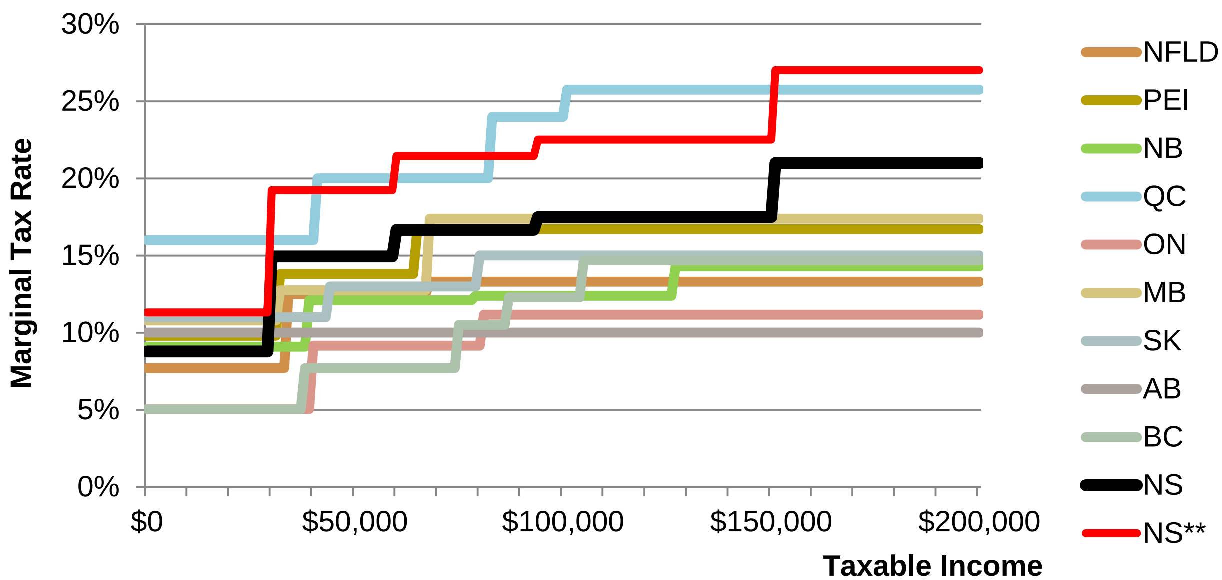
The change from property taxes to income taxes under a pure attribution mechanism would result in several forms of redistribution. Below are some of the major shifts anticipated as a result of a 28.7% surtax:

<u>Redistribution at the Household Level</u>

To examine the implications at a household level, the change in tax burden for two sample streets, one in Halifax County and one in Inverness County, was calculated. Some households would face significant changes in the amount of taxes paid under this model. For example, a particular household with two middle-aged adults with a taxable income of $609,098 would see an increase in taxes of $19,771 under this scheme. On the same street, a household of one middle aged adult with a taxable income of $23,305 would see a reduction in taxes of $5,562.

These shifts between households and counties are attributable to the difference in the relative value of housing. Reducing property taxes in favour of income taxes will shift taxes onto those occupying houses with lower assessed value compared to their income. All else equal, households occupying more expensive housing relative to their income will benefit from this tax change.

Figure 3: Marginal Rates, Provincial Income Tax. Canada, 2012



Redistribution of Tax Burden at the County Level.

Because property values and incomes differ across the province, there will be shifts in the total amount of taxes paid in each county, as well as the total amount of revenue available for municipal services.
Figure 4 illustrates the regional redistribution that would result from the imposition of the surtax and the elimination of property taxes. For example, on the south shore where average incomes are lower but property values are high, residents of Lunenburg County would pay over 30% less in municipal taxes, which would decrease the revenue available to municipalities by the corresponding amount. On the opposite end of the spectrum, property values are low compared to income taxes in Antigonish County, so residents would pay more than 28% more in taxes, but their municipalities would have significant additional funds for municipal services.

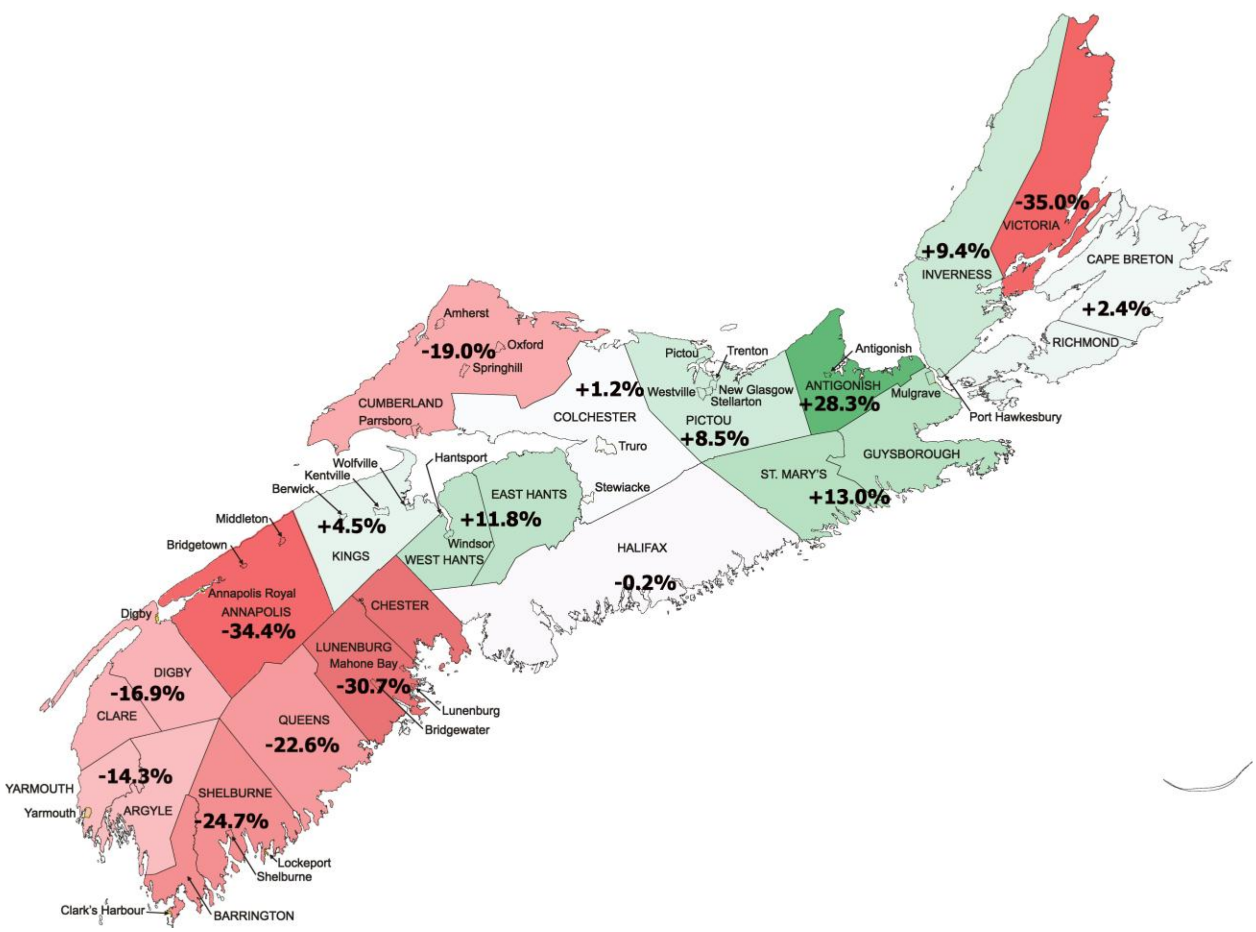
Implementation Issues

As explored in this model, a full-scale replacement of the residential property tax system with a municipal income tax would produce several challenging implementation issues. Below is a short summary of some of the issues that would likely arise.

Impact on Municipal Fiscal Capacity. As illustrated in Figure 4, this model would create substantial winners and losers at the municipal level under pure attribution. In order to ensure that all municipalities continued to be able to provide a minimum standard of service, some form of enhanced equalizing transfer would need to be designed and implemented.

Impact on Municipal Autonomy. Under the surtax model explored here, municipalities would give up the authority to charge residential property taxes, but would not gain control over the marginal income tax rates. This represents the loss of control over the most significant source of municipal revenue, and would substantially change the nature of municipal government in Nova Scotia.

Figure 4: Shift in Taxes Paid and Municipal Revenue under Pure Attribution Municipal Income Surtax, 2013



Impact on Municipal Balanced Budgets. Currently municipalities are required to plan for balanced budgets. The property tax facilitates this requirement, by providing more stability and fewer adjustments to revenue projections. Annual Income tax revenue is estimated, and actual revenue is not determined until up to two fiscal years later. If transfers were based on actual revenue, then municipalities could be faced with significant adjustments in revenue from previous years, making balanced budgets a more difficult target.

Impact on Housing Choices. Individuals with high housing values compared to their income will benefit from a shift to income taxes. This applies to both low income and high income individuals. These redistributions could occur through indirect choices like household demographics/composition (i.e. number of income earners per household), and through more direct choices like home purchases. Taxing on the basis of income as opposed to residential property would reduce the costs of ownership and thereby increase the value of property as an asset.

Impact on Income Tax Rebate System. Personal income tax has a variety of tax preferences built into the system which will induce a variety of tax redistributions. Of note seniors, those contributing to pensions, disabled persons, and families with young children all have significant reductions in taxes as a result of deliberate provincial policy choices. These, and other groups will pay less tax in total under an income tax system compared to the property tax. This is a significant source of redistribution across all levels of geography and demographic groups.

Impact on Non-Resident Taxation. There are two forms of non-resident taxation that would have to be considered. First, under the income tax model, non-residents owning property in Nova Scotia (e.g. vacation property owners from other provinces and countries) could possibly not have to pay any local tax, despite receiving local services. Second, Non-residents who do not own property but do file personal income taxes (e.g. unincorporated businesses operating in Nova Scotia) would be required to pay additional taxes in this scheme. Under a pure attribution it is not clear how their taxes would be attributed to municipal governments, which represent approximately 18.2 million in the 2012/13 year.

Impact on Labour Force. This analysis shows the immediate implications of replacing residential property tax with a municipal income tax for a single year. The short and long term economic impacts are uncertain, but by shifting the tax burden to labour Nova Scotia's income tax would be substantially higher most other provinces, and somewhat higher than in Quebec. As well, some of the tax burden is shifted from retired homeowners on to the labour force. The current share of the population aged 65 and over is 17.1 per cent, which is projected in increase to 29.8 per cent by the year 2035[4]. This demographic shift would increase the income tax burden on the labour force under this model.

The replacement of residential property taxes with a municipal income tax would represent a fundamental reshaping of the provincial tax structure and should not be undertaken unless clear benefits can be identified. The key objective hoped to be achieved by replacing a municipal property tax with an income tax is to improve the equity of municipal taxation. While property tax is more regressive than income tax, the property tax

[4] Conference Board of Canada, 2013. "Long Term Economic Forecast"

does provide a relatively stable, elastic, accountable and transparent method of funding municipal services. The potential economic impact of a 28.7% rate increase, combined with the magnitude of change in total households' taxes and municipal fiscal capacity outweigh the potential gains in vertical equity.

On the other hand, a complete replacement of the property tax system with a surtax on income is not the only option. Instead, the province could allocate some portion of the income tax that it already collects, or modestly increase rates and dedicate the additional revenue towards bolstering the revenues of municipalities. Indeed, the province could provide municipalities with a guaranteed portion of the income tax in order to fund the new grant structure being proposed by the PMFR. A system of this nature would avoid the redistributive issues of the model examined here, and it would drastically minimize the distortionary impacts of a full replacement of residential property tax.

Income taxes are however, a less stable form of taxes than either property taxes or sales taxes. As such, while a new dedicated, elastic stream of funding for the new grants program would likely be strongly supported by municipalities, explicit reliance on income taxes would likely introduce an element of unpredictability to the system that would be difficult for municipalities to accept. While there is merit in further exploring ways improve the current tax system, at this time the Fiscal Review Committee does not recommend a shift towards income taxes for municipalities from the current residential property tax system.

Evaluation Criteria: Municipal Income Tax

Vertical Equity	☑ Due to the increasing marginal rates and tax credits, income tax is highly progressive.
Horizontal Equity	☒ The inability to set tax rates locally implies rural and urban residents are paying the same amount for different levels of service.
Economic Efficiency	☒ Switching to a municipal income tax would be unique within Canada, creating a disincentive to labour and encouraging property ownership. Shifting the tax base from property to income would redistribute the tax burden away from retirees and on to the labour force.
Accountability	☒ A single set of provincial income tax rates would limit local discretion over expenditures and remove local autonomy to generate revenue.
Adequacy & Elasticity	☑ Income tax is responsive to fluctuations in the economy.
Stability	☐ Income provides a broad base for taxation, but is more sensitive to macroeconomic shocks than property values and sales tax.
Administrative Burden	☑ Transitioning to a municipal income tax would be challenging to implement, particularly the mechanism to redistribute revenue, but the income tax system is already in place and could reduce administrative costs in the absence of property assessment.

Corporate Income Tax

Both federal and provincial corporate income taxes are collected by the Canada Revenue Agency. There are no municipal governments in Canada that have access to corporate income tax revenue and only 8 states are granted access (Brunori, 2007).

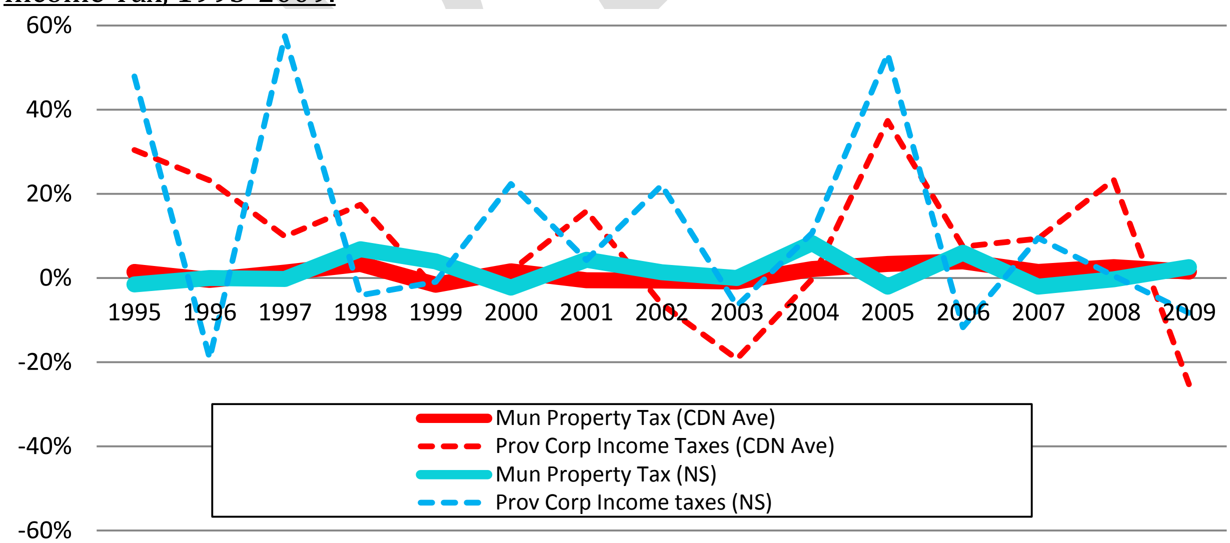
There are several reasons why a corporate income tax is not ideal to fund local government services: Commercial taxes are typically filed at corporate headquarters, which may not be located in the same municipalities as local branches or stores. This creates difficulty in attributing corporate tax revenue back to the location that it was generated.

Figure 5: Corporate Income Tax Rates in Canada (2013)

Province	Lower rate	Higher rate
NFLD	4%	14%
NS	3.5%	16%
PEI	1%	16%
NB	4.5%	10%
ON	4.5%	11.5%
MB	nil	12%
SK	2%	12%
AB	3%	10%
BC	2.5%	10%

The corporate tax base is relatively mobile, creating competition at the international and provincial level to attract businesses with lower corporate rates. The provincial rates in Nova Scotia are among the highest in the country (See Figure 5)

Figure 6: Percentage Change in Revenue (year-over-year) from Property and Corporate Income Tax, 1995-2009.



Relative to property tax, corporate income taxes are much more sensitive to macroeconomic trends. Figure 6 compares the percentage change in revenue from one year to the next for property and corporate income taxes. The instability of corporate income tax makes it inappropriate as a source of municipal revenue.

It is unclear whether a corporate income tax would adhere to the principle of vertical equity better than a commercial property tax. The lower rates apply to income eligible for the small business deduction, which is taxable income under $350,000 in Nova Scotia[5].

Evaluation Criteria: Corporate Income Tax

Vertical Equity	☐ Tax rates are flat on taxable revenues for larger corporations, but it is unclear whether the progressivity of commercial income tax would improve on commercial property tax.
Horizontal Equity	☒ The inability to set tax rates locally implies rural and urban business would be paying the same amount for different levels of service.
Economic Efficiency	☒ Corporate headquarters are mobile and sensitive to tax rate differentials. Increasing Nova Scotia's rates would create a disincentive to corporations locating within the province.
Accountability	☒ A single set of corporate income tax rates would limit local discretion over expenditures and remove local autonomy to generate revenue.
Adequacy & Elasticity	☒ While corporate revenues are highly responsive to economic growth, their instability would necessitate substantial changes to tax rates to maintain a constant source of revenue.
Stability	☒ Corporate income taxes vary significantly from year to year, and would not offer a stable source of revenue without major adjustments to the
Administrative Burden	☑ Transitioning to a municipal corporate income tax and developing a redistributive mechanism would be challenging, but the income tax system is already in place and could reduce administrative costs in the absence of property assessment.

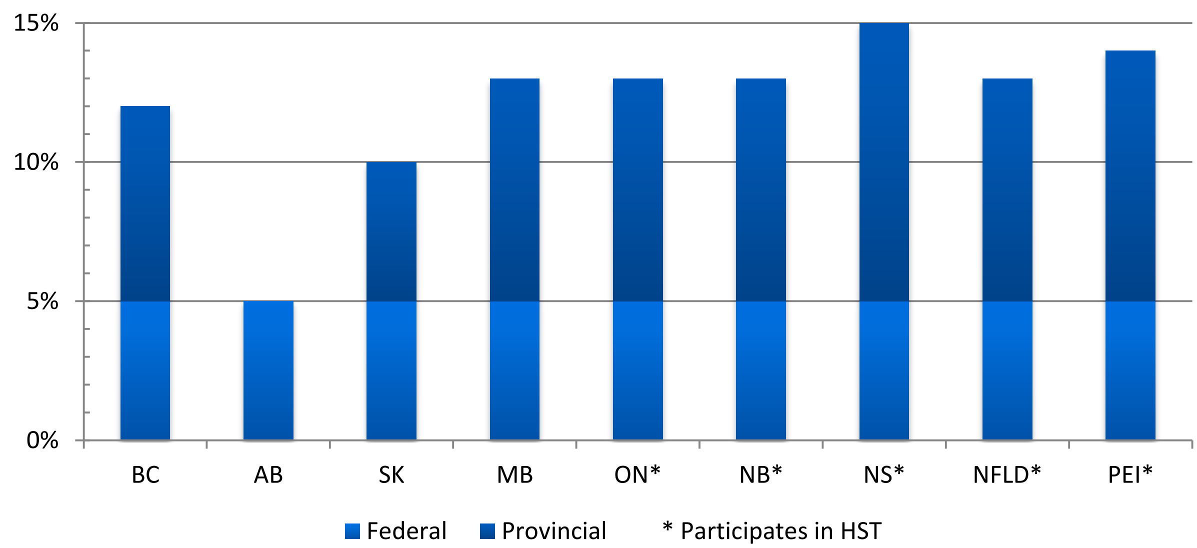
[5] The small business limit varies by province. Additional criteria apply to the small business deduction. See Canada Revenue Agency for more details.

Municipal Sales Tax

In principle, municipal sales tax revenue could take two forms: Each municipality could set a municipal sales tax rate, or a set percentage of the provincial sales tax revenue could be transferred to municipal governments. Given the administrative complexity of amending the federal-provincial agreement that governs sales taxes, and the potential for introducing economic inefficiencies through 54 new sales tax jurisdictions, the focus was narrowed to a revenue sharing arrangement between Province and municipalities.

There is a Canadian precedent for such an arrangement. The Province of Manitoba has a revenue sharing agreement that provides at least 1% of the provincial sales tax to municipalities.[6] A 1% share of sales tax in Nova Scotia dedicated to municipalities would yield approximately $114 million (net of rebates). This type of transfer system would be administratively efficient and would increase the adequacy and elasticity of municipalities' revenue sources. While potentially less stable than property tax revenue, sales tax is less sensitive to economic fluctuations than income tax[7].

Figure 7: Canadian Provincial and Federal Sales Taxes (as of April 2013)



While this is potentially a substantial revenue source for municipalities, the sales tax is a more regressive tax than property taxes; any increased reliance on this revenue source would place a further burden on those with lower incomes. In addition, the transfer system reduces accountability because municipal governments would be spending revenue collected by another order of government. Additional administrative issues would arise with the distribution of the transfer to ensure that the benefit was fairly distributed between municipalities.

[6] The agreement is set in legislation and provides municipalities with the greater of 1% of sales tax revenue, or the combination of revenue from 4.15% of corporate and personal income tax revenue, 2 cent per litre of gasoline tax and 1 cent per litre of diesel fuel tax. In 2012/13 this represented $260 million.
[7] According to a Conference Board of Canada Report, "Consumption growth fluctuates to a much lesser degree through the business cycle than employment and earned income"

Evaluation Criteria: Municipal Sales Tax

Vertical Equity	☒ Sales tax is more regressive than income tax and property tax.
Horizontal Equity	☐ A portion of revenue from HST would be distributed to municipalities in a manner consistent with the principles of the newly proposed grant structure being put forward by PMFR
Economic Efficiency	☑ Marginal increases to the sales tax are not distortionary in isolation, if offset by a decrease in property taxes. However, Nova Scotia has the highest rates in Canada and increasing them further could reduce consumer expenditures and GDP.
Accountability	☒ Sales taxes are highly visible, but redistributing them to municipalities equitably would require a new system of transfers, which would reduce transparency and lines of accountability.
Adequacy & Elasticity	☑ Provides a broad tax base that grows with the economy.
Stability	☑ Consumer spending is a relatively stable for taxation.
Administrative Burden	☑ A sales tax, as explored here, would be simple to implement, as the collection system is already in place. Distribution could prove challenging, but no more so than the current suite of grant programs offered to municipalities.

Summary of Primary Revenue Options

The table below summarizes the evaluation of each primary source of revenue explored here. Using the standard tax policy criteria, property tax is found to be the most suitable source of revenue to fund municipalities.

Table 1: Evaluation Grid of Primary Revenue Options

	Property Tax	Income Tax	Corporate Income Tax	Sales Tax
Vertical Equity	☒	☑	☐	☒
Horizontal Equity	☒	☒	☒	☐
Economic Efficiency	☑	☒	☒	☑
Accountability	☑	☒	☒	☒
Adequacy & Elasticity	☑	☑	☒	☑
Stability	☑	☐	☒	☑
Administrative Burden	☑	☑	☑	☑

☑ - meets criteria ☒ - fails to meet criteria ☐ - meets criteria in some ways, but fails in others

Options for Additional Municipal Revenue

The following is a list of surtaxes and user fees that could provide additional revenue to municipalities without fundamentally altering the current tax system.

Non-Resident Property Tax

Another alternative source of revenue option for municipalities would be to property tax selectively on non-resident owners. PEI currently has a form of non-resident taxation. PEI residents receive a property tax rebate, while non-residents do not, effectively placing a surcharge on non-residents property taxes. This policy was put in place to discourage non-resident ownership of land in PEI, rather than to generate new revenue for municipalities. New Brunswick has a rebate on primary residences that acts as a surcharge on non-residents and residents with more than one property, effectively doubling the tax on these properties.

This option for generating municipal revenue was examined in the past. In 2000 legislation was passed but not proclaimed that would create non-resident taxation in Nova Scotia. A subsequent review by the Voluntary Planning commission recommended not pursuing a non-resident tax, because of the anticipated decrease in property investment by non-residents.

Currently, non-residents are not eligible for the residential CAP, which results in higher average property taxes. Also, non-residents consume fewer municipal services than residents. Selectively increasing their tax burden on non-residents would therefore create substantial horizontal inequities.

In 2010 SNSMR estimated the number of non-resident accounts using property assessment postal codes outside of Nova Scotia as a proxy. The estimates in Figure 8 should be treated with caution as there are an unknown number of non-NS postal codes belonging to legitimate residents and an unknown number of non-residents that actually have a NS postal code. Commercial properties are excluded from these estimates.

Figure 8: Estimated Non-Resident Accounts in Nova Scotia, 2010

Classification	# Accounts	2010 Assessed Value	Est. 2010 Property Tax	# Non-Resident Accounts	Non-Resident Assessed Value	Est. Non-Resident Property Tax
Residential / Resource	492 K	$50 B	$609 M	47 K 9%	$2 B 4%	$26 M 4%

Using the estimated values, the potential revenue generated by applying a surcharge of $0.50 and $1.00 to non-resident property tax rates (per $100 of assessment) is estimated in Figure 9, below.

Figure 9: Estimated Revenues from Non-Resident Accounts in Nova Scotia, 2010

Municipality	Potential Revenue		Effective Rate Increase	
	$0.50 Surcharge	$1.00 Surcharge	$0.50 Surcharge	$1.00 Surcharge
Regionals	$3.5 M	$7 M	36%	73%
Towns	$.6 M	$1.1 M	32%	64%
Rurals	$8.0 M	$16.0 M	55%	110%
Totals	**$12.1 M**	**$24.1 M**	**46%**	**93%**

Such a tax would introduce significant horizontal inequities to the property tax system. It would also reduce accountability by increasing tax burden on taxpayers who would not be eligible to vote in municipal elections. Additionally, this form of taxation would discourage non-resident ownership; possibly eroding the existing tax base. Finally there are administrative issues with distinguishing "residents" from "non-residents', which may make the tax easy to evade and impact the revenue source. In addition, a new rebate system through the income tax would have to be implemented which would carry with it higher administration costs.

Toll Roads

Road tolls have been proposed as a form of user fee. Revenues generated could be dedicated to municipal responsibilities for the transportation network. In practice, toll revenues are only used to fund the maintenance of that particular section of road. Tolls are an effective form of user fees because users can be easily identified and non-users aren't required to pay for the service. Depending on the amount of traffic and rates, Toll roads can also provide adequate revenue to meet the cost of providing the service[8], and recent technological advances have reduced their administrative burden. Tolls are not a source of general revenue for municipalities in Canada.

Toll revenue supports infrastructure financing but can also affects demand for particular routes. There have been recent proposals to introduce toll roads or 'congestion charges' in Toronto. London, England introduced a £10/day charge for drivers passing through the downtown core. This project, launched in 2003 has reduced downtown traffic by approximately 70,000 vehicles per day. There are currently 20 road tolls operating in Canada, including three in Nova Scotia. The majority of toll roads in Canada are located on bridges and tunnels and are generally public-private partnerships or crown corporations. Any revenue exceeding operating costs must be invested into the city's transportation

[8] A survey by the Federation of Canadian Municipalities found that the yearly replacement cost of municipally-maintained roads in 'fair to very poor condition' is equal to approximately $7,325 per household.

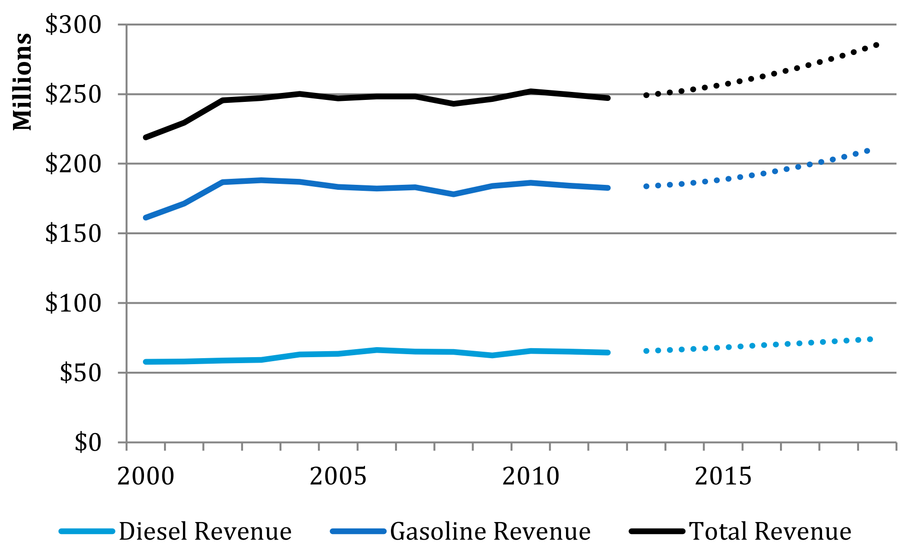
infrastructure. Insufficient information was available to assess potential parameters of a new road toll system, estimate revenues, or evaluate the potential economic impacts of such a system.

Like other user fees, toll road systems have good accountability, horizontal equity and stability. They have poor vertical equity in the absence of a low-income rebate program, are inadequate as a substantial source of municipal revenue and administratively costly to maintain.

Fuel Tax

Current tax rates for gasoline and diesel are 15.5¢ and 15.4¢ per litre, respectively. The revenue currently generated from the gasoline and diesel components of the motive fuel tax is $247 million. Currently, 1¢ per litre tax generates approximately $16 million annually.

Figure 10: Revenue from Motive Fuel Tax in Nova Scotia, 2000-2020



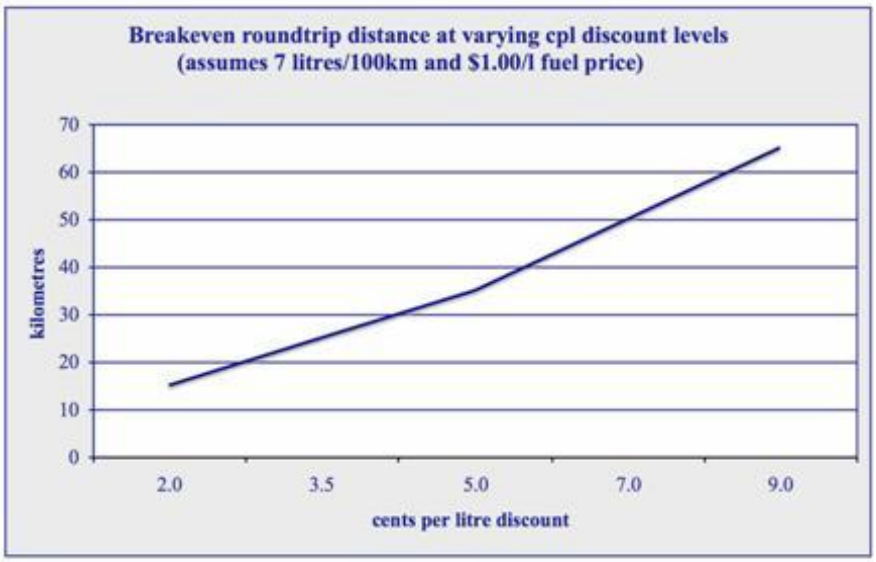
Source: NS Dept. of Finance. Dotted line represents a projection, which assumes current rates remain stable

An undesired consequence of fuel taxes is the possibility of cross-border gasoline shopping in Cumberland County. Approximately 9km separate the gas stations in Amherst from the nearest station in New Brunswick. Consumers are highly sensitive to gasoline prices. The product is essentially identical from one station to another, can be purchased at various points during a commute, and represents a relatively large share of consumers' income. Current (2013) fuel tax rates in New Brunswick are slightly lower than in Nova Scotia at 13.6¢ per litre. 1¢ per litre increase in the fuel tax would increase make a 50 litre tank $1.45 more expensive in Nova Scotia.

In February, 2010 a UARB hearing was held in Amherst to examine the viability of gas station markets affected by their proximity to the provincial border with New Brunswick under the Petroleum Products Pricing Regulations. Their analysis indicated that, while other factors influenced the decline in sales at Amherst and Springhill gas stations, increasing the motive fuel tax would further reduce the volume sold at Amherst surrounding gas stations.

The distance a rational consumer would be willing to travel to break-even per discount (in cents per litre) is shown in Figure 11. At the current cost differentials due to taxation, the break even distance exceeds 30 kilometers; well beyond the distance between Amherst and the nearest gas stations in New Brunswick. To address this concern, Cumberland County could be exempt from a municipal surtax on fuel. This exemption would avoid increasing the cross-border fuel price differential with New Brunswick.

Figure 11: Breakeven Distance



Source: NSUARB Decision In the Matter of Petroleum Products Pricing Act, 2010

Funding road infrastructure with fuel taxes is economically efficient because the tax is borne by users – in proportion to their use. However, the potential for cross border shopping can distort consumer habits and the viability of gas stations in proximity to New Brunswick. Fuel taxes are also considered efficient because they partially correct for the external costs of pollution caused by combustion. The province is currently using this tax to maintain roads outside of towns.

Municipal Alcohol Revenue

The Fiscal Review briefly considered new municipal revenues from alcohol sales. A revenue stream based on alcohol sales may be justified because municipalities incur some external costs resulting from alcohol consumption by providing additional police protection. For example, when the state of California examined the external costs of alcohol consumption, they estimated that 36% of convicts were under the influence of alcohol at the time of arrest. However, municipalities do benefit from the increased commercial tax revenue from licenced establishments.

Capital District Health Authority, with input from UNSM and SNSMR published Municipal Alcohol Policies: Options for Nova Scotia Municipalities[9]. While the scope of this publication was risk management, they did not identify any form of municipal surcharge to fund the additional policing requirements. It would not be feasible to apply a municipal rate to an alcohol tax because government revenue from alcohol is determined by net revenue of the Nova Scotia Liquor Corporation, as defined in Section 20(1) of the *Liquor Control Act*. As a result, any new municipal funds from alcohol-related revenues would be the form of a revenue share from existing provincial revenues, rather than a municipal alcohol tax.

Marketing Levies

Currently, the Halifax Regional Municipality and municipalities on Cape Breton Island currently have a “marketing levy” or a hotel tax. In HRM, this levy of 2% on hotel bills yields approximately $3 million annually for the municipality. However, the revenue from this levy must be used for tourism and economic development opportunities. It was noted that this revenue source could be more widely used across the province to provide additional funds for municipalities to invest in economic development activities.

Extended Producer Responsibility Models

Municipalities and the province may also consider extended producer responsibility models of revenue generation. For example, Ontario has implemented product packaging fees that are used by municipalities to fund recycling programs. Additional revenue generated from waste streams could be used to offset rising municipal costs stemming from provincially regulated waste diversion targets. Further information and review would be required to investigate and analyze this model of revenue generation.

[9] For more information see Municipal Alcohol Policies, Capital Health

Legislative Authority for Finance Powers

The Municipal Government Act is the enabling legislation for most municipalities in Nova Scotia.[10] The Act opens with a preamble providing municipalities with broad authority to deal with matters of within the municipal sphere:

> "Whereas the Province recognizes that municipalities have legislative authority and responsibility with respect to the matters dealt with in this Act; and whereas municipalities are a responsible order of government accountable to the people...The purpose of this Act is to
>
> a) give broad authority to councils, including broad authority to pass by-laws, and to respect their right to govern municipalities in whatever ways the councils consider appropriate within the jurisdiction given to them; [and]
> b) enhance the ability of councils to respond to present and future issues in their municipalities;

Notwithstanding the well intentioned language establishing home rule for municipalities, several sections of the MGA serve to significantly limit the discretion of councils. In some cases, such as for statements of provincial interest in land-use planning (sections 193-198 of the Act), municipal discretion is limited in a reasonable fashion to ensure that matters of importance to the province as a whole are not lost in the local decision-making process. However, there are other instances where the reason for restrictions on municipal authority is less clear. An obvious example of unnecessary restriction is case where the authority to levy a type of fee, such as a frontage charge, is permitted in some circumstances but not in others.

Frontage Charge

Frontage is the full length of a plot of land or building measured alongside the road on which the plot or building fronts. This measurement can be used as an alternate to assessment as the basis for taxation (E.g. $rate \times frontage$). Canadian municipalities in all each province are empowered by legislation to impose and levy a frontage tax if council requires. In general, frontage taxes are collected for water and sewer services or for local improvement projects.

Section 81 of the Act provides councils with the authority to levy charges for services based frontage, however the section lists what services may be funded through charges. As a result, the specific language in the section allowing frontage charges has the effect of curbing the broad permissions intended in the preamble of the Act. A jurisdictional scan of frontage charges in Canada is included in Appendix A. Most municipalities are restricted to spending revenues from frontage taxes on water and wastewater systems.

---

[10] The MGA is the enabling legislation for 53 of 54 municipalities, with the *Halifax Regional Municipality Charter* enabling HRM. The preamble and introductory clauses of the HRM charter include similar language referring to a broad authority to govern.

The costs of several municipal services are more closely related to the road frontage than the assessment: road & sidewalk maintenance, snow clearing, and waste collection. For these services, frontage charges offer more horizontal equity than property taxes. In terms of economic efficiency they may encourage high-density developments, but discourage corner lots. A property's frontage length is fixed; meaning any increase in revenues would be derived from a higher tax rate. The administrative burden is much lighter than assessment and frontage's simplicity and stability would lead to higher accountability. Further information and review would be required to accurately analyze the vertical equity of frontage charges, but generally, this form of taxation is poorly related to 'ability to pay'. Households with equal frontage in low and high income neighbourhoods would pay the same rate.

Forrest and Recreational Property Taxation

There are also other areas where municipal control of the property tax system is limited. Currently municipalities have the ability to set their own tax rates for most residential, resource and commercial property. However, there are some exceptions. Forest property, for example, are taxed based on a per acreage rate that has remained unchanged since the 1970s. Municipalities contend that the current framework produces some tax bills that cost more to produce and collect than the actual taxes received[11]. If Nova Scotia adopted a program similar to PEI or New Brunswick, where forest property is taxed based on assessment and a percentage of the residential rate (for example, 25%), municipalities could gain more than $3 million in additional property tax revenue from these properties. On the other hand, if the current rates applied to forest property were allowed to escalate in step with CPI (and had been able to do so since 1980), municipalities would be able to generate more than $5.5M in additional revenue. The results of several scenarios are explored in the following table.

Figure 12: Revenue from Forest Property Scenarios

2012/13 tax year revenue	From current rates	From 25% of the residential rate	From current rates adjusted for CPI	If forests were treated like farm land
Forest Property Revenue	$3.1M	$6.6M	$8.6M	$26M
Difference	-	$3.5M	$5.5M	$22.9M

Non-profit recreational property is also treated separately. All buildings and the first three acres of land are taxed based on assessed value; the remaining acres are taxed at a per acreage rate that increases annually by 5%. Some examples of these types of properties include non-profit golf courses or ski hills. These provincially legislated rates provide tax

[11] Indeed, under the current model, several towns have approximate tax bills of less than $10.

breaks to the property owners at the expense of municipalities. In keeping with the principle of accountability, municipalities should have the authority to establish the property tax rates for forest and recreational properties. At the very least, municipalities authority to set a minimum tax should be expanded to ensure they are not spending more to collect tax bill than they are receiving in return. Currently, municipalities only have the ability to set a minimum tax on properties that have a dwelling unit, meaning this authority does not extend to forest properties. In Ontario, Alberta and Saskatchewan municipalities are able to set minimum taxes through bylaws. A full jurisdictional scan of minimum tax legislation is included in Appendix B: Minimum Tax Legislation in Canada.

All forms of property taxes and levies should fall under municipal responsibility. The establishment of tax rates for all classes of properties, including farm, forest and recreation property, should be a municipal function. The finance powers of municipalities (under the Municipal Government Act and the Halifax Charter) should be amended to provide broad flexibility and power to municipalities over all forms of property taxation, including, but not limited to general tax rates, area tax rates, frontage taxes, area and square footage taxes, minimum taxes, maximum taxes and other charges and fees such that Council may, by policy, tax property to the extent and in the manner that the Council considers appropriate.

Farm Land

Farm land, excluding buildings and structures, is exempt from property taxation in Nova Scotia. Municipalities receive an unconditional grant in lieu for every acre of farm property within their boundaries. In 2014/15 this rate was equal to $2.90 per acre, and the rate is linked to the Canadian Consumer Price Index. The total estimated value of the grant in 2014/15 is $1.74M.

To qualify for this exemption, a property must be actively farmed. Maintaining databases of actively farmed land is an ongoing challenge. Potential inaccuracies of this information have been raised. The Nova Scotia Agricultural Land Review Committee[12] estimated that only 11% of agricultural land is being actively farmed, however this estimate is based on aerial photography from 1999.

This deficiency in land use information has led to inactive farm land receiving exemptions, thereby potentially reducing municipal revenue for such properties. A comprehensive review of farm properties receiving exemptions is necessary to ensure the benefits of this program are directed to actively farmed properties.

Water Royalties

Under the federal *Constitution Act* (1867), provinces are the "owners" of water resources and have responsibility for their day-to-day management. The *Water Royalty Act* (2007) requires every person in Nova Scotia who bottles water for sale to pay a fee to the Province

[12] "Preservation of Agricultural Land in Nova Scotia". July, 2010

if their extraction exceeds 23,000 litres per day. These revenues are placed in a fund which is used to restore and enhance watercourses in the Province.

Six other provinces have some type of royalty fee for high volume extraction, including British Columbia, Manitoba, Ontario, Quebec and Saskatchewan. No instances of municipal access to these funds were identified.

The UNSM has passed a resolution (2013) to request a change to the *MGA* to allow municipalities to issue a levy on companies or persons who extract water from within their municipality for the purpose of bottling and sale. Nova Scotia Environment responded, saying that "*Consultation with municipalities and stakeholders would be a component of that review process. However, at this time the department does not support the introduction of additional water withdrawal fees at the municipal level".*

Municipal water services deliver water to residents, commercial, industrial and agricultural clients. The Federation of Canadian Municipalities recommends full cost recovery plans to adequately fund these services. They identify potential sources for revenue, including "user rates, user fees, capital charges, property taxes, various other taxes and grants". They specify that "Municipalities should not rely on grants from senior levels of government to subsidize their water and sewage systems since this is not sustainable"[13]

[13] Federation of Canadian Municipalities (2006). Water and Sewer Rates: Full Cost Recovery

Special Tax Legislation

Several sectors have special legislation established to govern property taxation. These special tax regimes can be established for a variety of reasons including the fact that special features of land use and facilities complicate standard rate times assessment approaches to property taxation. Below are three areas of special tax legislation that require some review.

Telecommunications

The telecommunications industry is taxed by a combination of special legislation (the MTT Act) and the standard rate times assessment system. The MTT Act dates from the early 1900's and there have been dramatic changes in the telecommunications industry over the years. For example, Aliant pays taxes based on a percentage of gross subscriber revenues, and taxes have been decreasing over the past few years. A review of the taxation of this industry is necessary to reflect the new technologies and competitors in this sector.

Wind Legislation Review

Special legislation for wind turbine facilities was passed in 2006, in response to industry concerns regarding high property taxes. The legislation provided for taxation of wind turbines on their generation capacity. Since 2006 the wind energy sector has expanded significantly in Nova Scotia, and some questions have arisen regarding the administration of the legislation including the commissioning and decommissioning of facilities. A review of the legislation to identify and address issues in wind turbine taxation would provide clarity to municipalities and facility operators and improve the taxation system.

Emerging energy sector (Solar, Tidal, Biomass)

As Nova Scotia expands its renewable energy sector, other types of generation such as solar, tidal and biomass will become more prevalent. The Province and Municipalities should undertake a review of taxation regimes for these types of facilities so that clear and consistent tax system is implemented.

Provincial Property Tax

The Working Group also explored the idea of introducing a provincial property tax to raise revenue for education, housing and corrections directly. While this would not add to the revenue streams of municipalities, the intent of the tax would be to increase transparency of the current system, and make it plainly clear to residents that a portion of their property taxes go to support Provincial programs and activities.

In practice, the Province would set a property tax rate that, when applied to the total taxable assessment, is sufficient to raise the revenue that municipalities traditionally contribute to the Provincial budget. Municipalities will still collect the revenue on behalf of the Province, but this will allow them to clearly identify what portion of any residents property tax bill is for their municipal services and what portion is for the Provincial services. In addition, this tax will improve accountability on the part of the Province, as residents will be better informed about the different services that their property taxes fund.

A switch to a system based on taxable assessment, such as this, and away from a Uniform Assessment based system, such as the status quo, will result in some shifts in burden around the Province. For example, modeled results from 2013-14 suggest that HRM would pay about $4.6 million more than they currently do, and several towns would see increasing contributions of several thousand dollars, but generally, most municipalities would see declining contributions, and hence, savings on their property taxes. Nevertheless, the Group felt that the increased transparency outweighed any shortcomings of the new system.

Recommendations

Recommendation 24 – Although the shortcomings of the current system must be acknowledged, property taxes should continue to be the primary source of revenue for municipalities.
When evaluated against the standard tax policy criteria, property tax offers superior economic efficiency, accountability, adequacy & elasticity and stability relative to other potential sources of revenue.

The alternative sources of revenue examined here have limitations that make them unsuitable as the primary source of municipal revenue.

Recommendation 25 – The Province should amend legislation to provide greater municipal autonomy over property taxation of forest and recreational property.
Given municipalities' reliance on property tax and in keeping with the recommendation that it remain the primary source of revenue, legislation should provide them broad authority to establish fair and effective property taxation regimes.

Specifically, legislation should be amended allowing municipalities the ability to set tax rates on forest and recreational properties. Legislation also should be amended that would allow a minimum tax to be placed on all properties regardless if there is a dwelling unit on the property. Alternatively, grants should be provided to municipalities to ensure they are compensated for these restrictions.

Recommendation 26- A full review of the exempt agricultural properties should be conducted to determine if the benefit of the tax reduction is going to those who are actively farming.
The list of actively farm land potentially over-estimates the number of properties eligible for tax exemption. A comprehensive review of these properties is necessary to ensure the Farm Grant is being applied as intended and that municipalities have access to non-eligible properties.

Recommendation 27 – The province and its municipal partners review the finance powers provided in the Municipal Government Act and the Halifax Regional Municipality Charter to provide municipalities with broader authority to establish fair and effective property taxation and revenue regimes.
The province and its municipal partners have committed to jointly review the finance powers provided in the *Municipal Government Act* and the *Halifax Regional Municipality Charter* to provide municipalities with broader authority to establish fair and effective property taxation regimes.

Recommendation 28 – Special tax legislation that restricts property taxation or revenue will be reviewed to determine appropriateness.
In line with the principle of providing municipalities greater autonomy over property taxation, a review of municipalities' finance powers should include the special legislation that governs property taxation of telecommunications, and emerging energy sectors.

Recommendation 29: The Province should introduce a Provincial Property Tax Rate, which will be applied to all taxable property in Nova Scotia. The intended goal of this tax is to replace the current system of municipal contributions to education, corrections and housing, while increasing the transparency of the current tax system.

Revenue Source Conclusions

Nova Scotia municipalities rely heavily on the property tax, which provides a stable revenue source, and has some measure of elasticity which has allowed municipalities to fund increasing cost of providing local services. However, the relationship between tax burden and ability to pay has been questioned, and there is some concern that the population decline in rural Nova Scotia could have a long term impact on property tax revenue in the province. Municipalities are also aware that calling for access to other tax bases or greater transfers from the Province ultimately translates into higher taxes for Nova Scotians.

There are no easy solutions for increasing funding for municipal services, however, there are some measurable improvements that could be made, and further areas that could be explored which may improve municipal funding and address equity concerns. For example, given the degree to which municipalities rely on property taxes to fund their operations, they should be given greater freedom over how and how much they tax properties. Should the legislature decide that certain sectors of the economy are best subsidized through the property tax system, then it should be incumbent upon the Province to provide a realistic and predictable offsetting grant to the affected municipalities.

Appendix A-Frontage Tax Legislation in Canada

Province	Alberta	British Columbia	Manitoba
Existence	Yes	Yes	Yes
Enabling Legislation	Under Municipal Government Act, municipalities in Alberta are allowed to pass a local improvement tax bylaw to impose taxes based on parcel frontage for local improvement projects, e.g., sidewalk reconstruction, decorative street light.	Municipalities in BC are empowered by the Municipal Act to impose and levy a frontage tax to meet the cost of works and services that benefit land within the municipality. This parcel tax is imposed through bylaw and is part of the local services levies.	Under Municipal Act, local government has authority to levy special services taxes such as Frontage tax. Frontage levies can be best described as "special purpose" taxes. Subsection 432(1) of the City of Winnipeg Charter, enables City Council to pass a by-law imposing frontage taxes, which must be charged separately and apart from other taxes on real property. Under the Charter, the city is granted broader authority to charge and to spend money raised from frontage fees.
Application	Applicable to the neighbourhood where the local improvement project is undertaken. The project is to be paid for in whole or in part by benefitted property owner via a local improvement tax (i.e., frontage tax)	Applicable to all properties that have water or sewer services available to it	The tax is applicable to properties that front or abut a street in which water mains or sewer mains have been placed (apply to both residential and commercial properties). Frontage levies are imposed regardless of whether or not the property is connected with/to the City services or whether or not the property is vacant.
Calculation	The assessed frontage (the abutting portion of the parcel) is dependent on the parcel shape and dimensions using methods that council set out in the bylaw. Council also determine the uniform tax rates which apply to the assessable frontage.	Frontage taxes are based on the amount of property that fronts on a pubic work, such as a water line. The tax rates are set by municipal bylaws and could have different rate for water and sewer frontage tax.	It is calculated based on the extent to which a property fronts or abuts a street in which water mains or sewer mains have been placed (i.e. linear frontage measurement). The uniform rates are set by Frontage Levy By-law. For City of Winnipeg i) $.95 per frontage foot for fronting on water mains street; ii) $2.80 per frontage foot for fronting sewer mains street. For eligible properties, their linear frontage measurement(linear feet) is multiplied by the combined rate of $3.75 to derive the frontage levy for that property.
Appeal	City of Edmonton has the Assessment Review Board to hears all appeals relating to local improvement taxes.	As per Section 205(1) of the Community Charter, subject to subsection (2), a person may make a complaint to the Parcel Tax Roll Review Panel on the frontage of a parcel.	There is no provision in the City of Winnipeg Charter that allows for the appeal of the frontage levy.
Revenue Usage	Frontage taxes are used to pay for local improvement projects.	Traditionally, frontage taxes are used to raise revenue to repay the installation costs of a water or sewer system up to the property boundary.	The revenue collected is used for funding city infrastructure, such as the upgrading, repair, replacement and maintenance of water and sewer mains and streets, street lighting and sidewalks. The frontage levy is listed separately on the Property Tax bill under 'Street Renewal'.

Province	New Brunswick	Newfoundland and Labrador	Nova Scotia
Existence	Yes	Yes	Yes
Enabling Legislation	Under Municipalities Act, municipalities in NB can impose a special tax for local improvement with delivering a local improvement assessment roll which includes frontage assessment to each abutting parcel. A municipality may provide such local services: sewerage, sidewalks, roads and streets, or water. Council may pass bylaw to specify the cost and rate for the local service they provide.	Under Municipalities Act, council may impose a Local improvement assessment based on frontage for public work, including the construction of water lines, sewer lines, storm systems and the service connections of storm systems and the construction of curbs, gutters, sidewalks or streets or the upgrading or paving of streets.	Under the Municipal Government Act S81, council can pass by-law to impose service charges based on frontage. The charges may be included in the sewer taxes and water taxes. HRM Bylaw L-100 specifies how the frontage charges is imposed and its calculation.
Application	Abutting parcels with lot or land abutting on that portion of the street wherein or whereon a work is or is to be made.	Real properties that are directly benefited by the public work of the council	Applicable to properties that fronting or abutting a street where the local improvements are done (ie., water line, sanitary sewer, storm sewer, or combined sewer is constructed), including residential and commercial properties.
Calculation	"Frontage" means the side or limit of a lot that abuts on a work; "metre frontage" means the lineal measurement in metres of a frontage. The rate of a special frontage assessment shall be determined by dividing the owners' portion of the cost of the work, expressed in dollars, by the total metre frontage of the abutting parcels to be assessed	(1)Local improvement assessments shall be assessed according to the frontage of the real property abutting the highways directly benefited by the public work. (2) The amount of the local improvement assessment against each portion of real property shall bear the same ratio to the total cost to the council of the public work, together with financing charges, that the frontage of that portion bears to the total of the frontages to be assessed.	based on per linear foot of frontage, the rates are set up by municipal bylaw and could be different for water and sewer.
Appeal	N/A	N/A	N/A
Revenue Usage	Special frontage charges are used to cover in whole or in part for the local improvement cost.	Improving or constructing the public works that are required by the council	MGA S81(1) specifies how the revenue could be used, i.e., what services may be funded through the charges. This includes wastewater facilities, stormwater systems, solid-waste management facilities, transit facilities, etc.

Province	Ontario	PEI	Quebec	Saskatchewan
Existence	Yes	Yes	Yes	Yes
Enabling Legislation	Under Municipal Act, municipality has authority to pass a by-law to undertake a work as a local improvement and impose special charges (based on frontage) on lots upon which all or some part of the local improvement is or will be located. Some of the municipalities levy frontage charges, e.g., city of Greater Sudbury has frontage/per lot/local improvement charges. City of Toronto does not have frontage fees.	Under Municipalities Act, A municipality or a corporation established pursuant to the Act may levy user rates or frontage charges for water or sewerage services. Charlottetown Area Municipalities Act section (28) states that the council may levy rates on the basis of user or frontage charges. If the service is to be provided by a corporation, council should pass bylaw and the rate may be approved by the council.	Under Municipal Code of Québec Section 979, the council of any local municipality may impose the special tax for the payment of municipal works of any kind, including works of maintenance, according to either the municipal valuation or the area or the frontage of the taxable property subject to such tax.	Under the Municipalities Act section 312 - 314, council may pass a special tax bylaw to raise revenue to pay for any specific service and state whether the tax rate is to be based on each unit of frontage and set the tax rate. The Local Improvement Act, 1993 sets out several possible bases for council to choose a special assessment from including frontage (the most common). The rate shall be levied by bylaw.
Application	City of Greater Sudbury: applicable to properties that are connected to municipal water and/or wastewater service.	All properties that are receiving the water or sewer services, and a person along whose lands run sewer or water mains shall be deemed to receive services.	Real properties that are directly benefited by the public work of the council	To benefited lands with respect to any local improvement .A special assessment roll is prepared with information on the local improvement, the frontage measurement, the total amount and the rate to be applied etc.
Calculation	City of Greater Sudbury: based on frontage and the charge is a set rate that will remain constant until the connection fee is paid in full by property owner.	Based on per linear foot of frontage, the rates are set up by council or utility and could be different for water and sewer.	based on the footage of the frontage	If council chooses frontage based special assessment, the Local Improvement Act (19) indicates that the special assessment must be expressed as a rate per lineal metres of frontage of the lands benefited, rather than a rate per foot.
Appeal	N/A	N/A	N/A	According to the Local Improvement Act Section (33), there shall be a right of appeal against every proposed special assessment to the board of revision of the municipality.
Revenue Usage	For local improvement costs	For providing water and sewer services	Pays for the cost of any municipal works	The special taxes are collected to pay for local improvement costs. Local Improvement Act section (3) defines what works and services that may be undertaken by a municipality by bylaw, which includes a wide ranges of works or services, e.g., street construction, sidewalk, street lighting, sewage and water system, landscaping, etc.

Appendix B: Minimum Tax Legislation in Canada

Province	Enabling Legislation	Tax Rate
Alberta	Under Municipal Government Act section 357 (1), council may have property tax bylaw specify a minimum amount payable as property tax. This will enable a municipality to set a floor tax amount so that the tax imposed on each property is at least that amount. This permits a municipality to realize additional revenue only from those properties where the calculated tax rate multiplied by the assessment is lower than the minimum amount payable as property tax. The minimum tax may **apply to both residential and non-residential parcels** within the municipalities. In accordance with section 357(2) of the MGA, if the property tax bylaw does specify a minimum amount payable as property tax, the tax notice must indicate the tax rates set by the property tax bylaw to raise the revenue required to pay the school requisitions.	Minimum tax amounts are set by municipal bylaws. In 2013, the Town of Hardisty's minimum amount payable as property tax for general municipal purposes is $700 for both residential/farmland and non-residential.
British Columbia	Under Community Charter Section 197, council can establish a minimum amount of tax with the minimum amount of tax council can set in any year on a **parcel of real property** is $1.	In City of Nanaimo, the minimum amount applies to **homeowners** only and the minimum tax is $350 or $100 depending on the type of grant the homeowner eligible in the provincial N&R Home Owner Grant Program. In Vancouver, the minimum tax payable is $350 for all **homeowners**, which ensures all contribute towards the funding of local services such as road maintenance and police protection.

Province	Enabling Legislation	Tax Rate
Manitoba	Education Property Tax Credit (EPTC) - apply to Manitoba resident who pays more than $250 of property tax or the equivalent in rent in a year. The EPTC is provided by the Province of Manitoba to help offset the property taxes Manitobans pay to support public school system. The basic credit for 2012 and 2013 is $700	In Manitoba, **single family dwelling and owner-occupied home** (principal residence) may receive a tax credit of up to $700 per year (Manitoba Education Property Tax Credit). In order to receive the full $700 education property tax credit advance, home owners must pay a minimum of $250 in property taxes.
New Brunswick	n/a	n/a
Newfoundland and Labrador	Under Municipalities Act section 114, a council may, by resolution, establish different minimum annual real property taxes in a municipality for **residential, commercial, vacant land**. Under section 125, council may impose a minimum business tax on **all business** operating in the municipality.	In City of Corner Brook, the minimum amount of taxes payable on any property is $275.
Nova Scotia	Under the Municipal Government Act S(74), council may, by policy, prescribe a minimum tax **per dwelling unit** and the minimum tax may be set at different levels for different areas of the municipality (home owners only). The authority does not apply to properties that do not have a dwelling unit (e.g., forest properties).	In HRM, the minimum amount of tax all homeowners must pay ranges from $110 to $300 depending on household income.
Ontario	Under Municipal Act, Municipalities can pass bylaw to set a minimum tax amount payable on property tax.	Owners of property located in areas of Ontario where there is no municipal government pay provincial land tax. The tax is based on the current value assessment of each property. The minimum provincial land tax is $6 per year.
PEI	n/a	n/a
Quebec	n/a	n/a

Province	Enabling Legislation	Tax Rate
Saskatchewan	Under the Municipalities Act section 289, Saskatchewan municipalities can adopt a minimum tax as one of their tax policies (through bylaw). This allows municipalities to establish a minimum amount of tax with respect to **any property**. Minimum tax can only be applied to municipal taxes (not to school or library portions). If council choose to use minimum tax tool, they apply to all properties within three local property classes selected by council, i.e., agricultural, residential, commercial and industrial. The rates may differ among three local property classes.	A minimum tax may be specific minimum amount of money levied against the property or it may be an amount determined by a formula established by council (such as a rate per front foot for each lot or a rate per acre of land). Town of Unity 2013 minimum property tax is $900 for both vacant land and land with improvement.

FINDINGS FROM THE
PROVINCIAL MUNICIPAL FISCAL REVIEW

EXTERNAL EXPENDITURE PRESSURES SUB-COMMITTEE

unsm Union of Nova Scotia Municipalities

NOVA SCOTIA

JANUARY 2014

For further information contact:

Service Nova Scotia and Municipal Relations
Maritime Centre, 14 North
1505 Barrington Street
PO Box 216
Halifax, NS B3J 2M4

(902) 424 5200 (in metro)
1 800 670 4357 (toll free)

You may also visit our website:
www.novascotia/snsmr/muns

Published January 2014

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The External Expenditure Pressures Sub-Committee (EEPSC) was convened to assist the Provincial-Municipal Fiscal Review to investigate the impact of regulatory pressures on municipalities. The EEPSC is presenting five recommendations to the Steering Committee of the Provincial-Municipal Fiscal Review for consideration. The sub-committee believes these recommendations will help address some of the pressures, but recognizes implementation of these recommendations will only be a starting point.

The EEPSC identified that a systematic approach to regulatory development, assets investment, and information management is critical. New regulatory measures should be developed with more collaboration between the province and municipalities to ensure municipalities can forecast for new expenditures within their budget plans before they become mandatory. The province and municipalities also need to have better information on the state of critical infrastructure so that capital investments can be strategically targeted for maximum impact.

The recommendations were developed to address three key areas: provincial information gaps, municipal information gaps, and expenditure growth. The following is a list of the specific recommendations with their associated key areas.

Provincial Information Gaps

Recommendation 30
Stakeholder involvement must occur early in the process of regulations development and must involve both economic and financial analyses[1] of the proposed changes so that the regulatory decisions are made with a full understanding of implementation issues; a fully informed process that engages municipalities will likely result in greater compliance with and more cost effective regulations.

Recommendation 31
New regulations should always have clear and measurable outcomes, they should include sun-setting provisions, and they should be regularly reviewed for efficiency and effectiveness.

[1] Economic analysis assesses the costs and benefits of implementing the regulations, financial analysis assesses the affordability of the regulations.

Recommendation 32
Departments working on new regulations for municipalities must engage with the Department of Municipal Affairs to determine the total cumulative impact of all provincially and federally imposed municipal regulations. To support this work, the Department of Municipal Affairs will collect, on an annual basis, the economic and financial analyses conducted for all major regulations imposed on municipalities.

Expenditure Growth

~~**Recommendation 33**~~
~~**Several existing regulations, specifically, the solid waste diversion and CCME wastewater regulations should be set aside until a full economic and financial analysis can be completed.**~~

~~**Recommendation 34**~~
~~**In the future, any new regulations should not move forward unless municipal/provincial/federal governments have agreement on how to fund them.**~~ [2]

Recommendation 35
Alternative service delivery mechanisms, including shared service models, must be considered by municipalities as a means to improve efficiencies wherever possible.

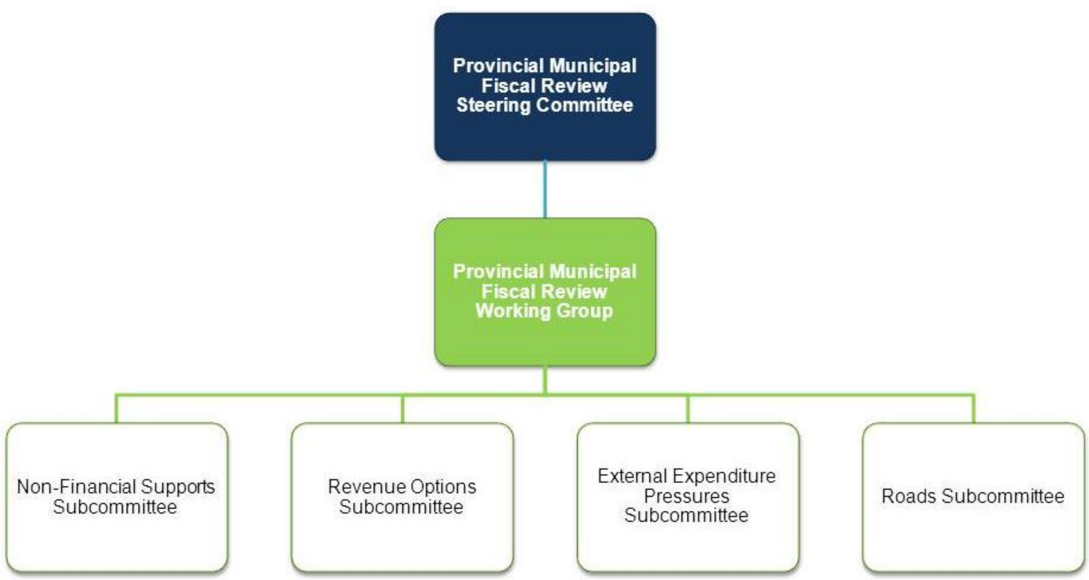
[2] Recommendations 33 and 34 have been struck out because they fall outside of Provincial jurisdiction.

INTRODUCTION

In 2010, staff from Service Nova Scotia and Municipal Relations (SNSMR) reviewed the province's municipal equalization grant program. During the review, it became clear that it was difficult to review the equalization program in isolation of the other provincial grants distributed to municipalities. As a result, the province embarked on the Provincial-Municipal Fiscal Review with the overall goal of determining how provincial support to municipalities could best be allocated.

In order to achieve this goal, a joint provincial-municipal steering committee was established called the Fiscal Review Steering Committee (FRSC). This committee consisted of elected representatives from municipalities across Nova Scotia and Deputy Ministers from departments where there is a significant level of interaction with municipalities. To support the committee, a working group was also established referred to as the Fiscal Review Working Group (FRWG). This working group consisted of staff from municipalities across Nova Scotia, staff from the Union of Nova Scotia Municipalities (UNSM), and staff from SNSMR's Municipal Services Division. The working group is supported by a set of subcommittees with staff representatives from municipalities and relevant provincial departments (see figure 1).

Figure 1. Fiscal Review Structure



The main work of the review includes an examination of:

- the impact of expenditures where municipalities have little control, such as federal and provincial regulations;
- areas where the province can improve non-financial supports for municipalities;
- appropriate funding sources for municipalities; and
- a review of the current municipal grant & contribution structure to ensure grant programs are relevant to the current needs of municipalities.

The EEPSC was struck based on the understanding that regulations have been passed that require municipalities to increase service levels to achieve compliance with federal or provincial requirements. This can result in mandatory increases in capital investments and operating costs. Despite these cost increases, little information is available on the financial impact of these regulations, and new regulations do not always come with incremental funding to offset the financial pressure. Some municipalities are struggling to develop plans to address added costs imposed by the regulations, and many municipalities are concerned about the cost to tax payers to meet the regulations. The province and municipalities both have fiscal challenges and recognize that uploading/downloading are not viable solutions.

The EEPSC sought to investigate the impact of regulations on municipalities, to gather cost estimates to achieve compliance, and to outline potential options for addressing regulated expenditure pressures. The EEPSC was also asked to review mandatory municipal contributions for education, corrections, and housing. However, given that the contributions amount to a direct financial transfer of funds, it was agreed that the working group would be best suited to examine these arrangements during its review of the grants framework. This report presents the findings and recommendations from the work of the EEPSC.

NEW MUNICIPAL EXPENDITURE PRESSURES

Summary

This section outlines new regulations that fiscal review participants have identified as impacting municipal expenditures. It does not include regulations that have already been promulgated and fully implemented. Regulations were identified by provincial departments, and by fiscal review participants identifying pressures experienced in their municipalities.

The following sections discuss the five municipal expenditure pressures the committee was able to quantify. Figure 2 presents these items and the estimated costs for complying with the regulatory requirements.

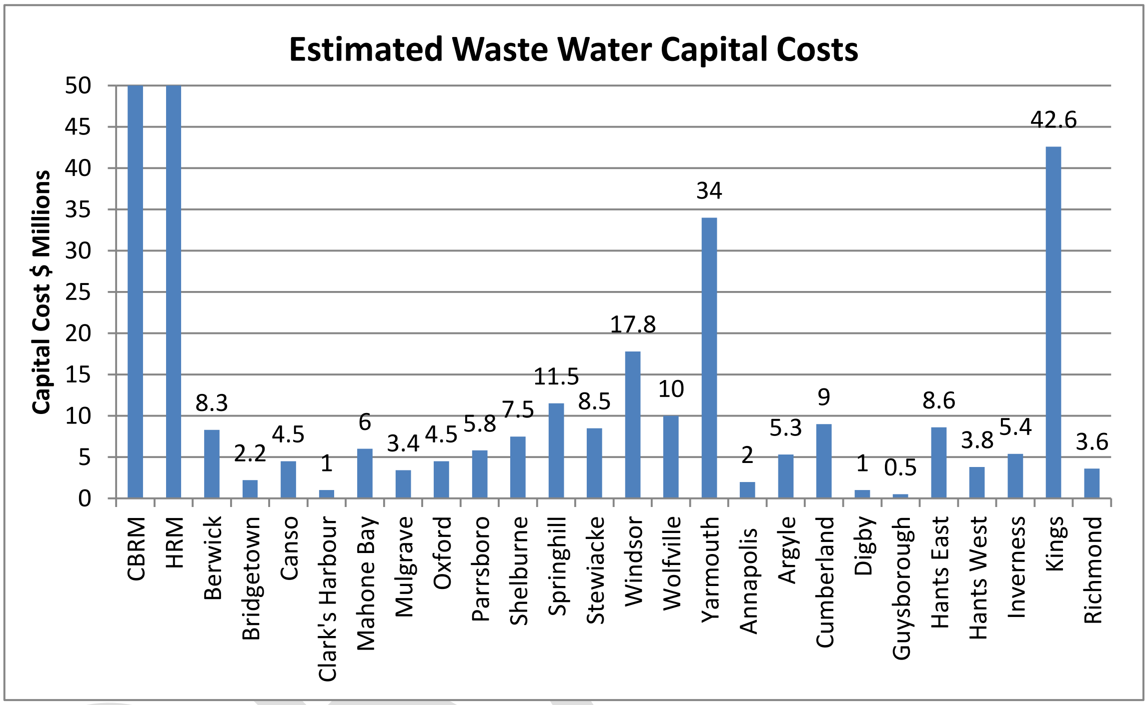
Figure 2: Municipal Expenditure Pressures

Regulatory Pressures	Estimate ($Millions)
CCME Waste Water Standards	$601
Waste Water Collection Systems (resulting from CCME)	$265
Drinking Water	$17
LED Street Lighting	$90
TOTAL	**$973 Million**

Canadian Council of Ministers of the Environment (CCME) Wastewater Standards

As a result of an agreement by the Canadian Council of Ministers of the Environment (CCME) municipalities across Canada must meet new wastewater standards set out in the *Wastewater Systems Effluent Regulations* of the federal *Fisheries Act.* The regulations require any wastewater system discharging more than 100 cubic meters a day to meet at least secondary treatment standards. The standards will be phased in between 2015 and 2040; however the highest risk systems must complete substantial improvements by 2020. In Nova Scotia, there are 53 municipal systems (in 26 municipalities) that do not meet the new standard and the capital upgrades required are projected to cost over $1 Billion (see Figure 3). The burden on individual municipalities ranges from $500,000 in the municipality of Guysborough to $450 million in CBRM. These estimates do not include the additional operating costs required for the upgraded facilities which will include greater energy, chemical, and human resources. The operating costs flowing from these upgrades remain unquantified for most municipalities; however, CBRM estimates they will require an additional $10 million annually to operate their CCME compliant wastewater systems.

Figure 3: Estimated Waste Water Capital Costs (for HRM and CBRM, costs exceed $400M)



Drinking Water

In 2000, the drinking water supply for the town of Walkerton, Ontario was contaminated with *Escherichia coli* 0157:H7 and *Campylobacter jejuni.* This resulted in the death of seven individuals and over 2000 reported illnesses. Since this crisis, both provincial and federal governments from across Canada have improved water standards to ensure the health of the public is protected.

Municipal water utilities are responsible for the delivery of water in accordance with provincial standards and for meeting their requirements for due diligence - making sure the water they deliver is properly managed and protected. Municipalities, as owners of public water systems, are responsible for meeting all of the public responsibilities that apply to the water supply.

On October 17, 2002, the Province of Nova Scotia released a comprehensive drinking water strategy, based on the *Guidelines for Canadian Drinking Water Quality*. This strategy brought Nova Scotia in line with other provinces by calling for increased levels of chlorination and filtering and assessments that ensure water systems are protected from contaminants. Under S. 4. (j) Of the *Environmental Goals and Sustainable Prosperity Act*, all municipalities were required to meet the new treatment standards by 2008. The *Public Drinking Water Supplies Regulations* require public drinking water supply owners to test their water supplies on a regular basis, to inform their customers and Nova Scotia Environment if there are problems, and to take corrective action to address any problems which may be identified.

There are still twelve facilities (spread between Mulgrave, Pictou (town), Antigonish, Colchester, and Victoria) that do not meet the 2002 standards. Approximately 86% of supplies, serving 98% of the population on municipal services, meet the 2002 standard. The estimated cost to complete upgrades for these facilities is $17M (this does not include Miller Lake in HRM).

The provincial and federal governments have supported water system improvements through several programs including: the Building Canada Funds (BCF), the Municipal Rural Infrastructure Program (MRIF), the Federal Gas Tax Program, and the Provincial Capital Assistance Program (PCAP). Of these, the three Federal programs have all sun-set or are fully committed. However, negotiations have almost concluded on the development of a new Gas Tax Program, and negotiations are well-underway regarding the development of a renewed Building Canada Fund. Moving forward, these programs should continue to support capital investments in drinking water systems.

LED Street Lighting

Nova Scotia's Green Path started in 2007 with a commitment to energy efficiency and conservation goals aimed at producing savings in fuel costs, increasing energy security, lowering greenhouse gas and mercury emissions, and lessening our impact on the environment. In keeping with this established path, all political parties in the Nova Scotia Legislature unanimously passed the *Environmental Goals and Sustainable Prosperity Act* (EGSPA). At that time, Nova Scotia was one of only a few provinces that had established such ambitious, legislated environmental and sustainable goals; integrating both environmental sustainability and economic prosperity. This set the stage for the province to become a leader in having one of the cleanest and most sustainable environments by 2020.

Following the province's lead identified in the EGSPA, in 2010, LED Roadway Lighting Limited (LRL), ecoNova Scotia, Conserve Nova Scotia, and Natural Resources Canada partnered in a pilot project to retrofit existing street lights with new light-emitting diode (LED) street lights in 19 communities throughout Nova Scotia.

In the fall 2012, Nova Scotia became the first jurisdiction in North America to exclusively use LED street lighting by amending the *Energy-efficient Appliances Regulations*. This required all road and highway lighting in the province, excluding high-mast streetlights such as those at the end of the McKay Bridge in Halifax or decorative streetlights, to be converted to LED and is expected to save Nova Scotians about $5 million a year in energy costs.

There are approximately 120,000 roadway lights in Nova Scotia, however, a firm inventory of streetlights by type of fixture and municipality remains unavailable at this time. It is estimated that approximately 10 per cent of the total number belong to municipalities. Conversion to LED lights for municipalities is estimated to cost $90 million to convert all fixtures throughout the province with a payback for their investments over a 10-13 year period.

The Province of Nova Scotia estimates approximately $18 million in cost savings when combined with reduced maintenance costs. The environmental and economic benefits to converting to exclusively LED street lighting identified by LED Roadway Lighting Limited include:

- energy savings of approximately 58% (total of 32,479,000 kwH per year);
- life span of an LED light fixture is 15-20 years, resulting in significant savings in maintenance costs due to longer design life;
- LED lights do not use mercury or lead and do not release poisonous gases if damaged, resulting in greenhouse gas reductions of approximately 469,003 tonnes over 20 years (equivalent to removing approximately 4295 cars from the road); and
- LED fixtures do not use light bulbs and the components are more reliable.

An LED Working Group, with representation from the Department of Energy, HRM, UNSM, Efficiency Nova Scotia Corporation (ENSC), and NSPI met regularly to provide advice on the development of the regulations and an implementation time-line. Industry did not have representation on the committee.

Following the amendment of the regulations, municipalities were given until June 30, 2013 to file a report with the Minister of Energy outlining the following:

- the number of non-high mast roadway lights it owns;
- whether the municipality intended to take ownership of any non-high mast roadway lights owned by NSPI; and
- the replacements to conventional roadway lighting, beginning on June 30, 2013, to comply with the restrictions set out in Section 8 of the regulations.

As part of the LED conversion process, NSPI offered to transfer ownership of the roadway lighting to municipal units. There were three distinct models for the ownership and operation of the lights:

1. NSPI will own and maintain;
2. municipalities will own, but NSPI will install and maintain; or
3. municipalities will own, install and maintain.

In the event a municipality required additional time beyond those dates found within the regulations, municipalities could seek ministerial approval for a replacement schedule.

Under the NSPI ownership and maintenance model, NSPI offered a replacement plan for existing cobra head street lighting systems that amortizes the street lights fully, with no additional costs to municipalities. This plan allows NSPI to change out all of the streetlights, with no additional costs and provide municipalities with no Street Lighting rate increase for seven years. This allows NSPI to pay off the stranded assets of the municipalities with the savings produced. Following the 7 years, it is anticipated there would be a decline in energy rates by approximately 20%. The NSPI technical committee was mandated to review and analyze the capital cost of replacement.

Municipalities also have the option to purchase any streetlights from NSPI in a lump sum. The Province has offered Strategic Opportunities Fund Inc. (SOFI) financing, which has a very low interest rate, as an option to help municipalities that want to own their own lights and bring down costs, if they are purchasing their lights from LED Roadway Lighting Ltd. If they are considering a non-local source for their lighting, municipalities have been provided the option to use financing from the Municipal Finance Corporation (MFC). These financing options are not available to NSPI. The HRM is negotiating a 'turn-key' deal with one of their suppliers, which will have the supplier provide the lights, as well as install and maintain them. This is an option for other municipalities to consider.

Since the announcement of these regulations, six municipalities have already converted their roadway lights to LED, for a total of 5,000 streetlights. As an example of the costs for this conversion, the Town of Amherst took ownership and replaced 1134 streetlights lights at a cost of $1014 per light. However, several contingencies may increase or decrease this estimate including, but not limited to the condition of the brackets and replacement costs, rental of poles, and PCB removal.

In total, eighteen municipalities, collectively possessing 50% of all the streetlights in Nova Scotia have informed the Department of Energy of their intentions to take over the ownership of their lights.

Municipalities have raised concerns regarding NSPI's accounting of the stranded asset costs, which need to be made to NSPI if a municipality takes on ownership of lights. If a municipality continues to lease the lights from NSPI, there will be no noticeable cost adjustments; rates will be frozen for 7 years and the stranded asset cost will be incorporated into the monthly bill.

Currently, NSPI estimates the stranded asset costs for all non-LED lights in the province to be $16 million; a rate of $178 per fixture if the light that is being replaced is a non-LED light. This issue was under consideration as an integral part of NSPI's current General Rate Application for 2013 and 2014. As a result, NSPI committed to creating a technical committee to examine the issue and create confidence in the actual totals of the stranded asset costs. Since the creation of the committee, they have made recommendations on the stranded assets costs for municipalities. The NSUARB ruled on this calculation (2013 General Rate Application (GRA) Decision) and determined that NSPI is allowed to recover the Net Book Value of non-LED streetlights from municipalities intending to take over ownership. Therefore, municipalities are required to pay NSPI the stranded value of these assets at a rate of $178 per fixture. However, as of September 2013, NSPI had not provided municipalities with the stranded asset costs for those LED lights installed by NSPI prior to the municipality assuming ownership.

Municipal Services has also confirmed with Infrastructure Canada that funding for the conversion to LED lighting, including the stranded asset costs, is available under the Gas Tax Program if the costs associated with the stranded assets are part of the overall LED conversion project and directly contribute to environmental outcomes.

MUNICIPAL EXPENDITURE PRESSURES – NOT QUANITIFIABLE

Summary

Despite the best efforts of the EEPSC, there remained a series of pressures where the cost to municipalities could not be quantified. These pressures include:

- 2012 drinking water standards;
- Solid Waste Management
- Disposal of surplus school assets;
- Climate change adaptation;
- Fire services review;
- Biological Casework Analysis Agreements; and
- Work within Highway Right-of-Way permit and deposit.

Some of the reasons expenditure information is not available for these items include:

- performance management methods are not in use, resulting in insufficient information to itemize required improvements;
- a reliable cost estimate methodology for itemized requirements does not exist for the pressure; and
- The issue is still in development; program requirements & timelines are needed before methodology can be sought.

A discussion of each of these regulatory pressures is included in the following section.

New Drinking Water Standards for 2012

In 2012, Nova Scotia Environment updated its municipal water approvals protocols. System Assessment Reports were due April 1, 2013 to Nova Scotia Environment in order to identify if utilities met the updated standard. Correction action plans for those that don't meet the 2012 standard were due October 1, 2013.

Required steps and costs associated with meeting these standards remain unknown. For additional information on the province's water standards, please see the previous discussion concerning drinking water under the New Municipal Expenditure Pressures section (p. 9). In addition, it should be noted that NS Environment does not to date have an estimate for the cost to upgrade the Miller Lake facility in HRM to meet the 2002 water standards.

Solid Waste Management

Municipalities are working to meet new targets for reduction in waste disposal to increase diversion rates as established in the Environmental Goals and Sustainable Prosperity Act (EGSPA) and the *Solid Waste-Resource Management* regulation. The province has regulated that materials going to landfills must be less than 300 kilograms per person per year by the year 2015. The province is divided into 7 waste management regions, and all are currently above the legislated target (See Figure 4).

Figure 4: 2011 Municipal Waste Disposal Rates

Region	Disposal Rate (2011)
Region 1 Cape Breton	413kg/person
Region 2 Antagonism-Guysborough-Picot	433kg/person
Region 3 East Hants-Cumberland–Colchester	532kg/person
Region 4 HRM	393kg/person
Region 5 Annapolis-Kings	357kg/person
Region 6 South Shore-West Hants	328kg/person
Region 7 Yarmouth–Dig by	303kg/person

The cost to improve diversion rates can vary significantly, depending on the steps taken to reduce materials deposited in landfills. Some options include switching to clear bag waste collection (no additional cost beyond current operating budget), additional enforcement and educational personnel (estimated cost of $30,000 - $60,000 per staff person), expanding an existing compost curing area (estimated capital cost of $100,000), or constructing a new in-vessel compost facility (estimated capital cost of over $10 million).

The committee heard that there is considerable discussion amongst municipalities regarding the steps required to achieve the 300 kg per person by 2015. Municipal representatives noted that the goal may be too lofty and that further investigation and assistance with the cost implications for municipal units is required.

Surplus Schools

In the 1980's, the Province assumed control of municipal properties that were used as schools. Section 93 of the *Education Act* authorizes the transfer of ownership of both the land and buildings back to the municipalities when a school is deemed surplus. However, the legislation does not provide municipalities the ability to refuse to retake control of the asset. To date the majority of schools designated as surplus have been transferred to municipalities regardless of the potential liabilities associated with the building. The success of a municipality being able to sell the asset is often determined by the age of the building, demographics of the community, and any environmental concerns. Some municipalities are able to profit from the surplus schools by selling them to private sector interests. However, in other cases the municipalities incur costs from acquiring the surplus schools. These costs come in the form of remediation requirements such as environmental contamination or demolition costs. Municipalities can incur pressure from the community to make use of the school in some form, often as a recreation center, as an alternative to demolishing the building.

At the fall 2012 UNSM Conference, the District of Lunenburg submitted a resolution to address surplus schools, which was passed by all voting members. The resolution recommended amendments to the *Education Act* whereby the province would assume full responsibility for all existing public schools and surplus public schools regardless of the year of construction and make this retroactive from 2009. As of December 2012, a response from the Department of Education is outstanding.

Climate Change Adaptation

According to Nova Scotia's Climate Change Action Plan, much of our infrastructure is located in vulnerable areas and was not engineered to withstand new climate conditions. Because of the earth's increasing temperature, sea-levels are rising and ocean energy is increasing. This results in higher rates of erosion along the coast as well as more intense storms with increasing rainfall rates and storm surges bringing sea water inland. Municipal and private infrastructure is now, more than ever, vulnerable to damage and is likely to deteriorate more quickly.

Nova Scotia's Emergency Management Office has identified the critical state of municipal infrastructure and advocates for the development of tools and best practices for strengthening the resiliency of critical infrastructure across the spectrum of prevention/mitigation, preparedness, response and recovery. They provide municipalities with an assessment tool to help them evaluate their current performance in responding to disasters as well as identify areas for improvement in meeting their obligation to the *Emergency Management Act.*[3]

In 2005, the federal government announced the Gas Tax Fund Agreement; providing $145.2 million in federal gas tax revenues to eligible municipalities to invest in infrastructure projects from 2005-2010. In 2008, the agreement was extended to 2014 and included a requirement for all municipalities to develop and submit a Municipal Climate Change Action Plan (MCCAP) to SNSMR by December 31, 2013. Nova Scotia was the only province to make this a requirement under Gas Tax Program.

[3] novascotia.ca/just/EMO/emergency_management_community/municipal_assessment.asp

The MCCAP is an extension to the Integrated Community Sustainability Plans (ICSP) which were prepared by municipalities and submitted to the province in March 2010. The MCCAP requires municipalities to identify issues relating to climate change adaptation and to identify mitigation plans for responding to climate change.

In support of this requirement, SNSMR has developed an MCCAP guidebook to act as a toolkit for municipalities in the preparation of their strategic approach to managing climate change hazards and the reduction of greenhouse gas emissions emitted by municipally owned infrastructure, buildings, and fleet vehicles.[4]

In addition to the guidebook, SNSMR also conducted 4 regional full-day workshops throughout the month of September 2012 with municipalities to help support the development of the plans. At these workshops, municipalities were asked to have their draft plans into SNSMR by September 2013 if they would like feedback on their plans before the December 31, 2013 deadline.

The municipal costs associated with climate change adaptation can be understood as resting in two areas: 1) planning and 2) implementation. The expected costs to plan and develop a MCCAP vary widely and are hard to estimate given the unique climate change issues for each municipality. With this understanding, the committee estimated a maximum cost for preparing the document by an external consultant to be roughly $100,000. However, the majority of municipalities are avoiding this cost by preparing the plan internally, using the instructions and steps outlined in the MCCAP Guidebook.

Estimating costs associated with the implementation of MCCAPs is not possible given that each municipality has unique situations and requirements, depending on where they are located. For example, some municipalities may require more adaptation because they are in proximity to the coastline or their infrastructure may rest within a known floodplain. On the other hand, some municipalities may have already taken previous action to protect their infrastructure by flood proofing their utilities or siting new municipal infrastructure in less-vulnerable areas.

While there are costs associated with meeting Gas Tax Funding requirements, it is important to understand that municipalities who take action and adapt to climate change, will likely reduce their future risks and vulnerabilities, resulting in lower costs following a natural disaster. Following the flood in 2011, the province announced $5.6 million in financial assistance; $4.5 million of which was expected to help repair public properties such as bridges. Climate change adaptation seeks to reduce these kinds of expenditures in the future by acting preventatively, which is more cost efficient than reactionary activity.

[4] www.nsinfrastructure.ca/uploads/MCCAP%20Guidebook-final%20draft%202011.pdf

Fire Services Review

Fire prevention and investigation is a shared responsibility between municipally-based fire departments and the Department of Natural Resources (DNR), which is responsible for wild land fires. Municipalities determine the level of services they provide to residents based on a known risk-assessment related to the occurrence of fires. Some municipal fire departments are volunteer-based, while others have full-time employed staff.

According to the Fire Service Association of Nova Scotia membership list and the Halifax Regional Municipality website, there are 333 fire departments throughout the province (see Figure 5).

The *Fire Safety Act* and Regulations encourages the use of fire safety principles to prevent fires and protect people. The *Act* and regulations also provide the mandate for municipalities and the Office of the Fire Marshall, as it relates to the provision of fire safety in buildings and for safe storage of flammable and combustible materials. Sections 13 to 15 of the regulations identify the inspection requirements for municipalities. If a municipality fails to inspect the required buildings, the regulations permit the Fire Marshall to conduct the inspection and bill the municipality at $93.70 per hour to a maximum of $2000. To date, this practice has not been consistent. The Fire Marshall has frequently conducted inspections without charging municipalities and the type of building required for municipal inspection is also not consistently applied. Under the *Act*, each municipality is required to appoint a municipal fire inspector to carry out the inspections. Non-compliance with the regulations, on behalf of the municipalities, is a greater financial pressure, assuming the Fire Marshall was to charge the municipalities for the inspections at the regulated rates. Compliance by the municipalities, in and of itself is not a financial pressure.

Figure 5: Nova Scotia Fire

Nova Scotia County	Number of Fire Departments
Annapolis County	8
Antagonism County	9
Cape Breton County	36
Colchester County	17
Cumberland County	18
Dig by County	18
Guysborough County	13
Halifax County	58
Hants County	17
Inverness County	16
Kings County	12
Lunenburg County	35
Pictou Country	23
Queens County	6
Richmond County	8
Shelburne County	14
Victoria County	11
Yarmouth County	14
Total	**333**

In January 2012, the Fire Services Senior Officials Committee (FSSOC) was established by the Fire Service Deputy Ministers Standing Committee to examine current fire and associated services in Nova Scotia. Participation included senior staff from the Nova Scotia Departments of Labor and Advanced Education (Office of the Fire Marshal); Justice

(Emergency Management Office); Health and Wellness; Service Nova Scotia and Municipal Relations; Natural Resources; and Transportation and Infrastructure Renewal.

The FSSOC was mandated to review and analyze fire services and associated service delivery including, but not limited to hazardous material response; ice, water and confined space rescue; vehicle extraction; and medical first response. Through this review, the committee was asked to identify:

- opportunities to better align and coordinate services throughout the province;
- opportunities for efficiencies and the minimization of risk to communities and responders; and
- recommend future governance and operations structures of the fire and associated services in Nova Scotia.

A final report containing 16 recommendations was delivered to the Fire Services Deputy Ministers Standing Committee by the committee on December 14, 2012. In addition to the recommendations, the committee also identified the impact, time line and level of effort for implementing each of the recommendations. The report did not contain a financial analysis for the recommendations. Therefore, no expenditure pressures can be estimated at this time.

Biological Casework Analysis Agreements

The Biology Casework Analysis Agreements (BCAAs) signed between the federal government and the provinces outline the contributions required by each Province to share the costs of using the Royal Canadian Mounted Police (RCMP) labs and the biology casework analysis (DNA) conducted within the labs for criminal investigations of designated offences that are committed within their jurisdiction. Section 34 of the *Police Act* allows the province to enter into such agreements.

Currently, Nova Scotia pays $219,254 annually to the RCMP for biological casework analysis (DNA testing). These costs are invoiced to and recovered from the municipalities based on proportionate share of Uniform Assessment. The BCAA expired March 31, 2013. However, the agreement was extended for one additional year while a new agreement was negotiated between the federal government and the Province. Under the new contract, Nova Scotia will be required to pay roughly double the current rate, beginning in 2014/15, with contributions rising to just under $1M over three years.

Work within Highway Right-of-Way Permit and Deposit

Municipalities who are planning infrastructure work within 100 metres of any provincial road, within the highway right-of-way, are required to apply for a permit prior to starting any work. For example, if a municipality wanted to install water or sewer pipes, they would be required to submit an application for a Work within Highway Right-of-Way permit. Applications can be obtained from local TIR office or from the TIR website.[5]

Completed applications are submitted to the Area Manager for review, inspection, and overall approval. If the requirements are met and approval can be made, the municipality is notified of the amount of any required deposits. Deposits are not always required. There is no fixed amount for a deposit and most are refundable deposits. However, some work may require a non-refundable deposit. Once received, the permit is provided to the applicant and work can begin.

Once the work is complete, TIR inspects the provincial road/s. If TIR determines damage was done to provincial property, the repair costs are taken from the deposit. Costs associated with these developments may vary. In some cases, TIR simply inspects the property after completion of the project. Costs for these inspections are provided by the Area Managers Field Administration budget. In the case of a large project, TIR may require an inspector to be on site and the municipality pays the cost for the inspector.

[5] gov.ns.ca/snsmr/paal/trans/paal605.asp

KEY FINDINGS

Summary

As the previous two sections articulate, municipalities are facing a difficult future. The results of these findings highlight three key themes concerning expenditures:

- compliance with regulatory requirements will increase municipal debt & expenditures;
- the impact will not be spread evenly across municipalities; and
- expenditure growth is projected to exceed economic growth.

Further discussion of these findings is presented below.

Regulatory Expenditure Pressure

The cost to achieve compliance with the *quantified* regulatory pressures will exceed $1 billion. This figure does not include the eight pressures identified but not quantified, nor does it include the operating cost increases associated with some of the capital spending.

To try and put some context around the impact on municipal government, in 2010, municipalities collectively held $564 million in long-term debt. This includes general municipal borrowing as well as water utility borrowing. If municipalities borrowed to pay for these additional capital expenditures brought on by regulations, it would further increase municipal debt by 277% (See Figure 6). If the expenditure was paid for using equal parts cost sharing arrangement between the three levels of government, municipalities would still incur an addition $335 million. This is equal to two thirds of the current municipal debt load.

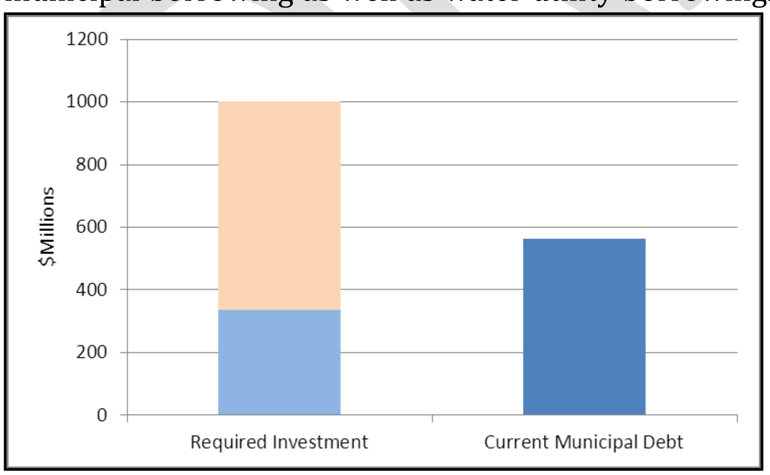


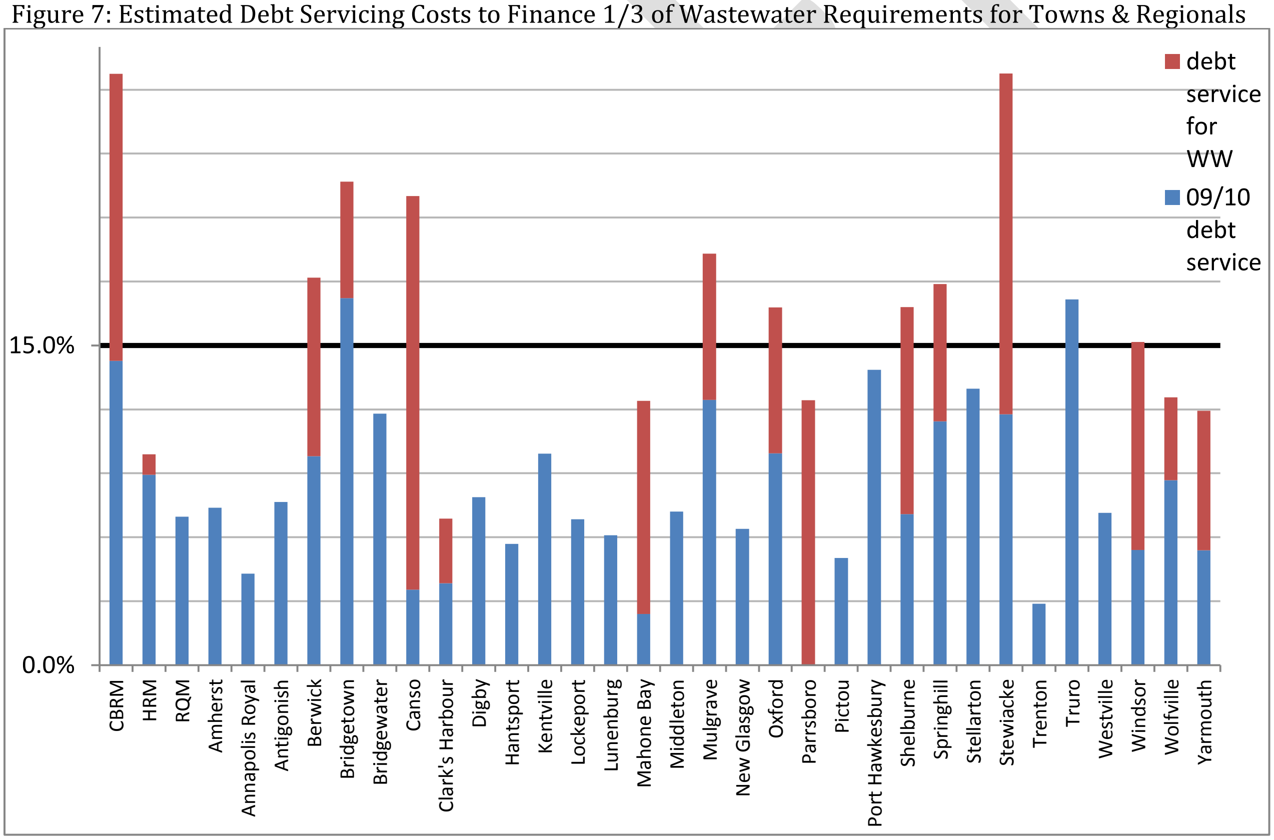
Figure 6: Quantified Regulatory Expenditure Pressures and Current Municipal Debt

Individual Municipal Pressures

While much of this report has focused on the collective municipal experience as it relates to expenditure pressures, it is important to also emphasize each municipality has their own unique expenditure pressures. This is due in part to projected growth patterns; whether the municipality's population is growing or declining; by the state of the municipality's infrastructure and their infrastructure deficit; and their overall fiscal capacity.

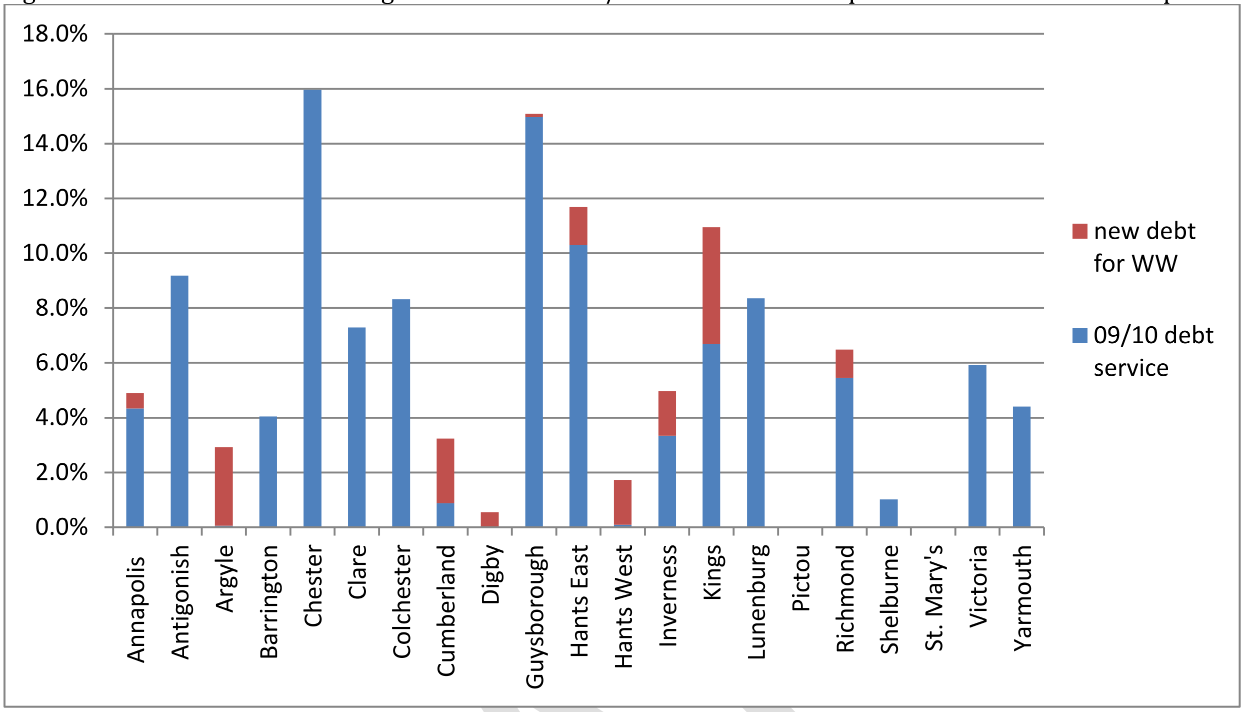
Using cost estimates to meet the wastewater standards we can illustrate how the pressures are expected to impact municipalities to differing degrees. Figures 7 & 8 illustrate one possible scenario for funding the capital upgrades. The scenario assumes municipalities will be responsible for one third of the total project cost, and will borrow from the Municipal Finance Corporation (MFC) to finance their portion of the project[6]. Under these circumstances 13 municipalities will have debt service payments exceeding 15% of their own-source revenue; a threshold currently used for evaluating municipal borrowing.

Figure 7: Estimated Debt Servicing Costs to Finance 1/3 of Wastewater Requirements for Towns & Regionals



[6] The scenario assumes provincial & federal governments provide matching funds totaling 2/3 of the total cost of the project; 15 year term taken out in the coming spring debenture offering; average interest rates of 3.16%; and borrowing costs averaged evenly across term. The scenario does not incorporate inflation.

Figure 8: Estimated Debt Servicing Costs to Finance 1/3 of Wastewater Requirements for Rural Municipalities



It is also worth noting that if the full cost were to be borrowed by each municipality, 18 municipalities would exceed the 15% threshold and 12 of those would not be permitted to borrow the funds as it would put them beyond the 30% threshold used by MFC.

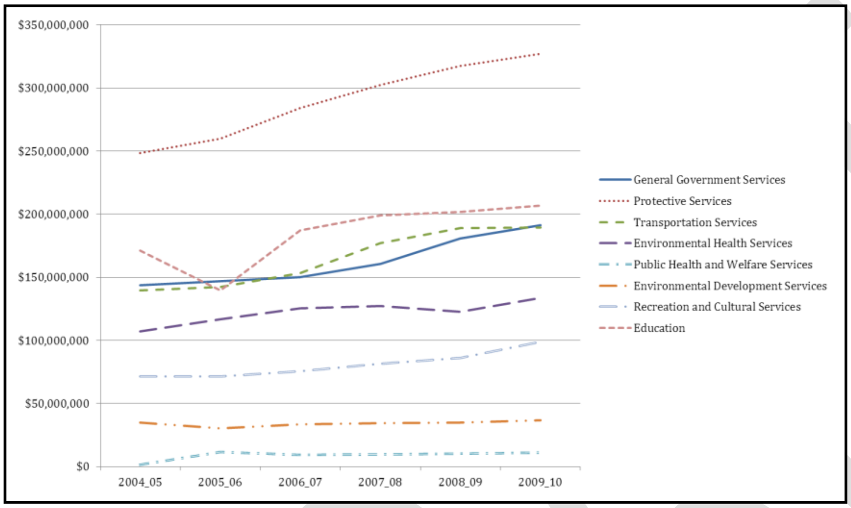
From this example it is clear that even with matching funding from federal and provincial governments, some municipalities face a financial pressure that will drastically limit their ability to borrow. The consequence of making the investments in wastewater treatment will mean that some municipalities will not have the ability to comply with other regulations, let alone make regular investments in existing aging infrastructure or invest in other municipal priorities.

A critical gap in accurately assessing capital cost pressures is an assessment of the infrastructure gap in Nova Scotia. The infrastructure gap refers to the cost required to replace aging municipal assets approaching the end of their useful life. The infrastructure gap in Nova Scotia remains unquantified at this time. Accounting estimates suggest that almost 40% of municipal assets have been depreciated by the end of the 2009/10 fiscal year. It is also suspected that while investments spurred by increased federal funding in response to the recession has improved the overall age of municipal assets, some of those investments were applied to expanding municipal asset inventories, and therefore newer assets may be "masking" the age of critical infrastructure such as sewer and road networks. To address this information gap, an inventory of municipal assets by type which includes an assessment of the condition and remaining useful life of assets is required for all municipalities. Armed with this information, the Province and municipalities would be better positioned to assess where scarce infrastructure dollars should be best allocated.

High Expenditure Growth

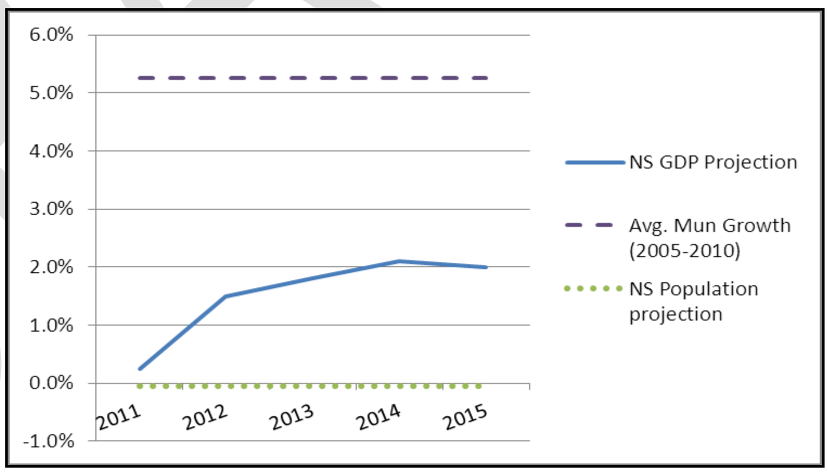
To understand the impact of the regulatory pressures they must be situated within the context of current municipal expenditure patterns. From 2004/05 to 2009/10 expenditures grew steadily at just above 5% per year. The provincial government experienced roughly the same expenditure growth throughout the same time period (See Figure 7).

Figure 7: Municipal Expenditure Growth by Cost Area



In the context of the current economic climate, characterized by low growth in gross domestic product (GDP) and a virtually no population growth for the province, the current rate of expenditure growth is not sustainable for either the provincial or municipal governments (See Figure 6).

Figure 6: Unstable Expenditure Growth



From the provincial perspective, making no changes would mean expanding deficits rather than reducing them. From the municipal perspective, revenue is largely gathered through the property tax. Because municipalities are not allowed to run operating deficits, these trends suggest continued rise in property taxes; keeping in mind, this increase will occur without a corresponding growth in personal income.

The combination of continued municipal expenditure growth, with modest or no growth in the general economy suggest that the municipalities will need to seek options for reducing expenditure growth. However, modest initiatives to limit spending will be entirely overwhelmed by the additional $1,005 million required as a result of regulation.

There are examples of municipalities finding alternative service delivery mechanisms to reduce costs. Nine municipalities in northern Nova Scotia recently embarked on a joint procurement process to acquire financial management software. Using the bulk procurement approach they were able to acquire software which provided greater functionality for a lower price than they could have purchased individually. The success of the procurement process led the municipalities to explore other options to provide services jointly through a shared services coordinator. The challenges posed by cost pressures may also lead municipalities to re-examine service levels to determine what the most appropriate mix of services and taxation in their community should be. An example of this alternative service delivery approach occurred at the Mill Cove Water Utility in The Municipality of the District of Chester. Faced with unsustainable rate increases required to meet the public utility treatment standards, the utility made the decision to decommission and provide private wells to customers served by the utility. The EEPSC suggests that all alternatives should be explored that will help limit the growth of municipal expenditures that ultimately must be borne by citizens.

RECOMMENDATIONS

As a result of the work conducted by the committee in 2012, three areas of focus with five associated recommendations are being presented for consideration to address the economic environment both the municipal and provincial governments will be facing in the future.

Provincial Information Gaps

As with a lot of conversations being had in many professions, the concept of engagement has become key to many organizations achieving success and maintaining relevance, whether it be developing and delivering services and programs, through change management, or simply identifying the needs of clients. This concept has also been identified as beneficial for the relationships between the province and municipalities when it comes to regulatory development.

As identified in the previous sections, current regulatory requirements are putting a great deal of pressure on municipalities. The cost of complying with the regulations and/or financing options for municipalities is often not part of the development process. To address these concerns, the EEPSC is putting forward two recommendations.

> **Recommendation 30**
> **Stakeholder involvement must occur early in the process of regulations development and must involve both economic and financial analyses[7] of the proposed changes so that the regulatory decisions are made with a full understanding of implementation issues; a fully informed process that engages municipalities will likely result in greater compliance with and more cost effective regulations.**
>
> **Recommendation 31**
> **New regulations should always have clear and measurable outcomes, they should include sun-setting provisions, and they should be regularly reviewed for efficiency and effectiveness.**
>
> **Recommendation 32**
> **Departments working on new regulations for municipalities must engage with the Department of Municipal Affairs to determine the total cumulative impact**

[7] Economic analysis assesses the costs and benefits of implementing the regulations, financial analysis assesses the affordability of the regulations.

of all provincially and federally imposed municipal regulations. To support this work, the Department of Municipal Affairs will collect, on an annual basis, the economic and financial analyses conducted for all major regulations imposed on municipalities.

Municipal Information Gaps

Over the past few years, the federal infrastructure programs delivered by the Canada Nova Scotia Infrastructure Secretariat have provided investment opportunities for municipalities in order to improve and/or develop new infrastructure. However, there is no systematic approach in Nova Scotia for making decisions regarding municipal infrastructure assets across the spectrum of infrastructure activities including building, operating, maintaining, replacing, and decommissioning these types of assets. By incorporating community, municipal, and regulatory priorities together in these plans, provincial and municipal officials will be far better positioned to determine what infrastructure investments are realistically achievable.

Ontario released a guide for municipalities to support them in the development of asset management plans as well as partnering with municipalities in the development of a municipal infrastructure strategy. The purpose of these activities is to support municipalities in making better, sustainable decisions concerning the allocation of funds for infrastructure, while also managing the risks involved with older assets and assets that do not meet regulatory standards. Similar work needs to be conducted in Nova Scotia. Please see the Options Paper on Non-Financial Supports for specific recommendations related to this topic.

Expenditure Growth

As discussed in previous sections of this report, both the province and municipalities are facing difficult futures with the increasing demand from regulations for expenditures. The current rate of expenditure growth, compounded with the regulatory impact is not sustainable for either the provincial or municipal governments.

~~Recommendation 33~~
~~Several existing regulations, specifically, the solid waste diversion and CCME wastewater regulations should be set aside until a full economic and financial analysis can be completed.~~

~~Recommendation 34~~
~~In the future, any new regulations should not move forward unless municipal/provincial/federal governments have agreement on how to fund them.~~ [8]

[8] Recommendations 33 and 34 have been struck out because they fall outside of Provincial jurisdiction.

Recommendation 35
Alternative service delivery mechanisms, including shared service models, must be considered by municipalities as a means to improve efficiencies wherever possible.

APPENDIX A
EXTERNAL EXPENDITURE PRESSURES SUB-COMMITTEE MEMBERS

Don Beatty, Director of Public Works, Town of Windsor

Rennie Bugley, Chief Administrative Officer, Municipality of the County of Cumberland

Matt Davidson, Director of Public Works, Municipality of the District of Chester

Darlene Fenton, Executive Director, Nova Scotia Environment

Bruce Forest, Director of Solid Waste, Municipality of the District of Chester

George Hudson, Executive Director, Department of Community Services

Laurie Lewis, Diversion Planning Coordinator, HRM Solid Waste Resources

Wayne MacDonald, Director of Public Works, Cape Breton Regional Municipality

Joe MacEachern, Director, Department of Education

Chris McNeill, Municipal Advisor, SNSMR

Alain Muise, Chief Administrative Officer, Municipality of the District of Argyle

Bob Purcell, Executive Director, Public Safety and Security, Department of Justice

Aileen Waller-Hebb, Director, Grants & Programs, SNSMR

Barb Wilson, Budget Coordinator, Halifax Regional Municipality

Provincial-Municipal Fiscal Review

Non-Financial Supports

Draft Options paper

Table of Contents

Introduction

The Provincial/Municipal Fiscal Review (Fiscal Review) was established to investigate the current financial condition of municipalities in Nova Scotia and develop recommendations on how the municipalities and the Province can work together to address any issues.

Noting that the Provincial government is currently committed to balancing the provincial budget, it was also determined that the Fiscal Review would explore ways that the Province, particularly the Department of Municipal Affairs (DMA), could enhance or develop new "non-financial" supports to municipalities.

A non-financial support was determined to be a support that would be beneficial to municipalities in Nova Scotia that was not a direct transfer of funds to municipalities, and would make best use of the resources currently available at DMA and the province as a whole.

In order to develop a plan for non-financial supports for municipalities, the Fiscal Review Working Committee established a Non-financial Supports Subcommittee to complete the work as determined in the Subcommittee terms of reference.

The non-financial supports committee was assigned the task of developing a plan for enhancing the current non-financial supports offered by the province to best meet the needs of municipalities.

In order to determine what the needs of municipalities are, the committee attending the Chief Administrative Officer (CAO) session at the annual Association of Municipal Administrators of Nova Scotia (AMANS) conference to discuss which municipal issues were most pressing for municipalities in Nova Scotia. At this session, the Subcommittee also shared with the group research that had been conducted on best practices concerning municipal non-financial support in other Provinces.

In addition to the presentation at the CAO forum, the Subcommittee sent a survey to all CAO s in Nova Scotia asking for municipalities to identify which current non-financial supports offered by the Province they currently use; which non-financial supports that are offered to municipalities in other provinces they would be most interested in exploring; and overall, what would they identify as priority non-financial supports that the Province should consider offering.

Research was conducted by DMA staff in the fall of 2011 on what other municipal affairs groups were currently offering to their municipal partners (see appendix 1). What became clear from the research is that many provinces are partnering more and more with municipalities to provide services that are beneficial to all municipalities in areas such as strategic planning, asset management, and information sharing.

As a starting point, MSD also met with representatives from provincial departments to determine the types of non-financial supports the province currently offers to municipalities. It was determined that, for the most part, the non-financial supports being offered by provincial departments other than MSD were very ad hoc in nature, such as providing subject specific training, advice and information sharing as necessary (see appendix 2).

Even within MSD it was identified that the services provided are ad hoc, and not well known to municipalities.

Key Findings

There needs to be a better process for municipalities to interact with representatives from other provincial departments. The province is not doing a good job of communicating the supports that are currently offered by other provincial departments and MSD.

- The province and municipalities are not working as closely as they are in other provinces to determine what the main issues are with municipalities, and how those issues can be addressed by the province partnering with municipalities to determine solutions.
- Not all municipalities do have the resources to provide essential training for their staff.
- Municipalities are required to provide the province with financial information. The province also has access to other information sources, such as assessment data. Municipalities would like to see more done with this information so that they see a benefit to providing the province with their data.
- Municipalities would prefer the province to focus any new non-financial supports on issues that are relevant to all municipalities in Nova Scotia, as opposed to offering supports to individual municipalities.
- Municipalities are concerned with recruitment and retention, and their ability to attract qualified employees to their municipalities.
- Municipalities should be partnering together more to create efficiencies.

Recommendations

- **Recommendation 36 - The Province, the AMANS and the UNSM should work together to developing a Provincial/ Municipal Strategic plan (can use those completed in other provinces as a template) to determine the priority areas for cooperative initiatives (i.e. Towns Task Force implementation, MGA Review, Elections Act Review, etc…).**

- **Recommendation 37 - The Province and municipalities should establish a staff level roundtable to discuss municipal issues and to provide an ongoing venue for continuous dialogue and collaboration. This roundtable should encourage two way communication around issues that impact the province and municipalities**

- **Recommendation 38 - The Province, the AMANS and the UNSM should develop a provincial wide strategy for addressing Asset Management in Nova Scotia. This should be identified as a priority in the Provincial/Municipal Strategic Plan and should build on the Asset Management Program currently being developed by HRM.**

- **Recommendation 39 - The AMA, UNSM and Municipal Affairs staff should continue to collaborate on education and training through the AMANS Education Committee. This committee should complete, implement, and continuously evaluate the recommendations in the current Education and Training Strategy for Municipal Employees and Elected Officials and should also continue to publish a joint training calendar.**

- **Recommendation 40 - The Province should explore opportunities for staff secondments to help with resource issues and succession planning.**

- **Recommendation 41 - Municipal Affairs should undertake an organizational review to determine if the existing structure best meets the needs of both the department and municipal partners. In particular, the role, area of expertise and structure of the Municipal Advisors service should be reviewed.**

- **Recommendation 42 - Municipal Affairs should provide an organizational chart, including roles and contact information, for all DMA staff for use by municipalities.**

- **Recommendation 43 - Municipal Affairs should develop new processes for developing and sharing information with municipalities. Based on priority areas identified through the provincial/municipal strategic plan, the**

department should work with municipalities to produce and share best practices materials, policies, data analysis, etc. Municipal Affairs should identify methods for sharing the analysis and findings from the data municipalities provides to the division through a system, such as a data portal. Municipal Affairs should also develop a more user-friendly financial reporting system to improve and expedite the financial reporting process.

Appendix 1: Municipal Services Departmental Structures and Services in Canadian Provinces

a) Finance

- BC – Finance is paired with infrastructure
- Alberta – Municipal Services Branch provides finance services
- Saskatchewan – Finance is paired with grants
- Manitoba – Finance is paired with advisory services
- Ontario – Finance is paired with policy
- NB – Finance is its own division
- PEI – Finance is part of the Municipal Affairs division. The Department has a "Taxation and property records" division
- Newfoundland – Finance is one of five units under "Municipal Support & Policy"
- NS – Finance is paired with policy

Summary:

- In the majority of provinces, the finance division is paired with another core business function such as infrastructure, grants, advisory services or policy.
- There is no consistency or trend regarding the placement of finance divisions.
- Manitoba provides support to municipalities' property tax systems through their Information Systems division by preparing municipalities' annual property tax bills, enabling municipalities to take advantage of economies of scale and deliver tax bills efficiently and effectively.

b) Planning

- BC – Planning is paired with intergovernmental affairs
- Alberta – Planning is one of five units under "Municipal Services Branch"
- Saskatchewan – Planning is one of four units directly under the Dept. of Municipal Affairs
- Manitoba – Planning is one of two major departments under the Dept. of Intergovernmental Affairs and is called "Community Planning and Development". The department has three sub-divisions (community planning services, urban development and provincial planning services).
- Ontario – Planning is one of four departments directly under the Ministry of Municipal Affairs & Housing. A Provincial Planning Policy Branch is one of four branches.
- NB – Capacity building and local governance
- PEI – Has two departments under the "Department of Finance & Municipal Affairs" – Land & Local Governance and Provincial Planning.
- Newfoundland – Planning is paired with Municipal Engineering and is one level higher than the other five municipal services units.
- NS – Planning is paired with advisory services.

Summary:

- Four planning departments are stand alone and are not paired with another function (Alberta, Saskatchewan, Manitoba, Ontario). These are the larger provinces.
- Four planning departments are paired with another function:
    - BC – paired with intergovernmental affairs
    - PEI – grouped with local governance
    - Newfoundland – paired with municipal engineering
    - NS – paired with advisory services
- Some planning departments conduct provincial land use planning in addition to municipal land use planning.
- Nova Scotia is the only province to pair planning with advisory services

c) Grants and Program Delivery

- BC –Infrastructure and Finance Division
- Alberta – Municipal Grants is its own unit under municipal services
- Saskatchewan – Grants is paired with finance
- Manitoba – Municipal finance and advisory services (paired with finance)
- Ontario – "Municipal programs & education" unit
- NB – Corp. Services, Community Funding & Technical Services (their two divisions under this branch – Programs & Engineering and Community Infrastructure
- PEI – Municipal Affairs division
- Newfoundland – Municipal Finance Division
- NS – Municipal grants is paired with programs

Summary:

- In four provinces (BC, Sask, Man, Nfld) the Finance (or a Grants & Finance) division delivers municipal grants.
- In Alberta, municipal grants is a stand-alone division.
- In other provinces, the function is delivered by a unit of a different name (for example, in Ontario the unit is called the "Municipal Programs & Education Unit).

d) Advisory Services

- BC – Advisory services branch is one of three branches under the "Governance & Structure" division.
- Alberta – Advisory services by the "Capacity Building Unit"
- Saskatchewan – "Strategy and Sector Relations Branch"
- Manitoba – Advisory services is paired with finance.
- Ontario – "Intergovernmental Relations & Partnerships" branch
- NB – Has a "Capacity Building and Local Services" office (advisory may be held here)
- PEI – Has a basic organizational structure –the "municipal affairs" department provides advisory services.

- Newfoundland – Municipal support & policy is its own department with five sub-units underneath.
- NS – Advisory services is paired with planning.

Summary:

- All provinces offer some form of advisory services to municipalities.
- There is no consistency or trend regarding the placement of advisory services
- Some provinces place "advisory services" separately as its own division (BC, Alberta)
- Other provinces pair advisory services with another business function (Manitoba pairs advisory services with finance)
- Saskatchewan's Strategy and Sector Relations Branch is responsible for creating a Municipal Sector Strategic Plan
- Newfoundland – "Municipal Support & Policy" is its own department with five sub-units underneath, including a "Regional Cooperation" branch. The Department's strategic plan commits municipal affairs to increasing regional cooperation initiatives and assessing regional service delivery opportunities throughout the Province by March 2012. Cooperative interests include sharing of municipal services, incorporation, annexation or amalgamation.

e) Policy

- BC – Policy & Research is one of five major divisions under the "Department of Local Government"
- Alberta – Municipal Services Branch
- Saskatchewan – One policy department serving all four divisions under the "Department of Municipal Affairs"
- Manitoba – "Policy & Legislation" division is under the "Provincial and Municipal Support Services" department
- Ontario – Local Government Policy Branch under the Local Government & Planning Branch
- NB – Local and Regional Governance Branch
- PEI – Municipal Affairs
- Newfoundland – The "Policy & Strategic Planning" division is under the "Municipal Support and Policy" division
- NS – Policy is paired with finance.

Summary:

- Nova Scotia is the only province to pair policy with another business function
- Some provinces do not have a designated "policy" division or branch (Ontario, NB, PEI, Alberta)
- Saskatchewan has a stand-alone policy division which serves the entire municipal services department
- Other provinces have a stand-alone policy division (BC, Manitoba, Newfoundland)

f) Unique aspects of municipal services organizational structures:

- BC – Planning is paired with “intergovernmental relations”, “Local Government Structure” unit
- Alberta – “Emerging issues” unit, a “municipal collaboration” unit and a “capacity building” unit
- Saskatchewan – “Strategy and Sector Relations” unit
- Manitoba – “Information systems” unit, an “Urban Development” unit
- Ontario – “Municipal Programs & Education” unit, 5 regional offices,
- “Intergovernmental Relations & Partnerships” unit
- NB – “Community Restructuring” unit, “Special Projects” unit, 8 regional offices
- PEI – Nothing unique.
- Newfoundland – “Regional Cooperation” office, “Local Governance” office

Appendix 2: Summary of Non-financial supports currently offered by provincial government departments in Nova Scotia

Department	Consultation	Information / Advice / Training / Presentations	Joint Committees	Nature of Relationship / Interaction	Programs of MU interest / Examples of interaction
Department of Energy		Advice on programs / applications; Information sharing through various means i.e. website, meetings etc; Information on policy / legislation; Sometimes deliver presentations		Limited direct involvement; typically ad-hoc, MU asking about a particular program; Staff to staff	HRM was implementing a solar initiative and the department supported them with information.
Department of Seniors	Focus groups Multi-disciplinary advisory group is formed to identify priorities and start working towards them. Staff person meets with MUs one-on-one several times.	Support, advice in order to make the program a success. Assist in the community planning process i.e. facilitate, help and support role. Standardized data collection so longitudinal information can be collected. Presentations to: UNSM; Councils; Annual meetings / board meetings of UNSM.	Age Friendly Communities Advisory Committee (including UNSM / Elected representatives)	Positive interaction, fantastic relationship	Program: Age Friendly Communities. 13 MUs are on board with 8 areas they look at, $5000 matching grant with an MU that's interested in becoming an age friendly community.
Communities, Culture and Heritage		Provide advice and guidance, Information on application requirements for programs; Presentations to councils.		Fairly well established communication with MUs. Positive	Heritage Property Act. There are only 4 or 5 MUs that do not have heritage advisory

Department	Consultation	Information / Advice / Training / Presentations	Joint Committees	Nature of Relationship / Interaction	Programs of MU interest / Examples of interaction
				relationship; there isn't a formal relationship but a steady dialogue. Ad hoc interaction.	groups Special Places and Protection Act Acadian Affairs- administer federal grant program.
Labour and Advanced Education	Consulted on some issues to reach recommendations.	Information sessions; Training and education in Building Code Act. Knowledge Transfer of what's new in national building code, regulatory/technical requirements of codes/material standards.	NS building advisory committee has a UNSM representative.	Can be an antagonistic relationship with MUs; Coming from a regulatory aspect so not in a department that generates good feeling.	Pension plan funding: Pension plan relief measures; Building Code Act
Department of Community Services	Public consultations at the request of MUs. Consultations with MLAs and private sector representatives.	Interaction is issues and information driven. Assistance for filling out applications (individuals). Presentations to councils frequently discussing housing issues.	Justice, DCS, HRM developed task force on addressing policing in Uniacke Square. Kings Regional Rehab Centre, the Board is created by legislation 6 MU/4 Provincial appointees.	The DCS is very integrated with MUs because of the history of cost sharing services. A lot of counselors/ MLAs call staff because the politicians are so close to the client.	Housing, Home Repair Grants

Department	Consultation	Information / Advice / Training / Presentations	Joint Committees	Nature of Relationship / Interaction	Programs of MU interest / Examples of interaction
			Owned by MU, 100% funding by province.		
Department of Justice		Coordination / training (emergency preparedness, hazard, storm events) / liaison role Communicate Emergency Management plans to MUs to both elected officials and employees.	Subcommittee of UNSM on public safety. Criminal Intelligence Services NS (RCMP and MU police on the group)	EMO has officers in various regions across the province and MUs have their own staff. If there is an event, the provincial EMPOs work with the MU EMPOs in responding to the event. Coordinate response to NSPI, military, volunteer fire depts., Dept of Transportation etc. Coordinates provincial and federal resources.	Emergency Management Office Policing
Department of Health and Wellness	Consultations with UNSM (i.e. Child Obesity Prevention Strategy)	Advisory/consulting for big picture/long term vision, things like trends/monitoring trends in physical activity and sport world.		Non formal, ad-hoc. Out of 28/29 staff, probably 15 work directly with MUs	Physical Activity, Sport and Recreation Active Transportation

Department	Consultation	Information / Advice / Training / Presentations	Joint Committees	Nature of Relationship / Interaction	Programs of MU interest / Examples of interaction
		Training and professional development. Knowledge translation RFP process advice/expertise for active transportation. Advice: understanding policy, infrastructure design expertise, hosting guidelines for hosting events Trails consultant who travels across the province, 6 regional reps (Sydney, antigonish, kent, lunen, truro, Halifax) Information sharing: attending national conference/looking at latest literature. Life Saving Society- training on how to set up safe waterfront. Provide hiring/services but they pay a fee to the program. Presentations by regional staff on physical activity (if requested by MU); community development approach.			Trails Life Saving Society for beach operation
Department		Community Counts is information			Community Counts

Department	Consultation	Information / Advice / Training / Presentations	Joint Committees	Nature of Relationship / Interaction	Programs of MU interest / Examples of interaction
of Finance		provided to MUs. A public service but available to MUs as well.			
Department of Natural Resources		Planning advice; Mapping; Mine site remediation, reclamation projects. Information sharing on coastal erosion/flooding. work with RDAs on economic development opportunities for mineral development; Some regional people work with MUs with watersheds/forest management practices/ forest protection work and planning issues.		Mainly they are trying to build a relationship with MUs, tell them what they know and make them aware of it. Most interaction is at the staff level.	
Economic and Rural Development		Provide advice- economic development and working with RDAs i.e. economic projects, asset mapping, Regional Development strategies, business expansion and attraction, community transition Education process with MU advisors; direct and indirect information sharing		20 field staff in 4 different regions throughout NS so go out to them and they come to us looking for advice.	Economic Development Community Transition Regional Development Authorities
Agriculture	Preparing for consultation early in the new year to discuss climate change and the state of the dyke system (will need to increase	Technical advice, support of bylaws; Rural economic development advice; councils play an active role in how they can tap into development type programming		Staff work closely with MU planners, i.e. Windsor Causeway manage the level of the lake, if not controlled could	Animal Fencing Act; Alternate Energy Opportunities

Department	**Consultation**	**Information / Advice / Training / Presentations**	**Joint Committees**	**Nature of Relationship / Interaction**	**Programs of MU interest / Examples of interaction**
	width/height) and cost distribution of this will become an issue.	offered through Dept of Agriculture i.e. encouraging people to grow a particular crop b/c it has a value for a natural insecticide; Technical expertise / advice from the Agricultural College. Coastal Flooding: maintain 240 kms of dykes around the Bay of Fundy to protect the low lying agricultural land.		flood the Town of Windsor, staff on call with Town staff, co-own a generator.	
Environment		Advice / Information: i.e. watershed planners who go out and work with municipalities on how to protect their watershed.	Official stakeholder groups for water/wastewater with reps from UNSM/AMA- each group meets 2-3 times per year.	Regulatory	Assistance with watershed planning
Department of Transportation & Infrastructure Renewal		Advice on applications Information sharing through various means i.e. website, meetings etc Information on policy / legislation Sometimes deliver presentations to municipal councils	Some Area Managers are members of municipal Emergency Response Committees	Limited direct involvement; typically ad-hoc, MU asking about a particular program Staff to staff	.