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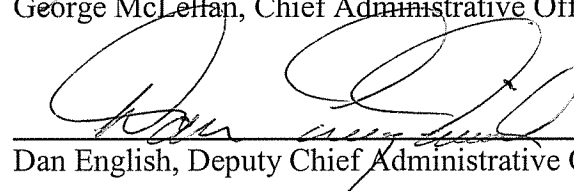
Halifax Regional Council
June 8, 2004

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:



George McLellan, Chief Administrative Officer



Dan English, Deputy Chief Administrative Officer

DATE: June 8, 2004

SUBJECT: Supplementary and Mandatory Education

ORIGIN

During debate on the 2004 operating and capital budget Regional Council voted that any increase in mandatory education funding in excess of the increase budgeted by HRM (\$3.5 million) will be offset by a decrease in supplementary funding. Subsequent to that, Councillor Warshick moved a motion of rescission.

On June 3rd the Province announced that the Education Tax Rate would be set at 35.1¢, costing HRM an additional \$2.5 million over the \$3.5 million that it had already budgeted.

RECOMMENDATION

It is recommended that :

1. Regional Council re-affirm its previous decision to reduce supplementary education amounts and rates. It is recommended that each of the three residential tax rates be reduced by 9/10ths of a cent. Commercial tax rates are to be reduced by 2.2 cents (Halifax and Dartmouth) and 0.9 cents (Bedford and County). The revised amounts and rates are as follows:

Halifax - \$11,206,000. Residential - 8.9 cents, Commercial - 22.7 cents
Dartmouth - \$4,676,700. Residential - 7.2 cents, Commercial - 18.4 cents
Bedford/County - \$2,502,000. Residential - 2.8 cents, Commercial - 2.8 cents

2. That because of the increased education amount that Regional Council introduce a HRM-wide area rate of 1.2 cents on both residential and commercial assessment to pay for the \$2.5 million overage in Mandatory Education.
3. That the September tax bill include an explanation (either on the bill or through an insert) of how mandatory education has increased and how this increase has affected the general tax rate reduction passed by Council.

BACKGROUND

When HRM was developing its 2004-2005 Operating Budget, the Province of Nova Scotia had yet to announce its Education Tax Rate for the upcoming year. As part of its budget, HRM assumed that its mandatory education amount would increase to \$70 million (5.3% or \$3.5 million). This required a drop in the Education Tax Rate from 35.1¢ to 33.57¢. If the rate were to remain flat, HRM would be required to spend \$72.5 million (an additional \$2.5 million over its budget). During the April 20th debate on the budget resolution, it was moved by Councillor Uteck that

any increase in the assumed mandatory education funding set by the Province in excess of the increase budgeted by HRM (\$3.5 million) will be offset by a decrease in supplementary funding for the areas of the former Halifax, Dartmouth, Bedford, and the County, as applicable

In the April 20th Provincial Budget the Department of Education used incorrect assessment figures to calculate amounts owing by Municipalities. As such, it assumed that a 35.1 cent rate would raise \$147.4 million from municipalities, including \$69.8m from HRM. This was \$200,000 less than HRM budgeted (ie a \$3.3m increase over budget). The error was almost 100% related to HRM assessment.

The funds identified by the Department of Education only required an Education Tax Rate of 34.47¢. Under past departmental practice, what should have happened was a drop in the Education Tax Rate. With such a decline in the rate, HRM would have seen Mandatory Education Funding of \$71.2 million (\$1.2 million over its budget increase of \$3.5 million). Conversely, other municipal units would have saved \$1.2 million.

The Provincial Government reviewed the situation and considered several options including possible one-time rebates to HRM. It now appears, however, that the preference of the Department of Education is to maintain the Education Tax Rate at its current level of 35.1¢ for 2004-2005 and apply it on the correct assessment. HRM's mandatory education amount will now rise to \$72.5m or \$6m over the 2003/04 budget. This is \$2.5 million more than HRM budgeted for in 2004/05. It is also worth noting that the Province has effectively abandoned its policy of paying 90% of the

"incremental funding for public education", despite specific reference to this being achieved in 2004/05 in the Provincial budget documents. In 2004-2005 municipal units will pay for an estimated 20% to 25% of the incremental costs of public education.

Statements by provincial officials have indicated that this is a change in policy and that in future the Education Tax Rate will not be decreased. With assessments increasing in HRM and other municipal units this seems to have become a funding tool for the Department of Education. The education rate always uses last years assessment so it is easy to estimate HRM's next year's education tax. Based on 2004-2005 assessment growth, this will be \$7.5m over our current budget. Obviously this is a very serious concern in funding municipal services.

DISCUSSION

The actions by the Department of Education have caused HRM three serious concerns:

(1) The Provincial Government appears determined to maintain the same education tax rate despite rising assessment values. Maintaining the same tax rate goes against the traditional municipal philosophy of first determining what funds are required and then setting the rate. Since 2001-2002 HRM's mandatory education costs have risen by \$13 million or over 20%. More worrisome is the long-term trend. Continuing with the same approach will cost HRM an additional \$7.5 million in 2005-2006. This is a 30% increase in only four years. Other municipal units are also being unfairly penalized by an education tax that should decline, but which has not.

(2) Based on the present funding formula, the Halifax Regional School Board (HRSB) last year received about \$1,000 less per student for education than did other regional school boards in the province. The current funding formula is largely based on outdated enrollment statistics that do not reflect changes in the Halifax Regional School Board's enrollment. While other factors such as transportation do play a role in the formula, the outdated enrollment statistics are responsible for the majority of the funding. Because education in HRM is badly underfunded by the Province, considerable pressure is placed upon the Regional Municipality to provide supplementary education.

(3) How the Province distributes education funds and where it gets them from are two different things. Under the Provincial formulas it first decides how much each board receives. The cost is split between the municipalities and the Province based on the assessment base. Municipalities with higher assessments such as HRM pay a far higher share of the School Board's budget. In this case, the Province has used this formula to spread the funds across the Province even though almost 100% of the cost is borne by HRM. HRSB is to receive only \$975,000 of the increased funds.

OPTIONS FOR HRM

HRM now faces two serious issues that are immediate in nature. First of all, it has a \$2.5 million shortfall in the current budget year. This is in addition to the shortfall it faces due to Provincial actions on the Imperial Oil Refinery (minimum \$600,000), Hurricane Juan and dramatically increasing fuel costs. Secondly, it faces a shortage of \$7.5 million in its upcoming 2005-2006 budget. Regional Council is currently considering two options:

- (1) It can rescind the motion passed by Council to lower Supplementary Education. Should it do this it will still face a shortage of \$2.5 million. This shortage will have to be dealt with through increased taxation, reduced expenditures or some combination thereof.
- (2) As recommended, it can reduce Supplementary Education amounts and the corresponding tax rates by \$2.5 million. It would then introduce an area tax rate to recapture the \$2.5 million shortage in mandatory education.

Under both options the \$2.5 million shortage will have to be dealt with. Under the second option, however, any tax increase will be largely offset by a decline in the Supplementary Education tax rates.

REDUCTIONS IN SUPPLEMENTARY EDUCATION

Under the Municipal Government Act (MGA) Supplementary education amounts are required to be paid out in Halifax and Dartmouth. The MGA guarantees that the April 1, 1996 amount can be reduced by no more than 10% per year or \$1.78m. In 1996-1997 HRM reduced both amounts by 4.7%. Subsequent to that it increased both amounts. The maximum HRM can reduce the Halifax and Dartmouth rates by is \$1.78 million plus whatever increases (\$592,000) it has had since amalgamation. The Bedford/County rate is not subject to any limitations and can be eliminated at the will of Council.

Supplementary Education Amounts

	1995-1996 <i>Amalgamation</i>	1996-1997 <i>Budget</i>	2004-2005 <i>Budget</i>	2004-2005 <i>Guaranteed Maximum</i>
Halifax	12,466,268	11,805,700	12,295,000	10,559,100
Dartmouth	5,311,732	5,136,300	5,239,200	4,605,100
Sub-Total	17,778,000	16,942,079	17,534,200	15,164,200
County/Bedford	0	0	3,312,000	0
Total	17,778,000	16,942,079	20,846,200	15,164,200

While a number of methods can be used to decrease these amounts across the three tax rates, under these circumstances the most effective way to do so is to decrease each of the three residential tax

rates by 0.9 cents per \$100 of assessment.

Proposed Revision to Supplementary Education

	Halifax	Dartmouth	County/ Bedford	Total
Budget Amount	12,295,000	5,239,200	3,312,000	20,846,200
Reduction	(1,089,000)	(562,500)	(810,000)	(2,461,500)
Final 2004-2005	11,206,000	4,676,700	2,502,000	18,384,700
Percentage	8.9%	10.7%	24.5%	11.8%

Supplementary funds can not be used to pay the mandatory education bill. However, reducing each of these three tax rates by 0.9 cents means that taxpayers across HRM see an equal decline in their tax rate. This creates tax room for HRM. Then, HRM can levy a HRM-wide area rate on residential and commercial assessment of 1.2 cents per \$100 of assessment. This produces the required \$2,451,000 in extra mandatory assessment. Unfortunately, area rates cannot be weighted on commercial assessment, meaning that a slightly higher area rate must be used to recapture the lost funds.

The end result under this proposal is that HRM will balance its budget without service reductions. The Halifax Regional School Board will lose \$2.5 million in funding (less the extra \$975,000 awarded it by the Province). Most Residential and Commercial taxpayers will see only a small change in their tax bill.

BUDGET IMPLICATIONS

As discussed in the text of the report, Supplementary education amounts and rates could be reduced. An area tax rate of 1.2 cents will be introduced to raise \$2,451,000. Mandatory education will be budgeted at an additional \$2,451,000 for a total of \$72,527,000.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

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

ALTERNATIVES

Two further alternatives exist.

First, Council could pass the notice of rescission. In this case, staff would have to return with \$2.5 million of savings identified. This could be a combination of tax increases and reductions in services. An area tax rate would remain at 1.2 cents but without the offsetting reduction in the

supplementary education tax rates. Reductions in services would likely focus on many of those items passed towards the end of the budget process.

Secondly, each of the three supplementary education tax rates could be reduced by 11.8%. This produces the same dollar amount of savings. This would eliminate the disproportionate reduction in education costs for Bedford and the County. However, now there would be a different level of supplementary tax savings in each unit. Halifax would see savings of 1.2 cents, Dartmouth 1 cent and Bedford and the County of 0.4 cents. The same area tax rate of 1.2 cents would be applied. Halifax would thus see no change, Dartmouth a marginal tax increase and Bedford and the County an increase of 0.8 cents.

ATTACHMENTS

None.

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

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