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## Item No. 11.1.8

Halifax Regional Council  
June 24, 2008

**TO:** Mayor Kelly and Members of Halifax Regional Council

**SUBMITTED BY:**

A handwritten signature in cursive script, appearing to read "Dan English".

Dan English, Chief Administrative Officer

A handwritten signature in cursive script, appearing to read "Wayne Anstey".

Wayne Anstey, Deputy Chief Administrative

**DATE:** June 17, 2008

**SUBJECT:** Taxation of Rural Express Transit

### **ORIGIN**

The 2007-2008 Capital Budget authorized funds for a new rural express transit service (RET).

### **RECOMMENDATION**

- 1) That the service be put in place April 2009 with capital funding coming from the approved 2007/08 capital project and that sufficient operating funds to support the service be included in the 2009/10 operating budget.
- 2) Further, it is recommended that Regional Council direct staff to return to Council no later than the start of fiscal 2010/11 with a new taxation strategy for transit. This may be addressed prior to that time but staff believe that if a strategy is not in place by 2010/11, Regional plan goals & objectives will be in jeopardy. Until that time the operating and capital costs of RET are to be funded through the general tax rate.

## **BACKGROUND**

In 2007-2008 Regional Council approved capital funds for the development of a new rural express transit service (RET). Under Regional Council's current tax structure the service is an area rated service, for both the capital and the operating costs. If an area rate is to be levied to support service during 2008/09, community consultations would have to be undertaken immediately. Tax reform discussions have publicly contemplated other ways of raising taxes to support rural transit including general tax rates.

## **DISCUSSION**

The 2007-2008 approved capital budget included \$3.1 million for rural express transit. Transit outside the core is an area rated service. Recently there have been public meetings held in the rural areas to discuss the introduction of rural express transit but no specific community consultation to decide whether residents would support an area rate. During the April 2008 discussion on the five year transit plan a staff report stated (April 8, 2008) that "A target date has been set as November, 2008 for operation of the service". The body of the report noted that:

*In order to properly fund transit services outside the urban tax boundary a decision on whether to implement transit funding model recommendations brought forward as part of Tax Reform, either as part of the full Tax Reform, or a piece for early implementation should be considered. Under the current tax structure these services would have to be funded through an area rate, with public consultation and approval with each area receiving the service.*

*Potential risks to achieving the projects and timelines proposed are, getting timely area rate approvals, and determining the appropriate catchment area to properly apply these.*

For area rates to function effectively, the public needs to be consulted on the setting of the rate before the financial decisions are made on setting up the service. In this instance HRM has consulted on a new type of service and taken steps to establish the service. Should area rate consultations determine that the broader public is not willing to pay additional taxes for the service, then under the current tax structure Regional Council would have to decide either to (1) levy the additional area rate taxes regardless, or (2) cancel the planned service. (Currently, the RFP has been issued but has not closed).

At the moment, it is fair to say that taxation of transit is at a transition point. The current area rate system makes transit more difficult to implement in rural areas. With transit moving into rural areas this represents more and more of an issue. As discussed in the Regional Plan, failure to implement better transit systems will lead to increased road costs and impacts that do not support regional plan objectives around transportation and environmental sustainability. The benefit of transit is not just for the users of the service but for the whole municipality in reducing the wear and tear and traffic volume on roads and reducing carbon emissions from vehicle traffic. There appears to be a consensus forming that taxation on transit must change, either through the annual budget process

or through the Tax Reform Committee. After 2010, additional RET routes are intended to be added on Highway 102 and 107.

### **Options**

With the general tax rates for 2008/09 already approved and tax reform discussions yet to be completed, there are two options for dealing with this rural express transit project.

1) First, area rate consultations can proceed as they would normally. This would look to cover both the existing \$3.1 million capital project and the related operating costs from an area rate. Finance and Transit staff have prepared a mapped area for an appropriate area rate boundary for the new service. Variations on the boundary can also be suggested in consultation with the local Councillors.

Should the community be unwilling to accept an area rate for the service then Council would have to decide whether to cancel the service or impose the area rate irrespective of the outcome of the consultations. The Interim area rate guidelines require community consultations but not community approval to institute an area rate, only approval of the area Councillor.

2) A second option is to acknowledge that the existing tax structure for transit is no longer sustainable because of the underlying shortcomings of the existing tax system and the fact that the community understands there may be better and more appropriate alternatives. Rural Express Transit is fundamentally different from other area rates as much of the ridership comes from a very broad catchment area, even extending beyond HRM boundaries. In addition, it is the first new area rated transit service since the passing of the Regional Plan and it is critical to the success of Council's five year transit plan. As such, the operating and capital costs of rural express transit could remain in the general tax rate until reform of taxation on transit is achieved. This may be accomplished through the existing Tax Reform process or a solution may develop parallel or subsequent to that process. Regardless, it would be prudent to impose a condition that a new regime for transit taxation, along with clear service criteria, be in place preferably by 2009-2010 but no later than the start of 2010-2011.

Option two also has implications for other transit related demands such as community transit. However, until more substantive tax reform occurs, other transit related issues should continue to be taxed using the existing structure (urban tax rate for metro transit, area rates for transit elsewhere).

Staff are recommending Council proceed with option two as the preferred option. Having commenced the purchase of the buses and created an expectation of service, HRM should proceed in good faith to provide the service. Furthermore, a successful rural express transit service will have a significant impact on reducing the need for major regional roadway projects and will attract ridership from outside of HRM's jurisdictional boundaries. While tax reform may yet provide some of the final answers to taxation on transit it cannot yet be used for changes of this magnitude. Providing the service on the condition that if it remains it will have to be added to the appropriate tax bill (or removed) remains the best option. It must also be clear that until a broader decision is

made on the taxation issue, the general tax rate must assume any resulting surplus or deficit from the service.

### **BUDGET IMPLICATIONS**

Under the recommendation there are no budget implications for 2008-2009. The service would begin in the Spring of 2009 with operating funds coming from the 2009-2010 operating budget. Staff would prepare a recommended budget that includes the RET service at the appropriate level of cost.

### **ALTERNATIVES**

1. Regional Council could proceed with area rate consultations under the Interim Area Rate Guidelines and cover both the capital and operating costs of the service through an area rate. If Council wishes to pursue this alternative, assuming community agreement, the area rate would be put in place in 2009/10 to support the service in April of 2009.

2. Regional Council could decide not to proceed with the service.

### **ATTACHMENTS**

None

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

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