HALIFAX REGIONAL MUNICIPALITY

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Item No. 3

Committee of the Whole
December 9, 2008
December 16, 2008

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

Dan English, Chief Administrative Officer

Geri Kaiser, Deputy Chief Administrative Officer - Corporate Services and Strategy

DATE: December 3, 2008

SUBJECT: **Public Transportation and Municipal Property Taxation**

ORIGIN

On June 24, 2008 Regional Council directed staff "to return to Council no later than the start of fiscal 2010/11 with a new taxation strategy for transit".

In addition, on July 8, 2008 Council directed staff to "provide a report with respect to providing bus service to areas of HRM with existing bus service at the urban / suburban boundary funded through the general rate, with an area rate equivalent to that paid by residents in the urban areas. "

RECOMMENDATION

It is recommended that Regional Council

Accept that most of HRM "benefits" from transit service and that therefore

(1) Metro Link, Rural Express Transit and Ferries should be paid for largely by an area rate on dwelling units in the Urban Settlement and the Rural Commuter Shed designations, and,

(2) Local Transit routes should be funded by a single area rate on dwelling units paid by all properties within walking distance of transit service.

And that the Draft 2009-2010 Budget should be developed upon this basis.

And that staff return to Council with the proposed tax rates and service changes.

BACKGROUND

Prior to 1996 transit service was provided by the Metropolitan Authority, a regional body that ceased to exist with amalgamation. Upon amalgamation HRM needed to merge the four different municipal tax systems that had existed. HRM's current approach to taxing transit derives from that time.

In 1997 Metro Transit operated largely within the urban core. The tax structure that was approved by Council in 1997 reflected this. Metro Transit was funded by taxpayers within the urban core through what became an "Urban General Tax Rate". Outside that core if transit service existed it had to be funded by an area rate based on the cost of that individual transit line.

This structure was very different from what existed before and what exists elsewhere in the country. It was essentially a compromise position that functioned reasonably well at that time. Elsewhere in Canada most transit services are simply general rated. General rating is a very simple, flexible approach that is easy to understand and administer. Prior to amalgamation Halifax, Dartmouth and Bedford general rated their transit costs. The former Halifax County, however, area rated their transit costs. There was a single area rate of 11 cents per $100 of assessment for any property within 1 km of a transit stop.

Since 1997, however, there have been substantial changes in the way transit operates and is perceived. In the last ten years the transit fleet has grown by 40% and is extending its service reach past the urban core. The Regional Plan documented the connections between road expansion and transit service. Weaker transit service will inevitably lead to more expensive road expansion and congestion as well as environmental concerns. Following that plan the new Metro Link service was expanded. Transit service is expected to soon extend outside the core through a Express Rural Transit service.

The weaknesses of the current tax regime are becoming more serious and more of an obstacle to the establishment of an efficient, modern transit service. These issues are:

First, the boundaries for the urban core were never designed to grow and contract as HRM grew. The criteria used to establish that urban boundary was one-time in nature and has been unsatisfactory to many taxpayers. For instance, within the Urban Core there are as many as 5,000 homes that are more than 1 km from a transit stop. Some of these taxpayers feel that do not get and should not pay for transit. Conversely, there may be as many as 2,000 taxpayers in the suburban and rural areas within a km of a bus stop who may not be paying for Metro Transit.

Secondly, smaller communities often find that the area rate to fund transit service to their area is too high to provide the service. In a number of cases the actual rate that would be required would be higher than the rate paid by the urban core (as part of the urban general tax rate). This high rate may be a function of a weak tax base or of a high cost structure. The risk for the organization as a whole is that weaker transit service will lead to more cars on the road and hence expanded road costs.

In addition, Rural Express Transit is soon to become available within the commuter shed. Unlike other transit situations, this service is designed to attract riders from across a very wide area. The traditional area rate approach (one community pays or those within 1 km of a bus stop) does not appear feasible. For the service to function the costs must be spread over a much wider area.

Lastly, there are increasing demands for HRM to provide a service based tax structure. The current taxation structure for transit is loosely service based. Those who are deemed "not" to have transit service are not taxed while those who are to have it are taxed. Unfortunately, the criteria for this are weak and inconsistent. In addition, because it is assessment based, there are wide variations in the way individual homes are taxed.

DISCUSSION

There are several broad approaches as to how transit can be taxed and there are many possible variations on those themes.

If Council does not wish a service based tax approach than Transit could be general rated across the entire municipality or (through an area rate) across the majority of the municipality. (For example, most of the resource areas might be excluded from such an area rate).

At the other extreme, Council might choose to area rate the entire service. In this case it would do so by requiring a single area rate for those within walking distance of transit or by those communities with transit service.

Each of these two approaches has its strengths and weaknesses. In 2006 Council's Sub-Committee of Tax Reform was given a mandate to examine re-building the foundations of the tax system "so that it will do what we want it to do".

The Tax Reform Committee has yet to file its final report with Council. In its work, however, it has spent considerable time examining the functioning of the tax system. In line with the Regional Plan, it has concluded that the tax system needs to look not just at who "receives" a service but at who benefits from a service. For instance, even though nearly half the total cost of the transit service is paid for by users, the broader community benefits from the provision of transit. Traffic congestion is reduced and along with that there is considerably less pressure to widen the road network. In itself, a stronger transit service would help defer the much more expensive road costs. The Regional Plan estimated that a strong transit service could avoid as much as $165 million in future transportation costs.

In reviewing the tax system the Tax Reform Committee tried to balance the strengths of a broad general tax rate with an area rate system. It suggested two area rates (Regional and Local) should be created.

Taxes for the broad regional service (eg Metro Link, Express Rural Transit and the Ferries) would be applied across the majority of the entire municipality. There would be four different tax rates for four "zones". The zones are named after colours in order to avoid the emotion that sometimes becomes attached to labels such as urban and rural. These four boundaries are based on the boundaries established in the Regional Plan (the Generalized Future Land Use Map or "GFLUM). The tax rates in the four zone are based on the number of commuter trips in each of these four areas. Higher commuting patterns mean a higher tax rate. Lastly, in an attempt to reduce HRM's reliance on assessment these rates would be based on a set dollar amount, not cents per $100 of assessment. This approach is very similar to many of the newer Recreation Area Rates.

Taxes for the local service would be collected through an area rate that applies to anyone within walking distance of a local bus stop. For instance, this might use a 1 km rule. As with the broad regional area rate, this rate would be applied not on assessment but on dwelling units.

These options have a number of variants, such as reduced rates for peak service or including some Metro Transit costs in the broader Regional Tax Rate. In addition, they assumed there would be lower tax rates for multi-unit buildings.

If transit is removed from the Urban General Tax Rate, than the only remaining difference between the Urban and Suburban General Tax Rates will be the tax on sidewalks. Some of the issues that affect transit also apply to sidewalks. It should be expected that if transit is removed from the Urban General Tax Rate that a new tax arrangement (eg an area rate for local sidewalks) is inevitable for sidewalks. If this happens the difference between the urban and suburban rates will disappear and the remaining urban/suburban border will become a moot point. Essentially, the urban-suburban distinction has outlived its usefulness.

If the above recommendations is approved Staff will return during the 2009-2010 budget process with a draft budget and tax rates for transit.

BUDGET IMPLICATIONS

There are no immediate budget implications. This report describes a possible new tax structure that is based upon raising the equivalent amount of revenues under the current tax structure.

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

Regional Council could maintain the status quo. This is not recommended as it is not sustainable.

Regional Council could opt to general rate the transit service, either over the entire municipality or over a major portion of the municipality.

Regional Council could levy a single area rate for all transit 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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