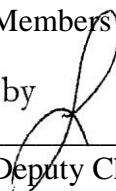


Item No. 10.1.5
Halifax Regional Council
March 29, 2011

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Original Signed by 
Mike Labrecque, Deputy Chief Administrative Officer

DATE: March 24, 2011

SUBJECT: Impact of Provincial Policy Change on Mandatory Payments

ORIGIN

On March 22, 2011 Regional Council passed a motion to request a staff report clarifying the impact to HRM in regard to the proposed provincial amendments to the funding arrangement reached in 2007 as outlined in the "Technical Briefing, MOU" document prepared for Mr. Kevin Malloy, Deputy Minister Service Nova Scotia and Municipal Relations.

RECOMMENDATION

It is recommended that the Mayor write the Minister of Service Nova Scotia expressing Councils disappointment at the recent changes in mandatory payments and suggesting that Municipal and Provincial staff meet to discuss possible alternatives to the Provincial announcement.

BACKGROUND

HRM makes mandatory payments for four province-wide services: education, housing, corrections and property assessments (done by the Property Valuation Services Corporation). The education payment makes up more than 80% of the total.

In November 2007, the Province of Nova Scotia and the Union of Nova Scotia Municipalities (UNSM) signed a Memorandum of Understanding (MOU) that agreed to a cap on municipal mandatory education payments (at CPI) and the elimination of municipal mandatory housing and corrections payments (over seven years). See page 3 of the MOU (Attachment 1).

In 2010-11, the phase out of both housing and corrections payments began in HRM, with plans for housing payments to be eliminated by April 1, 2012 and corrections payments to be eliminated by April 1, 2014.

On March 22, 2011, the Province of Nova Scotia announced that it would change its approach to calculating the required municipal education, housing and corrections payments, effective the 2012-13 fiscal year.

DISCUSSION

The proposed policy changes are described in the March 22, 2011 notes for Deputy Minister, Service Nova Scotia and Municipal Relations, Kevin Malloy (Attachment 2). A “before & after” summary of the changes is provided in the table below.

Mandatory Education Payments		
	<i>Under MOU</i>	<i>New Policy</i>
	Constrained by NS CPI increase	As of 2012-13, 2010-11 education rate will be applied to new Uniform Assessments (trending 3% above CPI)
Housing Payments		
	<i>Under MOU</i>	<i>New Policy</i>
	To be reduced to \$0 by 2012-13	Back to pre-MOU level by 2011-12.
Corrections Payments		
	<i>Under MOU</i>	<i>New Policy</i>
	To be reduced to \$0 by 2014-15	As of 2012-13, frozen at 80% of pre-MOU level, with no CPI increases.
PVSC Payments		
	<i>Under MOU</i>	<i>New Policy</i>
	Not included.	No change.

The proposed provincial policy will not have any effect on mandatory education or corrections payments in 2011-12, but will increase those amounts significantly in 2012-13. The required housing payment will change immediately for HRM, increasing to pre-MOU levels.

A five-year look at the HRM's mandatory payments, including forecasts for fiscal years 2011-12 through 2014-15, is shown below. The annual impact of the new policy is summarized in the "Difference" line, at the bottom of the table.

Estimated Mandatory Contributions, 2010-15 (Original MOU), millions

	2010-11	2011-12	2012-13	2013-14	2014-15
Education	\$97.0	\$99.8	\$102.5	\$105.4	\$108.3
Corrections	6.4	4.8	3.2	1.6	0.0
Housing	1.2	1.2	0.0	0.0	0.0
PVSC	6.6	6.8	7.0	7.2	7.4
Total	\$111.2	\$112.6	\$112.7	\$114.2	\$115.7

Estimated Mandatory Contributions, 2010-15 (New Policy), millions

	2010-11	2011-12	2012-13	2013-14	2014-15
Education	\$97.0	\$99.8	\$106.5	\$112.6	\$119.0
Corrections	6.4	4.8	6.4	6.4	6.4
Housing	1.2	2.4	2.4	2.4	2.4
PVSC	6.6	6.8	7.0	7.2	7.4
Total	\$111.2	\$113.8	\$122.3	\$128.6	\$135.2
Difference (millions)		\$1.2	\$9.6	\$14.4	\$19.5

The new provincial policy is in effect up to and including fiscal year 2014-15.

BUDGET IMPLICATIONS

There are no operating budget implications to this report. However, the provincial policy change will increase future mandatory area rates, including an increase in the mandatory housing rate for 2011-12. The mandatory rates provided during the up-coming 2011-12 budget debate will reflect the new provincial policy. In fiscal years 2012-13 through 2014-15, the mandatory rates are expected to return close to those in 2010-11.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

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

COMMUNITY ENGAGEMENT

No community engagement required by HRM.

ALTERNATIVES

There are no recommended alternatives.

ATTACHMENTS

Attachment 1: MOU between the Province and UNSM, November 2007

Attachment 2: "Technical Briefing, MOU", Deputy Minister Kevin Malloy, March 2011

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.

Report Prepared by: Andre MacNeil, Financial Consultant, 490-6241

Report Approved by: _____
Bruce Fisher, Manager, Fiscal & Tax Policy, 490-4403

Report Approved by: _____
Cathie O'Toole, Director of Finance, 490-6308

Original Signed

MEMORANDUM OF UNDERSTANDING

between
THE UNION OF NOVA SCOTIA MUNICIPALITIES (UNSM)
and
THE PROVINCE OF NOVA SCOTIA

This memorandum of understanding dated this 8 day of November, 2007, is entered into as a reaffirmation of the MOU signed September 15, 2005, a renewal of commitment following the required review, and a mutual commitment of specific further advances in the progress of municipal government in Nova Scotia.

WHEREAS:

The provincial and municipal orders of government are dedicated to the well-being of Nova Scotia's economy, society and environment and the promotion of vibrant, healthy communities;

The provincial and municipal orders of government serve the same taxpayer and recognize the importance of consultation in developing sound policies and programs for the taxpayer;

An effective relationship between the provincial and municipal orders of government results in:

- better government planning;
- more efficient provision of government services;
- a reduction in duplication of services;
- a better public perception of government; and
- a clearer and more thorough understanding of each order of government.

Effective cooperation between the Province and UNSM enhances governmental performance and promotes public confidence and sound planning;

The Province recognizes the role of the UNSM as the single, unified voice of municipalities in Nova Scotia;

The Province reserves the right to discuss issues of a local nature with individual municipalities or groups of municipalities from time to time.

THEREFORE:

The following guiding principles established in this MOU form the basis of the relationship between the UNSM and the Province. This MOU is to serve as a statement of intentions of the UNSM and the Province and not as a contract in the legal sense.

GUILDING PRINCIPLES

1. Regular and Ongoing Consultation

- 1.1 The Province and UNSM will consult with each other in a timely manner on any municipally related legislative, regulatory, policy or financial proposal that has a specific impact on the Province or on municipalities.
- 1.2 Consultation should occur as early as possible in advance of the implementation process.
- 1.3 The Province and UNSM will endeavour to include in any consultation, where applicable, a costing of the proposed financial changes and an analysis of possible revenue sources.
- 1.4 A municipal-provincial roundtable is established and will continue to schedule meetings three times annually to promote the consultation process.
- 1.5 The municipal-provincial roundtable will work cooperatively to develop a short-list of priority areas to address on an annual basis. The list should include a reasonable number of items that may be resolved within the following fiscal year.

2. Respect for Areas of Jurisdiction

- 2.1 The Province and municipalities respect the right of each order of government to discharge their responsibilities within their areas of jurisdiction.
- 2.2 The Province and the UNSM will promote a clear definition and understanding of the roles of the provincial and municipal orders of government to clarify accountability for specific policies and programs.

3. Robust Two-Way Communication

The Province and UNSM will communicate in a timely manner and in an open and transparent way when addressing concerns or questions raised by the other.

4. Resolve Differences Through Direct Dialogue and Discussion

- 4.1 The Province and UNSM will endeavour to resolve differences, conflicts or disagreements through direct dialogue and discussion.
- 4.2 Both parties agree that if one party notifies the media of an upcoming provincial/municipal meeting, that party also commits to notifying the other party of this fact, in advance of the meeting.

5. Commitment and Responsibility

- 5.1 The Province is committed to consultation with the UNSM when considering new legislation or regulations that will have a municipal impact.
- 5.2 This MOU builds on the strong relationship between the Province and UNSM and formalizes the Province's support for the principle of consultation with the UNSM.

ADVANCES IN THE PROGRESS OF MUNICIPAL GOVERNMENT

WHEREAS the Parties hereto in a spirit of cooperation acknowledging the importance of municipal government to the people of Nova Scotia and the important positive contributions by the Province of Nova Scotia to the improvement of municipal government and finance have agreed on further improvements.

AND WHEREAS the parties are committed to an equitable distribution of the costs of government services, now therefore the Parties agree that the following measures will contribute to that commitment and that the Province will consider appropriate steps, including provisions in the *Financial Measures (2008) Act*, to do the following:

1. That, over the life of this agreement (seven years beginning 2008-2009), the Province not increase the amount of the mandatory municipal contribution to the cost of education by a proportion greater than the increase in the cost of living as measured by the percentage increase in the Consumer Price Index for Nova Scotia for the preceding calendar year.
2. That the Province not increase the amount of total municipal contribution to correction costs over the next seven years beginning in 2008-2009, and beginning in 2010-2011 (year three), phase out all municipal contributions to corrections by year seven.
3. That the Province phase out required municipal contributions to public housing over a two year period, beginning in 2010-2011 (year three).

The Parties further agree as follows:

4. The Province remains committed to assisting in ongoing investment in municipal infrastructure.
5. The Province acknowledges the importance and durability of the Guiding Principles reiterated above.
6. The UNSM and the municipalities acknowledge the importance of continued effective and accountable municipal government.
7. The UNSM and municipalities acknowledges the unique division of service responsibilities which exist in Nova Scotia between the Province and municipal orders of government and recognizes that Nova Scotia municipalities are not required to contribute to social programs, which is the case in other Canadian jurisdictions.

8. The UNSM and the municipalities acknowledge and appreciate that the Province is making significant additional contributions through the commitments expressed in this memorandum.
9. The UNSM and the municipalities acknowledge that unforeseen costs or revenue losses may impair the Province's ability to achieve its commitments as expressed in this memorandum and that in any event all are subject to the appropriation of the necessary funds by the Legislature.
10. The UNSM and the municipalities agree to work with the province from time to time in support of common objectives, including increasing competitiveness, building stronger communities and strengthening democracy, as outlined in the New Nova Scotia Initiative.
11. The UNSM and the municipalities agrees to work with the Province towards the establishment of a municipal auditor general, in whatever form may be most appropriate, in order to enhance government accountability to citizens.

REVIEW OF THE MOU

The parties will review the MOU within two years of its adoption to ensure its relevance and appropriateness, to maintain a common understanding of its meaning, and to monitor progress towards the achievement of the goals and objectives set out herein.

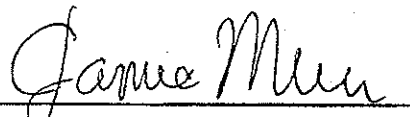
ADMINISTRATION OF THE MOU

The lead contacts for administering this MOU are the President of the Union of Nova Scotia Municipalities and the Minister of Service Nova Scotia and Municipal Relations.

COMMITMENT

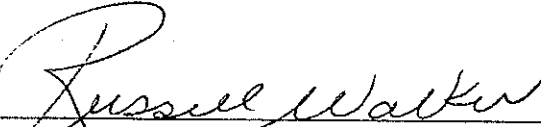
IN WITNESS WHEREOF, the parties hereto have caused this MEMORANDUM OF UNDERSTANDING to be signed as of this 8 day of November, 2007.

SIGNED on behalf of the PROVINCE OF
NOVA SCOTIA by:



Jamie Muir, Minister
Service Nova Scotia and Municipal Relations

SIGNED on behalf of the UNION OF NOVA
SCOTIA MUNICIPALITIES by:



Russell Walker, President
Union of Nova Scotia Municipalities

Remarks for

**Kevin Malloy, Deputy Minister
Service Nova Scotia and Municipal Relations**

Technical Briefing, MOU

March 22, 2011

Good morning.

My name is Kevin Malloy, Deputy Minister of Service Nova Scotia and Municipal Relations and with me today are Jeff Shute, our Director of Policy and Finance, and Shannon Bennett, Senior Policy Analyst.

We are here today to tell you about the changes the province will be making to a funding arrangement reached in 2007, when a memorandum of understanding was signed between the province and the Union of Nova Scotia Municipalities.

Our department continually reviews the programs and services we provide to ensure we successfully deliver on our responsibilities while balancing that with the need to help government live within its means.

A significant component of our department is focused on the goal to build and support strong, sustainable and healthy communities in Nova Scotia. To do this, we work in partnership with the UNSM. This will continue as we move forward. We need to ensure government spending is affordable and we can provide sustainable programs and services at the municipal level.

The funding agreement signed in 2007 has the province assume the responsibility for costs associated with corrections services and housing, that had previously been the responsibility of municipalities.

It also limits increases in municipal contributions to education to increases in the Consumer Price Index.

Over the seven-year term of the MOU, 2008-2009 to 2014-2015, the provincial government agreed to assume the responsibility for approximately \$7 million in housing costs, \$17.4 million in corrections services contributions and a greater share of the contribution toward education costs. In exchange, the UNSM agreed to support the creation of an Auditor General role for municipal governments in Nova Scotia.

To date, the MOU has resulted in approximately \$21.5 million in additional costs borne by the province.

We estimate that the total cost to the province over the seven year term of the MOU could have been upwards of \$100 million.

I'm sure you are all aware of the financial situation that Nova Scotia is facing at this time.

Economists have told government that if nothing is done, Nova Scotia will be facing a \$1.4 billion deficit by 2012-13.

We all know changes have to be made.

We have concluded that we cannot afford to continue this funding arrangement.

The MOU states that "unforeseen costs or revenue losses may impair the Province's ability to achieve its commitments as expressed in this memorandum and that in any event all are subject to the appropriation of the necessary funds by the Legislature."

This indicates that both the province and the UNSM acknowledge that this fiscal arrangement should not proceed if it is not affordable to do so.

We have copies of the MOU here if you'd like to read it.

Therefore, we have amended the funding arrangement, with an aim to provide the municipalities with some on-going benefits while we reduce the cost to the provincial government.

Before I proceed, I would like to provide some more details on the 2007 funding arrangement.

Corrections Services

At the time the MOU was signed, municipalities contributed \$17.4 million annually to the Department of Justice toward the cost of providing corrections services. This amount increased annually by the Consumer Price Index.

In 2008-2009, as a result of the MOU, the municipal contribution was frozen at \$17.4 million. Then, beginning in 2010-2011 ... that's the fiscal year ending this month ... this contribution would be reduced by 20 per cent per year to eliminate the full amount by 2014-2015. The province would then bear this \$17.4 million annual corrections cost.

Housing

At the time the MOU was signed, municipalities contributed approximately \$7 million annually to the Department of Community Services toward the cost of public housing. This was to be reduced at a rate of 50 per cent over two years. The first year of this reduction is occurring in 2011-2012 – the fiscal year that starts April 1.

Starting in 2013-14, the province would then bear that approximately \$7 million annual cost for public housing.

Municipal Contributions to Education

In Nova Scotia, municipalities collect contributions to education costs through property taxes.

Prior to the MOU, the province would set a rate that determined how much each municipality would collect from property taxes, and contribute toward education.

Municipal contributions to education are sent to each community's local school board.

After the agreement, the province limited the annual increase in the amount of the municipal contribution to CPI. This has the effect of reducing the percentage that municipalities contribute to education over the term of the MOU. Municipal contributions to education accounted for 15.04 per cent of funding for public education costs in 2007-08. The amount of that municipal contribution has been reduced from 15.04 per cent to 14.43 per cent between 2007-08 and 2010-11.

This means, on average, approximately \$6 million per year in additional education costs being borne by the province.

Going Forward

At this point I would like to turn my attention to the changes we have implemented.

We did not make these changes lightly. When making our decisions, we considered the pressures on municipalities, while balancing that with the province's ability to bear these additional costs.

We recognize that, in the end, there is only one taxpayer footing the bill for both provincial and municipal services.

12 month notice

The funding arrangement has been modified to provide some on-going benefits to municipalities while limiting the future impact on the province.

Before I go into the details I want to discuss the issue of 12 month notice. Earlier this morning, the Minister of Service Nova Scotia and Municipal Relations provided the UNSM with 12 months' notice of the changes in the MOU.

This means that these changes will not impact municipalities in the upcoming fiscal year, 2011-12. The province will continue to implement the MOU in 2011-2012 as if it were still fully in effect.

More importantly, it gives municipalities 12 months to plan for the impact of the changes to the MOU.

The Changes

The province has decided to limit the implementation of the MOU to the point that was

achieved in 2010-2011.

To date, the MOU has cost the province approximately \$21.5 million. We estimate it could have cost the province over \$100 million over the seven-year life of the agreement.

With these changes, the MOU will still cost the province about \$50 million over the life of the agreement.

The province will continue to implement the MOU for the 12 month notice period, 2011-2012, but those changes will not continue. In 2012-2013 the funding levels will return to the 2010-2011 level. I appreciate that this may sound confusing.

Let me discuss the changes to the MOU in respect to the major components in more detail.

Corrections Services

The first area is corrections services. At the time the MOU was signed, municipalities contributed \$17.4 million annually to the Department of Justice toward the cost of corrections services. This amount was increased annually by CPI.

In 2010-2011 the municipal contribution was reduced by 20 per cent, or approximately \$3.5 million, making their total contribution \$14 million.

In 2011-2012, the 12 month notice period, we will continue to implement the reduction, saving municipalities a further \$3.5 million for that one year only. Their total contribution will be \$10.4 million.

In 2012-2013, municipalities will return to the 2010-2011 level of \$14 million.

For the years 2013-2014 and forward, the municipal contribution to corrections services will remain at \$14 million annually, and will not be indexed to CPI.

This means there will be no future increases to this amount. Eliminating the CPI indexing will save municipalities approximately \$400,000 per year into the future.

In addition, municipalities will be paying \$3.5 million per year less than they were contributing to corrections services before the MOU was signed.

Also, as mentioned earlier, they will get the benefit of not having their contributions indexed to CPI, as they were before the MOU.

Public Housing

At the time the MOU was signed, municipalities contributed approximately \$7 million per year to the Department of Community Services. This money went toward the cost of public housing.

No reduction in this amount has occurred to date. In 2011-2012, the 12 month notice period, we will implement the reduction as planned, saving municipalities a further \$3.5 million for that one year only.

In 2012-2013, the municipal contribution will be approximately \$7 million, the level in 2010-2011. This is the level of the municipal contribution prior to the MOU.

Municipal Contributions to Education

As I mentioned earlier, prior to the MOU, the province would set a rate that determined how much each municipality would collect from property taxes, and contribute toward education.

In 2007-2008, municipalities contributed approximately 15 per cent of the total cost of education. In 2010-2011, they contributed 14.43 per cent. The decrease was a result of the MOU.

This reduction has cost the province, on average, approximately \$6 million per year.

For the 12 month notice period, 2011-2012, the province will limit increases to that education contribution to increases in CPI.

For the remaining years in the MOU – that's 2012-2013 to 2014-2015 – the province intends to hold the education contribution rate at the 2010-2011 level.

I should point out that the contribution from the municipal tax base towards the cost of public education in Nova Scotia is among the lowest in Canada. Municipal contributions to education in Alberta, B.C., Ontario, Manitoba and Saskatchewan fall between 32 and 38 per cent of total education costs.

Wrap up

As I stated earlier, the continued implementation of this funding arrangement is simply not affordable in today's fiscal climate. Today we notified municipalities of the changes.

Municipalities will still retain some benefits from the funding arrangement. They are:

- 12 months' notice of the changes, which will give municipalities the benefit of the funding arrangement for another year. That's worth approximately \$7 million in saved corrections and housing contribution costs;

- From 2012-2013 onward, municipalities will contribute \$3.5 million less per year toward corrections than they did before the MOU;

- Going forward, corrections contributions will not be indexed to CPI, saving municipalities approximately \$400,000 per year.

We will continue our commitment to strong, healthy communities in Nova Scotia. This department is currently working with the UNSM on the Towns Task Force, governance studies and financial reviews that will strengthen our ability to provide the best support and leadership for all municipalities.

Thank you.

We would be happy to address your questions now.