HALIFAX
REGIONAL MUNICIPALITY

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Item No. 2
Halifax Regional Council
August 9, 2011

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Original Signed by Acting Director

Bruce Fisher, A/Director of Finance/CFO

DATE: June 10, 2011

SUBJECT: Option of Local Transit Tax by Dwelling Unit

INFORMATION REPORT

ORIGIN

On May 3, 2011 Regional Council passed a motion requesting a staff report on the tax and policy implications of levying the Local Transit area rate as a dwelling unit charge, in advance of the 2012-2013 budget, and that staff define what they perceive to be a dwelling unit.

BACKGROUND

HRM introduced the Local Transit area rate in the spring of 2009. In the 2009-2010 fiscal year, a rate of 8.8 cents per $100 of assessment was charged to those households within one km of a conventional/community transit stop. In 2010-11, as in the current year 2011-12 fiscal year, the rate was 10.5 cents. In 2010-11, the local transit area rate brought in revenues of $20.7 million and is expected to raise $21.9 million in 2011-12.

DISCUSSION

There are different theories as to how to link taxation and services. The benefits of a transit service goes not just to the users of transit. Clearly, all of society benefits from a transit service in some fashion. For instance, transit service leads to reduced traffic congestion, hence benefiting anyone using the road network including those walking or using active transportation. Moreover, this reduced congestion reduces the pressure to expand the road network and leads to fewer greenhouse gases.

In 2009 Regional Council had an extensive debate as to how to tax for transit services. While most municipalities simply include transit service as part of their general tax rate, Regional Council wished to place stronger emphasis on the connection to the service. After extensive debate Regional Council decided to create two separate transit rates. First, there is a Local Transit area rate for those who were within a one-km walking distance of a local transit route, i.e. conventional and community transit routes. Secondly, the Metrolink, MetroX and ferry system are included in a new Regional Transportation area rate. This latter rate applied to the urban core and almost all of the rural commutershed. The two levels of taxes – local and regional – distinguished between the direct access/benefit and indirect benefits of HRM transit services. In essence, it represented a compromise position on the taxation of transit. Some households paid both tax rates while others paid only the Regional Transportation rate. Most of the Eastern Shore and Musquodoboit Valley pay neither.

While the local/regional structure was an effective way to determine who had access to transit service, the amount of tax paid by a home often has a weak connection to the level of service available in that specific area. This is because the tax rates are applied to individual home values to calculate the actual tax bill for transit. For instance, a home might be within 1 km of a "peak-only" service yet, because the value of that home is above average, it could pay a very high transit bill. Conversely, a home might have close access to many routes and yet could have a very low home value, and thus a low tax bill. Even if a home has access to transit service, individuals often choose to drive instead. Some data suggests that under the current transit tax those with access to transit, but who choose to drive their vehicles, often pay less tax than those with similar access who use the bus, bike or walk.

An alternative to taxing on the assessed value of homes is to levy the transit tax as a fixed amount per home. For instance, the Local Transit area rate could be collected on a dwelling unit basis, rather than by assessed value. Section 96 (4) of the HRM Charter states that Regional Council may, in lieu of levying an area rate, levy a uniform charge on each taxable property assessment or dwelling unit.

Many of the local recreation area rates are collected based on a "per property" charge. The main differences from a "per property" charge is that a "dwelling unit" charge would not apply to vacant land and that the tax would differ for properties with differing numbers of dwellings.

As an example, see the effect of a $50 "per property" charge versus a simple $50 "dwelling unit" charge in the table, below:

	# Dwellings	"Per Property" Charge	"Dwelling Unit" Charge
Property A	0	$50	$0
Property B	1	$50	$50
Property C	2	$50	$100
Property D	3	$50	$150
Property E	10	$50	$500

The Property Valuation Services Corporation (PVSC) provides dwelling unit data to HRM for all assessed properties. The PVSC uses the definition provided in the provincial Municipal Grants Act, in which "dwelling unit" means living quarters, accessible from a private entrance either outside a building or in a common area within the building, that are occupied or, if unoccupied, are reasonably fit for occupancy, and that:

(i) contain kitchen facilities within the unit, and

(ii) have toilet facilities that are not shared with the occupants of other dwelling units.

Several municipalities in Nova Scotia, including the Towns of Antigonish, Digby and Mulgrave and the Municipality of East Hants, use a dwelling-unit charge for solid waste services. Dwelling unit charges are also used in other parts of Canada such as Saskatchewan.

Dwelling Unit (DU) Charge Options

Some basic information about the Local Transit area rate in 2010-11 includes:

- The tax is applied to 92,980 properties
- Of those, 87,224 properties had dwelling units on them
- The area included 78,850 single-dwelling properties, 8,374 multi-dwelling properties
- In total, there were 142,471 dwelling units in the area

<u>Option 1, Simple dwelling unit charge</u>
The simplest approach to collect the rate would be one charge applied to all dwellings including single-detached dwellings, apartments and condominiums. Based on the 2010-11 budget, the dwelling unit tax would have been $145.50.

<u>Option 2, Single-dwelling unit charge & Multi-dwelling unit charge</u>
To support Regional Planning objectives, such as secondary units and density options, a lower dwelling unit charge could be set for multiple dwelling properties, such as apartments and condominiums, as opposed to single-family homes. For example, the multi-unit charge could be set at half the single-unit charge. Using this specific example, the same Local Transit area rate would be paid by a single-family home with a secondary unit, as would be paid by a regular single-family home. (See properties "B" and "C" under "Option 2", in the table below.) This option provides a benefit for the cost efficiency that is associated with the greater density of apartments and condominiums. Also, this approach would be more consistent with current taxation levels of apartments in HRM.

To generate the same revenue (as Option 1), a single-dwelling rate of $187.50 and a multi-dwelling rate of $93.75/DU would have been required in 2010-11.

The following table compares the implications of Options 1 and 2:

	# Dwellings	Option 1 Simple DU Charge	Option 2 Single+Multi DU Charge
Property A	0	$0	$0
Property B	1	$145.50	$187.50 *(1 x $187.50)*
Property C	2	$291.00	$187.50 *(2 x $93.75)*
Property D	3	$436.50	$281.25
Property E	10	$1,455	$937.50

In the table above, Option 1 and Option 2 would each raise the same amount of total revenue for the Local Transit area rate – $20.7 million in 2010-11.

<u>Option 3, Dwelling Unit Charge with Surtax</u>
It is possible to add a surtax to a dwelling-unit-based tax such that all dwelling units pay a flat charge (per unit) but higher-value homes pay an additional higher charge. For example, a dwelling unit tax of $143.00 per dwelling could also have a surtax for homes with a value greater than $400,000. (This surtax is achieved by using an area rate of 3.575 cents per $100 of assessment with a minimum tax of $143.00 per dwelling.

Administrative Feasibility

A dwelling unit charge would be implemented using HRM's existing Hansen billing system, with some modifications and additional system testing for quality control. A decision to move to a dwelling unit charge would be required in early 2012, for implementation in 2012-13.

Targeting Low-Income Assistance

HRM research -- conducted with Statistics Canada 2001 census data and repeated with 2006 census data -- has consistently shown little correlation between assessment and household income especially for middle income taxpayers. However, many low income homeowners do have lower valued properties. On average, low-income households paid $134 for the Local Transit area rate in 2010-11. So, if Option 2 were chosen as the new tax structure, the Low-Income Tax Exemption Program rebates could be increased by $55/home to cover the average incremental cost for these households.

The cost of such a low-income tax exemption program enhancement would be approximately $100,000/year and could be charged back to the area rate itself or to the general rate. If it were charged back to the area rate, it would be self-funding, i.e. the dwelling unit charge would be adjusted to accommodate this change to the tax exemption program.

<u>BUDGET IMPLICATIONS</u>

There are no operating budget implications to this report.

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 is required by HRM at this time.

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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