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Halifax, Nova Scotia
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Item No. 11.2.1
Halifax Regional Council
December 9, 2014

TO: Mayor Savage and Members of Halifax Regional Council

Original Signed

SUBMITTED BY: Councillor Bill Karsten, Chair, Audit & Finance Standing Committee

DATE: December 1, 2014

SUBJECT: Provincial-Municipal Fiscal Review – Halifax Submission

ORIGIN

November 26, 2014 meeting of the Audit & Finance Standing Committee, Item No. 9.1.4

LEGISLATIVE AUTHORITY

Audit and Finance Standing Committee Terms of Reference section 3.2.6 which states "Review , as required, any other policies, procedures, forecasts, reports or process as agreed to mutually by the Municipality's CAO and the Committee.

RECOMMENDATION

It is recommended by the Audit & Finance Standing Committee that Halifax Regional Council send a submission to the Union of Nova Scotia Municipalities (UNSM) regarding the Provincial-Municipal Fiscal Review Consultative Report, accepting the recommendations as is, and seeking an active role in ongoing review and implementation.

BACKGROUND

A staff report dated November 7, 2014 pertaining to the Union of Nova Scotia Municipalities (UNSM) Provincial-Municipal Fiscal Review was before the Audit & Finance Standing Committee.

For further information, please refer to the attached staff report dated November 7, 2014.

DISCUSSION

Staff responded to questions from the Committee pertaining to the recommendations presented in the Draft UNSM report regarding the Provincial-Municipal Fiscal Review and noted that HRM is well suited to assist in this matter, as the municipality comprises 44% of the population of Nova Scotia and 55% of its Gross Domestic Product (GDP).

Staff further advised that HRM is able to assist the UNSM in its goal of improving collaboration and partnerships with other municipalities by jointly determining strategic priority areas, establishing an ongoing staff-level roundtable and developing new processes for sharing relating to provincial-municipal fiscal matters.

The Audit & Finance Standing Committee reviewed this matter at its November 26, 2014 meeting and forwarded the recommendation, as outlined in this report, to Regional Council.

FINANCIAL IMPLICATIONS

As outlined in the attached staff report dated November 7, 2014.

COMMUNITY ENGAGEMENT

All meetings of the Audit & Finance Standing Committee are open to the public. The agenda and reports are posted online in advance of the meeting.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications associated with this report.

ALTERNATIVES

The Audit & Finance Standing Committee did not discuss alternatives. Alternative recommendations are outlined in the attached staff report dated November 7, 2014.

ATTACHMENTS

1. Staff report dated November 7, 2014.

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.php> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

Report Prepared by: Liam MacSween, Legislative Assistant, 902.490.6521



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Attachment 1
Audit & Finance Standing Committee
November 26, 2014

TO: Chair and Members of (Name of Community Council or Board)

Original Signed

SUBMITTED BY:

Maggie MacDonald, A/Managing Director, Government Relations & External
Affairs

DATE: November 7, 2014

SUBJECT: Provincial-Municipal Fiscal Review – Halifax Submission

ORIGIN

Release of the Provincial-Municipal Fiscal Review Consultative Report on October 15, 2014. UNSM is requesting feedback via submissions from Municipal Councils, which will then be forwarded to the Fiscal Review Working Group and the Provincial government.

LEGISLATIVE AUTHORITY

HRM Charter s. 79 (1) (v) authority to spend subscription funds on UNSM membership, as well as broader ability to participate in UNSM activities.

RECOMMENDATION

It is recommended that Council send a submission to the UNSM regarding the Provincial-Municipal Fiscal Review Consultative Report, accepting the recommendations as is, and seeking an active role in ongoing review and implementation.

BACKGROUND

In 2012, the Department of Municipal Affairs (DMA) began the Provincial-Municipal Fiscal Review to examine how provincial support to municipalities could be best allocated. A Steering Committee and Working Group were established consisting of elected officials from Nova Scotia municipalities, Deputy Ministers, and staff from municipalities across Nova Scotia, Union of Nova Scotia Municipalities, and Municipal Affairs Services Division. Halifax was represented on the Working Group by two Finance staff that took an active role in developing the report.

The Fiscal Review suggests that current demographic and economic trends present major challenges for the future viability of municipalities. The Provincial-Municipal Fiscal Review Committee's mandate was to review current provincial programs and services to better meet municipal needs within the context of a balanced provincial budget. The Steering Committee made 41 recommendations which are detailed in the report concerning structure, road equity, scarce resources, revenue, and collaboration. The report and recommendations were released for comment from municipalities across the Province with a deadline of December 15, 2014.

DISCUSSION

Brief summaries of the five themes in the report are outlined below, with Halifax-specific implications noted. A number of recommendations apply only to towns or rural municipalities, and there is a heavy emphasis on encouraging voluntary restructuring to help realize cost savings.

Opportunities to Improve Government Structures

Following recommendations from the Towns Task Force in 2012, the Provincial-Municipal Fiscal Review explored a variety of options to address structural challenges in Nova Scotia. It recommended that the Province formalize Financial Condition Index (FCI) tracking as a standard tool to monitor the financial health of municipalities. Following three consecutive years of red-flagged FCI indicators exceeding the threshold, individual municipal units will be subject to a standardized comprehensive structural review and action plan to move out of the red-flag area. Municipalities also have the option to voluntarily request a review at any time and in extraordinary circumstances, where it is jointly agreed by the UNSM and DMA that there is a need, a municipality could be targeted for a review process. The Fiscal Review Report also recommended the phasing out of villages, as they represent an additional tier of local government with additional administrative costs.

Currently, Halifax meets all the FCI thresholds and does not have any red-flagged indicators. Although it does face some financial pressures, Halifax is in a strong and stable fiscal position. One of its greatest challenges, however, rests in the financial health of the rest of the Province. Even though it is the largest and the most affluent of the 54 municipalities, it risks being dragged down by the weak economic and fiscal performance of other parts of the Province. It is in Halifax's interest for other municipalities to strengthen their fiscal positions as well. Economic issues such as unemployment, labour market participation rates, and productivity contribute to overall social and economic outcomes. Increasingly youth from all over Nova Scotia are passing over Halifax and migrating west, as such depleting the provincial population and tax base and leading to slower growth in Halifax. Positioning Nova Scotia as an attractive place to live will help retain people and attract more jobs. This can best be done if Nova Scotia municipalities are viewed as sustainable and viable communities. Halifax cannot continue to grow at a fast pace if most other municipalities are steadily declining.

Population growth and retention is more important than ever before to Halifax. Between 2001 and 2013, net migration accounted for 2/3 of Halifax's population growth. However this growth is slowing, with Halifax's population growing by only 0.4% from 2012 to 2013 while out migration to other parts of Canada spiked to its highest level in over a decade. This represents a break with recent trends. A population growth strategy for the city and province must focus on stemming the outflow of youth from the region and increasing the attraction and retention of immigrants. Stable and fiscally viable communities throughout

the region contribute to this. Healthy population growth contributes to growth in local government revenues without the need for increased tax rates on individual homes and businesses.

Opportunities to Improve Road Equity

The Provincial Municipal Service Exchange Agreement (1995) saw a transfer of services between municipal and provincial jurisdictions in Nova Scotia. Under Service Exchange, local roads constructed by the Province before April 1, 1995 are maintained by the Department of Transportation and Infrastructure Renewal (NSTIR) on a fee basis while local roads constructed after April 1, 1995 are the responsibility of the municipality in which they are constructed. Towns, however, have always been responsible for their own roads (local, arterial and collector). Since towns cannot achieve the same economies of scales as NSTIR, road costs are higher for towns than rural municipalities. Due to this disparity, the Fiscal Review report recommends rural municipalities pay TIR full maintenance recovery cost for 745 km of local roads maintained under Service Exchange. In addition, NSTIR would offer to maintain some town roads at a fee. These changes would introduce a great level of equity between municipalities, solving a difficult legacy issue, and eliminate a disincentive for restructuring.

These recommendations do not affect the arrangements between NSTIR and Halifax. In 1996 a trade was made between Halifax and NSTIR to account for NSTIR owned roads within the Halifax core region. According to the report, Halifax maintains 2,307 km of local roads with a total service and maintenance cost per kilometre at \$13,416. There is no change to this agreement proposed in the Fiscal Review report.

Opportunities to Reallocate Scarce Resources

Every year, the provincial Government of Nova Scotia, through the Department of Municipal Affairs, administers financial grants to municipalities. The Provincial-Municipal Fiscal Review report contends that the current grants framework – the equalization program in particular – is not working to ensure the long term viability of Nova Scotia municipalities. Some of the major issues with the program are:

- The current equalization formula considers ability to pay for each municipality by applying a standard tax rate for its uniform assessment. However it does not consider the income of residents, hence their true ability to pay their taxes. This can lead to scenarios where some municipalities with higher incomes receive more equalization than struggling municipalities with lower incomes.
- The existing equalization formula is a disincentive to restructure. Towns that dissolve are likely to see any costs savings substantially reduced through reductions in the equalization formula.
- The current value of the equalization grant has been frozen for 9 years at \$30.5 million. It fails to reflect rising municipal costs associated with federal and provincial regulations. By using average municipal expenditures to calculate grants, it also only represents the average of what exists, rather than the minimum actually needed to provide core services.

The Working Group considered many possible improvements to the current formula but was hampered by inconsistent and insufficient data. Given the complex issues associated with equalization and the far-reaching impact any changes would have, it recommended freezing individual municipal allotments until 2018, to allow time for an alternative equalization grant to be developed. In the short term, this also removes the disincentive to restructure.

Halifax does not receive any funding through the provincial equalization program. A more equitable and meaningful equalization transfer for municipalities will generally strengthen municipal government across Nova Scotia.

The Fiscal Review report recommends a package of reforms to the grant program, including the NSPI Grant-in-Lieu (GIL), the HST Offset Program, the Provincial Capital Assistance Program (PCAP) and an Innovation/Capacity Building grant.

- NSPI GIL - Currently, the Province uses a portion of this GIL to pay the cost of equalization. The report recommends expanding the NSPI Grant so that it is calculated on rate times assessment for host municipalities and also that the Province pay for equalization from provincial revenues. This would increase the value of the grant from the current \$11.6 million, to approximately \$22 million. This doubling of the GIL would allow the 47 municipalities that host NSPI assets to receive larger grants. Halifax would see its grant increase from \$3.2 million to \$6.3 million annually. The Working Group recommended this change so that municipalities will receive a grant from NSPI that is predictable, grows with the value of the assets, and resembles the taxes paid by other commercial properties.
- HST Offset Program - the report recommends the elimination of the HST Offset Program. The Working Group felt that this unconditional operating grant did not support the objectives of greater fairness, transparency, stability and elasticity. The recommendation is to redirect the \$6 million currently invested in the HST Offset program to an expanded PCAP. In 2014-15 Halifax received \$3.6 million from the HST Offset program.
- PCAP – PCAP is an application-based fund which provides assistance to municipalities for water, wastewater and solid waste capital projects. In 2014-15 the total PCAP fund was \$3.75 million. The Working Group agreed that increased Provincial infrastructure funding is needed. However improved information that can track the state of existing assets and prioritize replacement and new-build capital projects is also necessary. The report recommends significantly increasing PCAP, to \$17.9 million annually, and expanding the eligible categories to include roads and other critical capital projects. PCAP funding would also be used to develop an Asset Management program for all municipalities outside of Halifax, which has already developed its own.

PCAP has historically been a relatively small fund, and its municipal grants tend to be in range of tens or hundreds of thousands. Apart from a \$2 million grant in 2005 for Harbour Solutions, Halifax has received periodic grants ranging from approximately \$5000 to \$150,000. Increasing the fund presents opportunities for all municipalities to address pressing infrastructure needs.

- Innovation/Capacity Building Grant – there is currently a \$250,000 grant available for municipalities to undertake capacity-building activities (training, internship programs, etc), promote innovation and fund comprehensive municipal viability reviews. The Working Group recommends increasing this to \$1.75 million.

The changes to operating grants recommended in the report appear to have an almost neutral impact on Halifax. An estimated \$3.1 million increase in the NSPI GIL roughly equals the loss of the \$3.6 million from the HST Offset. An expansion of PCAP would be of great benefit to all municipalities by allowing major infrastructure projects to receive Provincial assistance.

Opportunities to Improve Revenue Systems

The Working Group undertook an extensive review of the benefits and challenges associated with the property tax system, as well as several other potential revenue systems for municipalities including municipal income tax, corporate income tax, gas tax and municipal sales tax. Systems were evaluated for vertical and horizontal equity, economic efficiency, accountability, adequacy, stability and administrative burden. While the Working Group acknowledged equity and other issues with the existing property tax system, it did not recommend any major changes to the assessment system. The Fiscal Review Committee noted challenges associated with Nova Scotia's assessment cap policy.

The Fiscal Review Committee recognized that new or alternative sources of revenue for municipal services are needed to offset a heavy reliance on property tax. It proposes a joint provincial-municipal review of finance powers in the Municipal Government Act and the Halifax Charter to provide clearer and more flexible authority over property taxation. Specifically, the report recommends amendments to legislation to provide greater municipal autonomy over all forms of property taxation, including forest and recreational properties, and special tax legislation around telecommunications and emerging energy

sectors. A review of finance powers in both the MGA and the Halifax Charter aligns with the Council-approved scope of the Charter Review. A joint approach with other municipalities would be helpful in accelerating this work, and initial discussions with the AMA are already underway.

The report also recommends the Province introduce a Provincial Property Tax Rate, applied to all taxable property, in order to replace the current system of municipal contributions to education, housing and corrections. Currently municipalities are required to contribute to support these provincial programs. Municipalities frequently raise concerns about the impact mandatory contributions have on their ability to deliver services, as well as the issues of transparency and accountability that arise from municipalities collecting taxes for programs over which they have no control.

The Fiscal Review Committee's proposal would introduce a Provincial Property Tax Rate, applied to all taxable property in Nova Scotia. It would be calculated using taxable assessment rather than the current Uniform Assessment approach. Instead of municipalities transferring a portion of municipal property tax revenues, municipalities would reduce their tax revenues by the amount of their mandatory contributions. The Province would then institute a Provincial Property Tax rate to collect the same amount. Municipalities would still collect this tax on behalf of the Province, but it would be included in the provincial budget and financial statements, rather than on municipal budgets and financial statements. This aligns taxation with responsibility. It is the Province that current decides on Education, Housing and Corrections policy, but it currently requires the municipalities to share in the costs of those provincial decisions.

For 2014, Halifax collected \$844.9 million in municipal revenue. Of this, \$129 million was levied as an area rate and transferred for education, housing and corrections. Under the Provincial Property Tax proposal, Halifax would almost eliminate the area tax rate to collect the \$129 million, leaving only the Provincial Valuation Services Corporation (PVSC) to be paid for. The Province would then set a property tax rate for all municipalities using taxable assessment, to collect the amount it formerly took via transfers from municipalities. While the total amount of revenue the Province collects would be the same, there could be shifts in burden within Nova Scotia. The report estimates the amount collected from Halifax taxpayers would increase by \$4.6 million due to the change. The final decision on any new property tax rate, however, would be a Provincial one. Over time, it could even be that the Province would shift some of that cost to the income tax system.

Opportunities to Improve Collaboration (Non-Financial Supports)

Provincial government decisions have an impact on municipal finances. The Fiscal Review report notes that compliance with provincial regulations, such as waste water standards and climate change, affects municipal expenditures. The Fiscal Review recommends improved stakeholder involvement and consultation early in the process of new regulation development between the province and municipalities to properly assess the economic and financial impact. New regulations should not be implemented unless they have been fully costed. For Halifax, this is a critical recommendation. Many new regulations carry heavy fiscal costs for municipalities that often become a major cost driver, putting upward pressure on municipal taxes.

The Fiscal Review also noted that communication around available services and supports to municipalities should be strengthened. The report recommends that the Province and municipalities improve collaboration and partnerships by jointly determining strategic priority areas, establishing an ongoing staff-level roundtable and developing new processes for sharing information with municipalities.

Halifax continually works to strengthen communication and collaboration with municipalities and with the Provincial government. Given Halifax's status within Nova Scotia, as home to 44% of the population and 55% of the GDP, Halifax would seek membership alongside UNSM and the AMA at the proposed staff-level roundtable and joint priority-setting exercises.

FINANCIAL IMPLICATIONS

There are no immediate financial implications. Net changes made under this report could see Halifax's revenues from the Province decline by \$500,000 although it would have access to a much larger PCAP program.

In addition, the \$129 million of transfers made for Provincial expenses, all of them funded through an area rate, would no longer be included on municipal budgets and financial statements. While the cost to Halifax taxpayers of the new provincial property tax may exceed the amount under the current area rates, this will be clearly identified as a Provincial decision. It is worth noting that this area rate has been rising at a steady rate – almost \$14 million in two years.

For Halifax, the more important financial issues in the Fiscal Review are long term and strategic. First, regulations applied to municipalities need to be fully costed before the decisions are made to apply them on municipalities. Secondly, and perhaps more importantly, for Halifax to grow at a rapid pace requires stable, viable municipal governments across Nova Scotia.

COMMUNITY ENGAGEMENT

None for this report

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

Council could include requests for further changes to the recommendations in its submission.

Council could opt not to send a submission.

ATTACHMENTS

Appendix A: Provincial-Municipal Fiscal Review Consultative Report (available online at <http://unsm.ca>).

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.php> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

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