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HALIFAX
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Halifax Regional Council
December 7, 2004

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Dale MacLennan
Dale MacLennan, Director, HRM Financial Services

DATE: December 1, 2004

SUBJECT: **Federal Fuel Tax Sharing**

INFORMATION REPORT

ORIGIN

This report originates with staff of the Financial Planning Division, HRM Financial Services.

BACKGROUND

The Federal Government is expected to provide between $2.0 and $2.5 billion of gasoline revenues to municipalities. Funding is to be phased in over a five year period and will be provided to municipalities through Provincial Governments. A percentage of the funding is expected in 2005/06, with an increasing percentage year over year. This funding will result in new revenue to HRM. The program is intended to support the infrastructure needs of Canadian municipalities. Total available funding and the final allocation formula (to the provinces) are expected to be announced in the next federal budget.

DISCUSSION

The Federation of Canadian Municipalities (FCM) has defined seven principles to be adhered to in agreeing to a funding formula between the Federal and Provincial Governments. They are:

1. **New partnerships among all orders of government:** This partnership must be based on an unambiguous respect for jurisdiction and lead to cooperation, collaboration and consultation.

2. **Predictable and stable revenues:** Municipalities need a net-new predictable and stable revenue source. Any revenue sharing agreement will also have to be protected from claw-back or equivalent offloading of responsibilities.

3. **Equity:** Large cities and smaller communities have different needs; one solution will not fit all.

4. **Sustainable communities:** Fuel-tax revenue-sharing agreements must support the creation of sustainable communities that balance economic opportunity, social well-being and environmental conservation.

5. **Accountability and results:** Regular reporting based on real outcomes, using meaningful success indicators.

6. **Flexible, simple and transparent program administration:** Local administration of the program should not be unduly burdensome.

7. **Recognition of contributions by the Government of Canada:** Municipal governments must give appropriate recognition to all federal contributions to community infrastructure.

HRM Staff have proposed three principles to be adhered to when evaluating allocation options. They are:

1. **Simplicity**: Formula should be understandable and not subject to manipulation.

2. **Predictability**: We should understand what we are receiving and the formula should not encourage inappropriate behavior. The formula should reflect the commitment of the Province to protect the current level of responsibility, and not down-load directly or indirectly.

3. **Fairness**: The formula should support all communities; but providing greater support for those with greater responsibilities.

There are currently two funding formulas, with a number of variants, being discussed by the FCM, The Big City Mayors, and The Hub City Mayors.

1. **13/87 Formula:** Under this formula, each province/territory receives one percent each of the total Fuel Tax. This equals 13 percent. The remaining 87 percent is then distributed on a per capita basis. Each province/territory will then devise an internal distribution model to the municipalities. This formula provides an alternative designed to address the challenges of smaller municipalities. Nova Scotia and Atlantic Canada will see a larger share of revenue under this option. This formula adheres to all HRM principles.

2. **75/25 Formula:** Using this formula, provincial/territorial allocations are based on two components - 25 percent from transit rider ship and 75 percent from fuel consumption. This formula focuses on larger municipalities, particularly with respect to transit. Nova Scotia

will see a smaller share of revenue under this option.

The FCM is currently proposing that the Federal Government use an allocation formula that is a hybrid of the two options, allowing for interprovincial allocations based on specific jurisdictional needs. This would include a permanent dedicated allocation to support transit investment of not less than 25% of the total fuel tax revenue and special regional allocations to ensure that extremely small jurisdictions receive at least $25 million per year.

Once this funding formula has been determined, the Provincial Government and the Municipalities need to agree on an internal distribution formula. Two methods currently being discussed to allocate fuel revenue within Nova Scotia: Population and Uniform Assessment. Other methods may be proposed.

BUDGET IMPLICATIONS

The fuel tax revenue is significant new revenue for HRM. This funding must adhere to potential spending constraints placed on the funds by the Federal or Provincial governments. Staff intend to recommend to Council how the funds be allocated through the 2005-06 Budget Process.

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

None - information only

ATTACHMENTS

None

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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