

Halifax Regional Council
December 17, 2002
1:00 PM

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: 
Ron Cooper, Chair, Tax Structure Committee

DATE: December 10, 2002

SUBJECT: Tax Structure Recommendations

ORIGIN

During the July 16, 2002 Committee of the Whole session the Tax Structure Committee presented a proposal for the funding of public safety services within HRM. The model was accepted by Council in principle to obtain public feedback and the Tax Structure Committee was instructed to present the results of these meetings in the Fall of 2002.

The Tax Structure Committee tabled its findings from the Public Consultations at the November 26th, 2002 Committee of the Whole session. It was recommended that the final recommendations would be presented at Committee of the Whole December 10, 2002.

RECOMMENDATION

It is recommended that Committee of the Whole approve the following course of actions:

- That the following services be included in the Base or General Tax Rate:
 - volunteer and core fire departments
 - street lighting
 - Cost sharing on capital upgrades for existing Recreational Facilities
 - Cost sharing on the construction and acquisition of new Local and Regional Recreational Facilities
 - Capital repairs for existing recreation and community facilities (on a go forward basis)
 - the HRM call centre
- That Local Improvement Charges on curb and gutter be eliminated and the service included in the Urban General Tax Rate.

- That Council accept in principle that all areas of HRM with access to Metro Transit should share equally in the cost of Metro Transit. Staff would return with a final list of such areas in the 2003/2004 Proposed Budget.
- That the \$0.05 transfer from Urban/Suburban to Rural general tax rates be eliminated
- That volunteer fire departments' retain any balance in current surplus accounts after having been used to pay down any existing area rated debt. The HRM General Tax Rate will absorb any remaining fire debt including that for projects which have been approved but are uncompleted. Any existing fire capital project funded through area rated debt will become eligible for Crespool. Any future fire operating surpluses or deficits will be placed against the HRM general tax rate.
- That the above changes become effective January 1, 2003.

BACKGROUND

In 1997-1998 HRM created its tax structure. This structure included a Base or General Tax Rate that was paid by Rural taxpayers, a Suburban General Tax Rate and an Urban General Tax Rate. The Base Rate includes most of the basic services available across HRM including policing, compost, recycling and garbage, recreation programming, planning, libraries, sportsfields and playgrounds. Also included are administrative and fiscal costs. Water and Sewer service is paid for through the water bill, not the property tax system.

Not included in the Base Tax Rate were six key services. These include Fire Suppression, Streetlights, Recreation Facilities, Crosswalk Guards, Transit and Sidewalks. These services are all add-ons for the rural parts of HRM. Rural areas do not pay for these six services unless they have access to them in their local area. In that instance the costs are paid through a local area rate. This system prevents Rural HRM for paying for services it does not receive while allowing it the flexibility to acquire or manage services locally.

Urban and Suburban Taxpayers have their own general tax rates. The Suburban General Tax Rate includes the Base Tax Rate plus Fire, Streetlights, Recreation Facilities and Crosswalk Guards. Suburban taxpayers do not pay for the cost of either transit or sidewalks unless they receive the service. In that event, they pay an area tax rate for that particular service. The Urban General Tax Rate includes not only the Base Tax Rate but also Fire, Streetlights, Recreation Facilities and Crosswalk Guards. In addition, Urban Tax payers have included in their General Tax Rate the operating costs of sidewalks and the cost of Metro Transit.

While the existing Tax Structure solved many problems and inequities that did exist at the time of amalgamation, numerous difficulties remained. While the current Tax Structure provides for local control and management it does not compensate for the weak tax base which exists in many rural and suburban areas. Consequently, many area rates in HRM are higher than their general rate equivalent. For example, in 2002-2003 only four of 18 volunteer fire department area rates

were below the Urban Tax Rate equivalent. In several cases volunteer departments have experienced shortfalls and consistent deficits.

<i>Service</i>	Rural (Base) General Tax Rate	Suburban General Tax Rate	Urban General Tax Rate
Police, Solid Waste, Recreation Programs, Planning, Libraries, Sportsfields, Playgrounds, Administration	Included in the Base General Tax Rate		
Fire Suppression	Area Rate	Included in the Urban and Suburban General Tax Rates	
Street lighting	Area Rate		
Crosswalk Guards	Area Rate		
Recreational and Community Facilities (Capital Costs)	Area Rate		
Recreational and Community Facilities (Operating Costs)	Area Rate		
Transit	Area Rate	Area Rate	Included in the Urban General Tax Rate
Sidewalks	Area Rate	Area Rate	
Fire Hydrants	Area Rate	Area Rate	Area Rate
Sewer Service	Collected through Pollution Control Charge (sewer users pay through water bill)		
Water Service	Collected through Water Bill		

The Tax Structure Committee is a committee of Council with Staff-Council representation. The Terms of Reference for the committee mandate it to “research and recommend foundation principles for the taxation of municipal services”. After considerable debate the Committee decided upon the following four principles:

- Everyone pays for services received
- Everyone shares in paying for services ones has access to
- Everyone pays for Basic Universal Services
- The Commercial Tax Base belongs for the benefit of all HRM

After creating the principles the committee reviewed HRM's services with respect to the principles. It found that several services were, in its opinion, basic universal services. It created a revised tax structure model and recommended to Committee of the Whole that it be "approved in principle for the purpose of public consultations". In June and July of 2002 consultations were held with the Fire Advisory Committee, the Composite Fire Chiefs and individual fire zones. In September and October public consultations were held at 14 locations across HRM. The results of those consultations were tabled at Regional Council on November 28th, 2002.

DISCUSSION

The conclusions of the Tax Structure public consultations were tabled at Regional Council on November 28th, 2002. It was concluded that:

- The majority of people agreed in principle that there should be a basic level of fire service across HRM, however, they were not always clear as to the best way to finance it.
- There was no consensus that street lights and school crossing guards are acceptable components of this proposal; many questioned the "health and safety" basis as well as the Council approved standards to implement these services.
- The attendees questioned if the Recreation component of this proposal was in fact a safety issue, nevertheless, there was guarded optimism that this proposal would enhance Recreation opportunities throughout HRM
- the asphalt curb and gutter component of this proposal prompted two separate observations:
 - ▶ the residents clearly indicated that the lack of sidewalks throughout the municipality constituted a safety issue and should have been a component of this proposal
 - ▶ due to a lack of clarity in the information provided, the attendees did not fully understand that only the urban general rate would pay for these improvements
- the 5 cent rural subsidy issue was one of the most controversial components of this proposal for two reasons: many were not aware that the subsidy exists and second it was a difficult concept to explain. As such it prompted division among communities.

Since the report was tabled on November 28th it has been made available through the HRM web site, customer service centres and public libraries. It was also provided to those individuals who requested it at public consultations. Feedback on the report has been negligible.

In making its final recommendations, the Committee reviewed its original rationale for revising the tax structure. Specifically, the tax base outside the urban core is considerably weaker than the tax base inside the core. As a result, some areas of HRM cannot afford to provide a basic

level of service in fire protection, streetlighting or other areas of municipal service. While there is no clear need to have the same level of service across all of HRM, the committee felt a basic level of service should be available for all HRM citizens regardless of where they live, work or travel within the municipality. These concerns remain unchanged.

The Committee did consider maintaining the status quo for the fire service. In doing so significant public safety risks would likely remain unaddressed. Aging fire infrastructure (vehicles, equipment and buildings) would likely not be upgraded. This would present a threat to those individual communities, volunteer firefighters and to any citizen of HRM travelling in those areas. Moreover, there are few other realistic alternatives to general rating the fire service.

Other parts of the tax structure could be modified. However, two key factors prevented the committee from doing so. First, the specific safety issues would likely remain largely unaddressed. Secondly, such changes would not necessarily provide tax relief to rural taxpayers. For instance, the average streetlight area rate is higher than the urban core. Much of the concern at public meetings surrounded the potential for higher taxes. Removal of the streetlight component from the proposal would actually increase tax rates for many rural taxpayers.

The committee reviewed the inclusion of School Crossing Guards in the proposal. After careful review, it was felt that most rural parts of HRM are unlikely to currently meet the evaluation criteria used to establish a school crossing guard point. As such, the Committee is recommending that School Crossing Guards not be general rated and that the current tax status not change. The tax implication of this change is minimal. Rural areas would save an average \$3 per home relative to the proposed model. Urban and Suburban areas would see an average increase of \$1 per home.

The committee was satisfied that the public felt the recreation component of its recommendations was a reasonable change to the current tax structure.

The committee also reviewed the proposed elimination of the Local Improvement Charges on Curb and Gutter. Many rural and suburban taxpayers felt this would require them to fund a service they did not receive. The Committee is therefore recommending that although such charges be eliminated, that they be funded by the urban general tax rate, not the base general tax rate. LICs for curb and gutter would remain in the suburban and rural areas should that service be available.

The committee took note of comments on the Metro Transit boundaries. The Committee is still recommending that all areas of HRM with access to Metro Transit should share in the cost of the service. It is, however, recommending that staff return with a final list of such areas in the 2003/2004 Proposed Budget. As a general approach, the boundary should not be extended to anyone more than 1 km walking distance from a bus stop or park and ride.

Lastly the Committee looked at the 5¢ equalization transfer. The transfer has no relationship to any specific municipal service and does not fit into any of the four principles the committee created.

BUDGET IMPLICATIONS

There are no immediate implications to this change. In future fiscal years there will be additional pressure on the HRM operating and capital budgets.

Currently, volunteer fire departments maintain reserve or surplus accounts for future use. These have been built up due to community efforts and the use of area rates. Staff are recommending that local fire departments retain any balance in these accounts after having been used to pay down any existing area rated debt. The HRM General Tax Rate will absorb any remaining fire debt including that for projects which have been approved but are uncompleted. Any existing fire capital project funded through area rated debt will become eligible for Crespool.

In future, any fire operating surpluses or deficits which occur will be placed against the HRM general tax rate.

These changes would be effective January 1, 2003.

MULTI-YEAR FINANCIAL STRATEGY IMPACTS

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

Committee of the Whole could choose to modify the proposed Tax Structure Model. There are a variety of ways to modify the proposed model:

- **Streetlights Options:** Council could either (1) remove streetlights from the current proposal allowing the existing area rates to continue or (2) could create a single rural area rate for rural streetlights. **Analysis:** Under option (1) Safety issues would remain as some communities would still be unable to fund lights for dangerous road sections. Option (2) would provide some relief for safety issues as some communities might be able to fund lights for dangerous road sections. Since rural streetlighting area rates are almost always higher than the urban equivalent, either change would increase the tax rate over and above the proposed tax structure model for the majority of rural taxpayers. The increased cost would be distributed slightly differently for each of the scenarios. Under both scenarios

those taxpayers who would save funds would be largely limited to those currently not paying an area rate for streetlights.

- School Crossing Guards Option: Council could include School Crossing Guards in the final proposal. (The Committee is recommending it be removed). Analysis: Rural communities that meet the School Crossing Guard standard might still be unable to finance a crossing guard. There would be a cost of less than \$3 per rural household relative to the recommendations in this report.
- 5¢ Equalization Transfer Option: Council could retain the current 5 ¢ equalization transfer. Analysis: One of the principles of tax structure was that individuals should pay for the services they receive. The transfer has no relationship to any municipal service. It simply provides rural taxpayers a subsidy paid for by urban and suburban taxpayers. Its retention, however, would provide significant tax benefits to rural taxpayers, saving approximately \$50 per household off the current tax structure proposal.

ATTACHMENTS

Table One - Impact of Tax Structure on Residential Tax Rates

Table Two - Impact of Tax Structure on General Residential Tax Rates

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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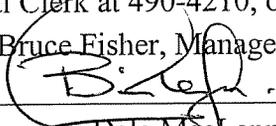
Report Approved by: 
Dale MacLennan, Director, Financial Services, 490-6308

Table One

Impact of Tax Structure on Residential Tax Rates Rates include Area Rates proposed for Transfer to General Tax Rate and Local Improvement Charges

12-Dec-02

	Rural	Suburban	Urban
Current Tax Rates			
Fire	0.166	0.122	0.122
Streetlights	0.024	0.018	0.018
Crosswalk Guards	0.001	0.004	0.004
Call Centre	0.000	0.000	0.004
Equalization Transfer	-0.050	0.007	0.007
Revenue from LICs (Curb&Gutter)	-0.002	-0.002	-0.002
LIC Area Rate	0.002	0.001	0.006
Other Services	<u>1.057</u>	<u>1.059</u>	<u>1.163</u>
Total	\$1.197	\$1.210	\$1.322
Revised Tax Rates			
Fire	0.127	0.127	0.127
Streetlights	0.018	0.018	0.018
Crosswalk Guards	0.001	0.004	0.004
Call Centre	0.003	0.003	0.003
Equalization Transfer	0.000	0.000	0.000
Revenue from LICs (Curb&Gutter)	0.000	0.000	0.000
LIC Area Rate	0.002	0.001	0.003
Other Services	<u>1.057</u>	<u>1.059</u>	<u>1.163</u>
Total	\$1.208	\$1.212	\$1.318
Variance	\$0.010	\$0.003	(\$0.004)
<i>Increase - Percent</i>	<i>0.9%</i>	<i>0.2%</i>	<i>-0.3%</i>
<i>Impact on \$100,000 Home</i>	<i>\$10</i>	<i>\$3</i>	<i>(\$4)</i>

Table Two

Impact of Tax Structure on General Residential Tax Rates

12-Dec-02

	Rural	Suburban	Urban
Current	\$1.005	\$1.209	\$1.316
Revised Tax	<u>1.205</u>	<u>1.212</u>	<u>1.315</u>
<i>Increase - Cents</i>	<i>0.200</i>	<i>0.003</i>	<i>-0.001</i>
<i>Increase - Percent</i>	<i>19.9%</i>	<i>0.2%</i>	<i>-0.1%</i>