

Committee of the Whole
May 14 , 2002

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: _____
George McLellan, Deputy Chief Administrative Officer

DATE: May 8, 2002

SUBJECT: **Preliminary Tax Structure Recommendations**

ORIGIN

The Tax Structure Committee, a sub-committee of Council, has prepared preliminary recommendations for HRM Committee of the Whole.

RECOMMENDATION

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

- S** That the attached tax structure model is approved in principle for the purpose of public consultations. This includes placing in the general tax rate the following additional items:
 - S** volunteer fire departments (policy pending re service standards)
 - S** street lighting
 - S** Cost sharing on the capital repair for existing Recreational Facilities
 - S** Cost sharing on the construction and acquisition of new Local and Regional Recreational Facilities (related policies pending)
 - S** Crosswalk Guards
- S** That Local Improvement Charges on upgrading of existing asphalt curbing to concrete curb and gutter be eliminated.
- S** That all areas of HRM with access to Metro Transit should share equally in the cost of Metro Transit.
- S** That staff proceed to further develop the Framework of Service Standards so that it becomes clear to residents of HRM what service levels and standards HRM can realistically expect to provide.
- S** That the Tax Structure Committee report back to Committee of the Whole no later than October 15th, 2002 with the results of public consultations including the comments of citizens, business groups and volunteer fire departments and with final recommendations and/or options.
- S** That staff review the \$0.05 transfer from Urban/Suburban to Rural.

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 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

<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 Service	Area Rate	Included in the Urban and Suburban General Tax Rates	
Recreational and Community Facilities	Area Rate		
Street lighting	Area Rate		
Crosswalk Guards	Area Rate		
Transit	Area Rate	Area Rate	Included in the Urban General Rate
Sidewalks	Area Rate	Area Rate	
Fire Hydrants	Area Rate	Area Rate	Area Rate

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. The question of defining the Suburban Boundary has been the single biggest source of debate. Some taxpayers feel that even though they live within the urban core they should not pay for transit or sidewalks unless they are within walking distance. There also remained a number of technical difficulties with the structure. These include determining the funding for services which cross over the various tax boundaries. That issue has been solved through transfers from the general tax rate. Local improvement charges (LICs) on streets and sidewalks have often presented considerable complexity. Such charges can be collected through area rates or frontage. A suburban area could theoretically find itself paying a local improvement charge for its 50% share of construction costs, one area rate for the remaining construction costs and a third rate for the maintenance. The Committee is continuing to examine boundary and LIC issues.

Moreover, 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 2001-2002 only four of nearly 30 volunteer fire departments had area rates below the Urban Tax Rate equivalent. In several cases volunteer departments have experienced shortfalls and consistent deficits.

Lastly, commercial taxes are currently levied at 2.55 of the residential rate irrespective of whether the commercial sector consumes more of any particular service. This leads to inequities and tends to make HRM less competitive in attracting new industries. It also gives the false impression that most residential taxpayers are paying the full cost of the services they receive. The Tax Structure Committee is continuing to investigate the commercial tax burden and structure.

DISCUSSION

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 has decided upon the following four principles:

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

In reviewing the specific services included or excluded from the general rate, the committee noted that 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. The Committee concluded that fire protection, streetlighting and the provision of crosswalk guards were basic universal services. While there is no clear need to have the same level of service across all of HRM, a basic level of service should be available for all HRM citizens regardless of where they live, work or travel within the municipality.

In reviewing recreation, it became clear that the weak tax base makes it difficult for many rural communities to maintain the upkeep on HRM facilities. Ultimately, should HRM's assets age and depreciate the municipality could be forced into costly upgrades or replacements. Hence it is in HRM's best interests to ensure that its facilities are properly maintained. The committee drew a distinction between facilities which are local in nature and those which are more regional. The latter would include "those which provide facilities and services to a widely dispersed population". HRM could develop criteria (on a sliding scale) for cost sharing capital repairs to existing local and regional facilities. It might also provide cost sharing for the construction of all new regional facilities and assistance on a percentage basis for the acquisition or the construction of new local facilities. This would include former school properties turned over to HRM. Other than discussing the coverage of property insurance and the debt charges associated with its share of the capital costs, there would be no operating assistance to either regional or local facilities except in cases where current subsidies would be grandfathered. Area rates may remain in the rural areas for the communities share of construction costs and for the operation of existing local facilities. Local facilities in the core could be financed through the Urban and Suburban General Tax Rate

The committee also noted that Local Improvement Charges on replacement of asphalt curb and gutter with concrete curb and gutter amounting to approximately \$400,000-500,000 annually cause greater difficulty than can be justified. It is therefore recommending that they be eliminated and moved into the general tax rates.

In the area of Metro Transit, the committee was concerned that some areas in HRM receive Metro Transit service without paying the appropriate taxes for the service. As such, the Committee is recommending that all areas of HRM with access to Metro Transit should share in the cost of the service equally. This recommendation does not affect community transit or those without access to the service.

Currently, service levels across HRM vary from community to community. Often the variation is due to local circumstances and choice, or can be traced back to historical reasons. Even in the urban core service levels are not always identical from one part of the core to another. The committee is not recommending that service levels for all or any service be harmonized across HRM. Defining and measuring service levels is both difficult and time consuming. Moreover, different communities often have different levels of need. Lastly, fiscal pressures are unlikely to allow the full harmonization of services. The committee has, however, concluded that in some areas of HRM

Summary of Recommendations

<i>Service</i>	Current Tax Treatment	Revised Tax Treatment
Police, Solid Waste, Recreation Programs, Planning, Libraries, Sportsfields, Playgrounds, Administration	Included in the Base General Tax Rate	No Change
Fire Service	Area Rate/Urban Tax Rate	General Rated
Recreational and Community Facilities	Area Rate/Urban Tax Rate	Construction, Acquisition and Capital Upgrades may be cost-shared through the General Tax Rate
Street lighting	Area Rate/Urban Tax Rate	General Rated
Crosswalk Guards	Area Rate/Urban Tax Rate	General Rated
Transit	Area Rate/Urban Rate	No Change
Sidewalks	Area Rate/Urban Rate	No Change
Fire Hydrants	Area Rate	No Change

basic services such as fire protection are currently below an acceptable level. It is therefore recommending that staff work towards creating standards for “**basic service levels**” in fire protection, streetlighting, crosswalk guards and recreational facilities. It is the expectation of the committee that over time those areas with an unacceptable service level will be raised up to a basic service standard. This may require infusions of additional funds or the rationalization of the existing services. For consultation purposes, a “Framework” for basic service standards is attached.

The Committee feels strongly that information sessions and consultations are necessary before Regional Council can make a final decision on tax structure. Staff have prepared a schedule of 10 public meetings to be held in September. In addition, special consultations will be held with the Fire Advisory Committee, the Composite Fire Chiefs and individual fire zones. The intent is to report back to Committee of the Whole with final recommendations in October.

In summary the committee has concluded that fire, streetlights, crosswalk guards and the capital costs for existing recreational facilities be moved into the general tax rate and the costs shared across all taxpayers. LICs for curb and gutter would be eliminated and all those accessing Metro Transit should share in the cost

equally. These changes would occur in the 2003-2004 fiscal year. Any changes in service levels that occur would be more gradual. Consultations would occur in September of 2002.

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. Much of the existing area-rated debt will have to be absorbed. There may be implications dependant on the outcome of the review of the \$0.05 transfer from Urban/Suburban to Rural as well as the service standards that will be presented to Council by both Fire Services and Parks and Recreation prior to the proposed public consultations.

Public consultations may cost as much as \$25,000. It is expected these funds will be paid for through the budget of Financial Planning (A810) and other parts of Financial Services.

MULTI-YEAR FINANCIAL STRATEGY IMPACTS

None.

ALTERNATIVES

Committee of the Whole may choose to reject the proposed Tax Structure Model or to request revisions or clarifications from the Tax Structure Committee.

Committee of the Whole may opt to remain with the Status Quo.

ATTACHMENTS

Tax Structure Review Terms of Reference(July 2000)

Basic Service Standards Framework

- S Fire Services (Discussion Paper)
- S Recreational Facilities (Discussion Paper)
- S Streetlighting (approved Feb 18, 1997 and April 14, 1998)
- S Cross Walk Guards (approved June 20, 2000)

Summary of HRM Tax Structure and Services

Tax Structure Implementation Project Plan

Schedule of Public Consultations

Community Profiles - Summary

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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