Provincial / Municipal Fiscal Review Consultation Response
Municipality of the County of Antigonish

17 December 2014

Executive Summary

The Municipality thanks the Fiscal Review Working Group for the breadth and depth of considered analysis that support these recommendations. This work comprises some of the most significant thinking about provincial – municipal relations since service exchange in the 1990's.

Overall, the Municipality of the County of Antigonish views the recommendations contained in the report as a positive step toward the articulated guiding principles:

1. Effectiveness: Recommendations from the review should improve the transparency and structure of programs and services provided by the province and municipalities, to provide optimal benefit for taxpayers.

2. Building Relationships: Recommendations from the review should strengthen communication, consultation, sharing of resources and cooperation amongst municipal governments and between the province and municipal governments.

3. Municipal Viability: Recommendations from this review should strengthen municipalities' abilities to provide the basic level of service at an acceptable tax burden.

4. Financial Constraint: Recommendations from the review must consider the financial limitations of both the province and municipalities individually and collectively.

In the following pages you will find input by theme, with both recommendation-specific and general comments. To the best of our ability, the articulated guiding principles inform the comments. If a specific goal is not addressed herein, the reader can infer that the Municipality has taken a neutral position. If clarification or elaboration is required on any comment, please contact the municipal office.

Opportunities to Improve Government Structures
***Rec #1**: The Province will formalize FCI tracking as the tool that will be used to monitor the financial health of municipalities.*

The Financial Condition Index is a valuable tool to assist administrators, councils and the public in assessing the health of municipalities. However, in many cases there are legitimate and considered choices behind what would be categorized by the Index as "not meeting the threshold" (a red indicator). This reality is acknowledged within the FCI and it should also be acknowledged as these indicators are formalized and imbedded in structural review processes.
Rec #2*: The Province, with UNSM and AMA, will develop materials to help ensure that municipalities understand the FCI and have access to best practices to improve their financial health.* The Municipality supports this recommendation. It would also be beneficial if the province developed materials to assist the public in better understanding the FCI.
Rec #4: *After three consecutive years of red-flagged FCI indicators exceeding the threshold, municipalities will be subject to a comprehensive review.* ***Rec #5****: Beginning on March 31, 2015, the FCI tracker will be applied as a trigger for reviews for any municipality that has exceeded the red-flag trigger threshold for three consecutive years.* This is a positive and evidence based threshold to trigger structural reviews. It is also important to remember some indicators are more readily influenced by municipalities than others. For instance, Commercial Property Assessment is an indicator of economic activity within a municipality that the municipal unit has little, if any, influence in directing. Rather than imposing a threshold number it may be more appropriate to develop various threshold scenarios of inter-related indicators that can trigger a review. Further, if they are to provide such a fundamental position, it is important that the indicators are consistently reviewed and, if necessary, revised to provide the most accurate and appropriate picture of municipal financial health.
Rec #13*: No new villages will be created and no new powers will be given to villages beyond those that currently exist.* The Municipality endorses this recommendation.
General Comments: A commitment to an evidence-based approach to municipal structural reform is a positive move. However, the Province is already well aware of those municipalities – specifically towns – that are struggling due to financial and structural pressures. In addition to creating a framework of financial indicators to inform municipalities of their condition (and in so doing putting control in their hands) the Province should take a proactive approach to addressing long-standing and chronic challenges in struggling towns and/or municipalities;

some of which will be permitted to continue due to the reallocation of scarce resources as recommended in this report.

Opportunities to Improve Road Equity

***Rec #15**: Rural municipalities will now be required to pay TIR the full maintenance recovery cost (approx. $6700 per km + annual CPI increase) for maintenance of local roads maintained under the Service Exchange agreement. If rural municipalities so choose, TIR will also service (at cost + capital – approx. $13,500 per kilometer plus CPI) roads that rural municipalities are currently fully responsible for.*

With the additional resources the Municipality would expect an increase in the level of service, specifically: more timely and consistent responses to snow and ice, better maintenance of dirt roads including grading and gravel, and prompt response to dangerous conditions including pot holes and shoulder break-downs.

Opportunities to Reallocate Scarce Resources

***Rec #16**: … equalization grant be frozen at 2014 level to allow for time for an alternative equalization grant to be developed based on improved data…*

The Municipality endorses this recommendation. This specific recommendation should be viewed as one of the top priorities moving forward, and the time frame for implementation should be shorter than the four years stated. The concept of a standard service level is a promising one. Further, increasing service levels in rural municipalities – particularly those that border towns - ought to be considered parallel to town service levels in this new program.

The final outcome of this review ought to be a straight forward and transparent system that is consistent with the principles articulated in this review.

***Rec #20**: The Province will eliminate the HST offset program, as there is no sound policy rational for the program.*

The Report states that the Working Group did not feel this grant forwarded the desired objectives of the suite of grants proposed. However, the Province implemented the HST offset grant when the Province moved from PST & GST to the HST. Before the HST municipal units were fully rebated their provincial sales tax. When HST came about, the Municipal units effectively had a new tax of 4.29% (as only a portion of the PST is rebated). The HST Offset grant's purpose was to minimize this impact. At that time, the Province funded this through the NSPI GIL.

The recommendation is to use the NSPI GIL to fund the Municipalities that have NS Power assets – effectively a tax on NS Power assessments, as opposed to funding other government programs. We don't disagree that the funding from NS Power should be going to the Municipal Units that provide services to NS Power. However, we do not agree that this program doesn't have merit. While the program may not need to be funded by the NSPI GIL, the justification to offset additional tax burden to municipalities is as present today as it was when the HST was introduced and the program should continue to be funded by another means. Otherwise, this will simply be a deferred tax increase for municipalities.

Rec #21*: The Province will create a program/suite of programs dedicated to promoting innovation and capacity building activities for municipalities, including the comprehensive municipal reviews recommended by this committee. To fund these activities, the Province should allocate $1.5 million from the NSPI PILT to the $250,000 that is currently budgeted for municipal capacity building programs.*

Promoting innovation and capacity building are importance goals to pursue. The Municipality's only concern is that in the current climate of structural reform / review, other worthy non-structural reform projects may be overlooked for funding. To mitigate this it is advisable to draft strong terms of reference to support the availability of funding for a variety of projects.

Rec #22*: PCAP should be expanded by $14.2 Million – the remaining NSPI PILT monies – and the PCAP program should be broadened to include roads and other capital projects deemed critical by municipalities. It is intended that in the initial years of this program expansion, some monies should be used to develop an Asset Management Program for all municipalities outside the HRM1.*

The Municipality endorses this recommendation.

General Comments: Grants are an important source of revenue for many municipalities. They can also stand in the way of necessary municipal reform. The Municipality currently receives very little in the way of provincial grants – if this package of recommendations were fully implemented, it would receive even less. The Municipality would support greater emphasis on a system of competitive grants available to all, which will be enhanced with an expanded PCAP grant. However, it is understood that PCAP funding will be the remainder of the NSPI GIL after the host grant and capacity building grants are funded. In the 2014/15 budget PCAP funding was cut – with this NSPI GIL hierarchy of funds PCAP could soon find itself diminished again. A competitive grant fund allows the best projects to find support and puts greater pressure on municipalities to manage their resources. Competitive grant funding like PCAP should be made a more reliably funded program with transparent criteria, process and outcomes.

Opportunities to Improve Revenue Systems

Rec #26: *A full review of the exempt agricultural properties should be conducted to determine if the benefit of the tax reduction is going to those who are actively farming.*

The Municipality supports this recommendation. However, in conducting this review it will be important for the Province and PVSC to maintain consistent and open lines of communication between themselves, the municipality and impacted farmers.

Further, it is also important to distinguish between "actively farming" as described in the report and "agricultural purposes" in conducting this review. At present the Assessment Act exempts properties for agricultural purposes – including the hosting of agricultural exhibitions – which should continue to be the case as these purposes are very important to our agricultural heritage.

Rec #27*: The province and its municipal partners review the finance powers provided in the Municipal Government Act to provide municipalities with broader authority to establish fair and effective property taxation and revenue regimes.*

The Municipality endorses this recommendation.

Rec #29*: The Province should introduce a Provincial Property Tax Rate, which will be applied to all taxable property in Nova Scotia. The intended goal of this tax is to replace the current system of municipal contributions to education, corrections and housing, while increasing the transparency of the current tax system.*

As stated in the report, "the intent of the tax would be to increase transparency of the current system, and make it plainly clear to residents that a portion of their property taxes go to support Provincial programs and activities." There are two parallel components of this recommendation:

1) Moving to taxable assessment from uniform assessment as the foundation of mandatory contributions;
2) Improving transparency by having the province levy a property tax for programs within provincial jurisdiction.

Before dissecting this recommendation, it is important to understand how mandatory contributions are currently calculated:

- ***Education***: Based on a rate of 30.48 cents applied to uniform assessment.
- ***Corrections***: 50% based on the municipality's proportion of the total provincial uniform assessment within a municipality; 50% based on the municipality's proportion of the total provincial dwelling units. The total municipal contribution is capped at $13,923,685.
- ***Housing***: Based on the net deficit of the regional housing authority, which can fluctuate from year to year.

Uniform assessment is widely seen as a strong indicator of municipal health. It has also been the foundational component of calculating mandatory contributions – education and corrections, specifically - for many years. Based on the report it was unclear as to why we would depart from using uniform assessment as the basis of this system. In a report with such a strong research and analysis component, the lack of discussion of this rather important change is notable. It is also notable because this change is the reason for the associated shifts of tax burdens around the province.

In a follow-up conversation with Municipal Affairs and Working Group members, the following rationale was provided as the foundation for this recommendation:

Why change the tax base to taxable assessment?
The contributions for education, corrections and housing are each calculated in a different manner. By applying the single rate to taxable assessment, municipalities would be able to put this tax directly on their residential and commercial bills. In effect, using taxable assessment is the only way to apply a single provincial rate as a separate line item on tax bills. This method would establish the tax as a 'flow-through', which municipalities would collect on behalf of the Province.

Alternatively, if all contributions were based on uniform assessment, municipalities would have to individually calculate what the rate would be on tax bills (i.e. on taxable assessment), which would lead to each municipality charging a slightly different rate. This is reflective of the current practice. The rationale for this recommendation is to increase the accountability for what these contributions are used for, which is bolstered by having a single rate, set annually by the province. It was also confirmed that the CAP would apply to the new provincial rate.

How would the proposed Provincial Property Tax rate be calculated?

$$\text{Rate} = \frac{\text{\$236M (total provincial revenue requirement of mandatory contributions in 2013/14)}}{\text{sum of all taxable assessment throughout the province}}$$

= 33 cents per $100 of assessment in 2013/14.

Each resident would then receive a tax bill, issued by the Municipality, with a separate line for Provincial Property Tax, calculated by:

$$\text{Rate} \times \frac{\text{CAPed Assessment}}{\$100}$$

Analysis
Supporting materials describe this new system of mandatory contributions as, "a flow through

with no impact on municipal budgets." This is not completely accurate. Changing the calculation basis of mandatory contributions in this way would have the practical impact of a tax increase to residents of Antigonish County. This would only be avoided if the Municipality decreased its budget not only in equal proportion to the provincial property tax, but also an additional amount to make up for the additional $61,129 collected from residents of the Municipality.

While the Municipality acknowledges the rationale for the shift from uniform to taxable assessment articulated by Municipal Affairs, one measure of a municipality's financial health is its own-source revenue base as represented by the total uniform assessment. This figure is the total of the taxable property assessment plus the value of grants it receives from special property tax arrangements. The recommended shift to taxable assessment ignores the financial implications of these special property tax grants. However, applying the rate to taxable assessment is really the only way to implement this new line of taxation.

Having the province collect taxes to cover the costs of the mandatory provincial contributions currently required of municipalities is the best scenario to address issues of transparency. The Municipality acknowledges this transparency is important and appreciates the intent of this approach. However, the effect of this transparency may be limited if municipalities collect the provincial property tax at the same time on the same bill as municipal property taxes.

Conclusion: The Municipality provides cautious support for this recommendation. If this recommendation comes to fruition it may in fact have positive implications for the province as a whole, and may be more appropriate than the current system. However, the municipality's concerns remain:

- Taxes to residents of Antigonish County would increase if the Municipality did not reduce its budget by a greater amount that the current value of mandatory contributions;
- The omission of grants and special tax arrangements previously captured by uniform assessment omits a more complete picture of a municipality's financial health; and
- It is far from certain that it will achieve the desired transparency goals.

General Comments: Alternative sources of revenue were discussed in the report, specifically the idea of additional non-resident taxation through a property tax rebate (PEI example) or a primary residence rebate (NB example). Acknowledging that this issue and legislation was examined in the past and not proclaimed into law, it may be worth exploring these alternative options once again.

Opportunities to Improve Collaboration

General Comments: The Municipality supports recommendations 30 – 43, including 33 & 34.

The input above was approved by motion of Antigonish County Municipal Council on December 16, 2014.

Respectfully submitted,

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Treasurer