HALIFAX

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**Item No. 6**
**Budget Committee**
**January 24, 2018**

**TO:** Chair and Members of Budget Committee (Standing Committee of the Whole on Budget)

**SUBMITTED BY:** Original Signed by

Jacques Dubé, Chief Administrative Officer

**DATE:** January 8, 2018

**SUBJECT:** Adjusting Local Transit and Regional Transportation Rates

## ORIGIN

Regional Council, February 7, 2017
Ratification of Committee of the Whole Motion from January 25, 2017

MOVED by Councillor Mason, seconded by Deputy Mayor Craig

THAT Halifax Regional Council request a staff report regarding options and opportunities for adjusting the Local Transit and Regional Transportation rates to better reflect service delivery in both areas and bring recommendations for consideration during the 2018/19 budget deliberations.

## LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter

Section 79 - Power to expend money

(1) The Council may expend money required by the Municipality for
(o) public transportation services.

Section 96 - Area rates and uniform charges

(1) The Council may spend money in an area, or for the benefit of an area, for any purpose for which the Municipality may expend funds or borrow.

(2) The Council may recover annually from the area the amount required or as much of that sum as the Council considers advisable to collect in any one fiscal year by an area rate of so much on the dollar on the assessed value of the taxable property or occupancy assessments in the area.

**Recommendation on next page**

## RECOMMENDATION

It is recommended that the Committee of the Whole recommends that Halifax Regional Council maintain the current approach to transit taxation and fares during the 2018-2019 fiscal year.

## BACKGROUND

From June 2008 to May 2009, Regional Council sought options and discussed a new way to fund Halifax Transit services. A new funding model was approved on May 26, 2009, effective for the 2009-2010 fiscal year.

The need for a new funding model came from deficiencies in the former approach. For example, a new Metro Transit service, now known as MetroX, picked up riders at park & ride locations in rural and suburban areas and brought them to an urban location, where they could connect with other Metro Transit services. The previous funding models (to tax those living near the "service") would not work for MetroX, since there were very few homes near the park & ride locations. Furthermore, since riders would drive to the service, rather than walk, they tended to live further away in various directions (not from one specific location or community). Hence a new model to tax for transit was required.

Since some residents in the municipality had limited or no access to transit service, the general tax rate was not seen as an appropriate approach to taxation. From the beginning it was clear that an approach would have to balance taxation between those who "benefited" from transit, (even though they might have limited access to transit service) with those who had clear and immediate access. The benefits of transit included reduced congestion on the roads for commuters, decreased pressure to expand road networks and reduced greenhouse gases.

The current transit tax system had its origin in Council's Tax Reform Committee. Their research looked at taxation and planning and split broad regional services off from more localized transit and road services. Using that Regional-Local model, Council debated a number of approaches in detail. COW initially approved a local and regional transit tax based on flat amounts per home. It later moved that onto assessed values. The Regional Transportation Tax boundary was based on the "Rural Commutershed" Boundary from the Regional Plan. That boundary was chosen as a reasonable reflection of those who would benefit from transit service. The Rural Commutershed reflects the areas from which the majority of rural employees commute into the urban core. This would also point to the likely patterns of non-work travel, as well. Outside the Rural Commutershed, employees are more likely to work in the rural area (rather than urban). Consultation with transportation planners confirmed that the commutershed area, used by Halifax Transit for its Rural Transportation boundary, remains relevant, today. The Regional Transportation rate included MetroX and the Ferry system.

The Local Transit rate was designed to include the non-regional elements of the transit system including what was then called community transit. A variety of different boundaries were reviewed by Council. At one point Council approved a 3km boundary but reconsidered that when it became clear that many affected residents felt they could not walk 3 km to a bus stop. Research shows that people who live within a 15-minute walk (approximately 1 km) of a bus stop are more likely to take the bus then those that do not. Residents living within the Local Transit rate boundary benefit directly from being able to access the transit network and also benefit from less traffic congestion and lower GHG emissions. The current boundary for local transit is 1km walking distance from a bus stop. It changes as service is added or removed. Anecdotally, taxpayers appear content with this boundary as it is consistently applied using the 1km distance. There have been a small number of complaints over the Regional Transportation boundary, mostly due to the lack of service in some parts of the commutershed.

Commercial taxpayers do not pay either transit tax. Rather a contribution to Halifax Transit services comes thru the commercial general taxes (40% of the local transit costs and 49% of regional costs). This ensures that business pays a share of the costs while minimizing the complexity of the tax system.

## DISCUSSION

HRM is unique in that Halifax Transit has its own dedicated tax rate. This rate gives HRM the opportunity to distribute costs to the citizens using a regional and local approach. The review was conducted in two steps. First staff used the updated financial data to determine if the current rate is sufficient to cover the cost of the services and that the percentage allocation of costs to each rate still holds true. Second, was to explore different methods of applying the rate to the different rate payers.

In 2009, Council examined numerous options and variants to align the Transit rate with benefit. "The options compared various general and area rates based on assessment and dwelling units. Council approved a Regional rate based on the commuter shed boundary and a local rate for all residents within 1km of a bus stop. It also allocates 25% of local costs to the Regional rate to better reflect the benefits such as less traffic congestion on the roads, less pressure to widen roads, fewer greenhouse gas emissions and promotion of economic growth as well as the ability for users to transfer from MetroX to local service.

On February 7th, 2017, Regional Council directed staff to review the current Transit area rates and return with options to better reflect transit services in the two rated areas. Staff examined several methods to split the costing of the two rates. The methods include:

a) By direct cost of the service (current)
b) By ridership of the service
c) By eliminating the 25% allocation of local costs to the Regional rate

Using the updated financial data (based on service hours) and the current method of cost allocation (with 25% of local costs being attributed to the Regional Transportation rate), the distribution for 2017-18 would have been 66.4% on the Local Rate and 33.6% on the Regional Transportation rate. The change to the rates is slightly different from the rates originally calculated in 2009. These costs would translate into a Local Transit rate of 0.105 cents and a Regional Transportation Rate of 0.042.

### Table One – Transit Tax Impacts

| Rates | 2014 | 2015 | 2016 | Current 2017 | Revised 2017 | Change 2017 |
|---|---|---|---|---|---|---|
| **Residential** | | | | | | |
| Local Transit | 0.105 | 0.102 | 0.102 | 0.098 | 0.105 | 0.007 |
| Regional Transportation | 0.051 | 0.049 | 0.049 | 0.048 | 0.042 | -0.006 |
| **Residential Total** | **0.156** | **0.151** | **0.151** | **0.146** | **0.147** | **0.001** |
| | | | | | | |
| **Tax on the Average Home** | | | | | | |
| Local & Regional Rates | 353.34 | 342.02 | 342.02 | 330.69 | 332.96 | 2.27 |
| Regional Transportation | 115.52 | 110.99 | 110.99 | 108.72 | 95.13 | - 13.59 |

This option represents a shift of costs to the local rate (7/100's of a cent higher) and a shift from the Regional rate (6/100's of a cent lower), from the rates approved for 2017-18. For taxpayers currently paying both the Local and Regional Tax rates, the average tax bill would increase by $2.27. For those paying only the Regional Tax rate, the average tax bill would decline by $13.59 (See Table One). The shift from the regional rate to the local rate reflects the fact that local services have expanded more over the last 8 years relative to the level of expansion of the regional services.

In addition, staff reviewed allocating the costs based on ridership which would align the costs to the users of the service. The ridership data provides slightly different numbers for the allocation of costs to services but there is only .1% difference from the previous method of cost allocation by service hours. When rounded, this method makes no difference in the rate paid by either rate payer in the previous calculation.

Another option is to not allocate the full 25% of the Local Transit costs to the Regional Transportation rate. This method would mean that Regional Transportation rate payers are paying the cost of the regional services, but are not contributing towards the benefits of the conventional routes or for any transfer of riders from MetroX or the ferries to local transit routes. Under this scenario, the cost allocation for 2017-18 would have been 88.5% on the Local Transit rate and 11.5% on the Regional Transportation rate. This represents an increase in the Local transit rate of 4.2 cents and a decrease to the Regional Transportation rate of 3.4 cents. In real terms the average Local Transit rate payer would have a combined rate increase of 0.8 cents and on average pay $18.12 more. The Regional Transportation rate payer would have a rate decrease of 3.4 cents, and on average pay $77 less.

Another option would be to charge the Local Transit rate payers the full cost of the local service and the Regional Transportation rate payers the cost of only the MetroX and Ferry service. This method would mean the local rate would no longer be layered with the Regional Rate. A resident would pay one rate or the other. This could effectively create two separate transit services that are not fully integrated, and is not recommended.

## Table Two – Summary

| Rates | Current 2017 | Revised 2017 | Ridership 2017 | 0% of Local Costs 2017 |
|---|---|---|---|---|
| **Residential** | | | | |
| Local Transit | 0.098 | 0.105 | 0.105 | 0.140 |
| Regional Transportation | 0.048 | 0.042 | 0.042 | 0.014 |
| **Residential Total** | **0.146** | **0.147** | **0.147** | **0.154** |
| | | | | |
| **Changes in Tax on the Average Home** | | | | |
| Local Transit | n/a | 2.27 | 2.27 | 18.12 |
| Regional Transportation | n/a | - 13.59 | - 13.59 | - 77.01 |

Transit fares are a major factor that affects both the funding of transit and the demand for the service. Transit fares have not changed in several years and remain modest relative to other Canadian cities. Shifting some of the tax costs onto the individual users would lower taxation costs. For instance, a fare increase of 25 cents would raise revenues of $1.4m that could then be used to lower the transit tax rates. There would, however, be a drop in ridership as the price of transit increased. For example, a fare increase of $0.25 or 10% would only result in a 5.8% increase to revenues because of the expected drop in ridership as a result of the increase. The ridership assumptions use the Simpson-Curtin elasticity rule. This is a widely used assumption on transit ridership elasticity. This is a fairly reliable model that has worked well for Halifax Transit in the past, although there are always other factors at play, aside from a fare increase. In addition, reduced ridership would be in contrast to the objectives set out in the recently approved Integrated Mobility Plan (IMP). Before changing transit fares, the impact on demand and the relationship to the Integrated Mobility Plan should be fully explored. Lower transit fares, not higher, could have the impact of encouraging more transit ridership and lowering the demand for roadway expansion, although it would shift some costs onto taxation. Rather than changing fares or tax structure in the proposed 2018-19 budget, it would be more appropriate to review both the taxation and the fare structure in the context of the IMP including the potential for rail and other enhanced forms of transportation.

## FINANCIAL IMPLICATIONS

There are no financial implications of the recommendation. The current transit taxation approach and allocation will be maintained.

## RISK CONSIDERATION

None

## COMMUNITY ENGAGEMENT

If Regional Council decides to change the rate structure, a communication plan must be developed so property owners will understand the changes taking place.

## ENVIRONMENTAL IMPLICATIONS

The rate review will not impact the services provided by Halifax Transit, so will therefore have no environmental implications.

## ALTERNATIVES

Regional Council could choose to alter the rates based on the refreshed financial data.

Regional Council could choose to change the rates to reflect a different method as per the table in the report.

## ATTACHMENTS

None

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A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

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