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**Item No. 10.2i)**  
**Halifax Regional Council**  
**January 10, 2023**  
**March 7, 2023**

**TO:** Mayor Savage and Members of Halifax Regional Council

**SUBMITTED BY:** Original Signed

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Caroline Blair-Smith, Acting Chief Administrative Officer

**DATE:** November 22, 2022

**SUBJECT:** Tax and Service Boundary Review including Regional and Rural Transit

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**ORIGIN**

Halifax Regional Council motion, April 6, 2021, Item 11.4.4:

MOVED by Councillor Lovelace, seconded by Councillor Russell  
THAT Halifax Regional Council request a staff report outlining options regarding:

1. Moving funding of the ferry system to the Local Transit Tax Area from the Regional Transportation Tax;
2. Funding cooperative rural transit from the Regional Transportation Tax;
3. Establishing a new Regional Transportation Tax boundary to apply to those within 3kms of a Regional Express stop, 1km of a conventional or rural bus stop, or within a Rural Transit Funded service area, and,
4. Expanding the Rural Transit Funding Program to include share in capital funding.

MOTION PUT AND PASSED UNANIMOUSLY.

Halifax Regional Council motion, January 25, 2022, Item 16.1:

MOVED by Councillor Russell, seconded by Councillor Cleary  
THAT Halifax Regional Council direct the Chief Administrative Officer to prepare a staff report that:

1. Reviews the service boundaries within HRM;
2. Identifies the types and levels of service that have been committed within each of the boundaries, and their corresponding costs;
3. Reviews the taxation boundaries within HRM, and the amount of tax that is generated within each boundary.

MOTION PUT AND PASSED.

## **LEGISLATIVE AUTHORITY**

*Halifax Regional Municipality Charter, S.N.S. 2008, c.39*

### **Purposes of Municipality**

**7A** The purposes of the Municipality are to

- (a) provide good government.
- (b) provide services, facilities, and other things that, in the opinion of the Council, are necessary or desirable for all or part of the Municipality; and
- (c) develop and maintain safe and viable communities.

### **Municipal expenditures**

**79A** (1) Subject to subsections (2) to (4), the Municipality may only spend money for municipal purposes if

- (a) the expenditure is included in the Municipality's operating budget or capital budget or is otherwise authorized by the Municipality.
- (b) the expenditure is in respect of an emergency under the Emergency Management Act; or
- (c) the expenditure is legally required to be paid.

### **Estimates of required sums**

**93** (1) The Council shall make estimates of the sums that are required by the Municipality for the fiscal year.

- (6) The Council shall authorize the levying and collecting of a
  - (a) commercial tax rate of so much on the dollar on the assessed value of taxable commercial property and business occupancy assessment; and
  - (b) residential tax rate of so much on the dollar on the assessed value of taxable residential property and resource property.

### **Tax Rates**

**94** (1) The Council shall set separate commercial and residential tax rates for the area of the Municipality determined by the Council to be

- (a) a rural area receiving a rural level of services;
- (b) a suburban area receiving a suburban level of services; and
- (c) an urban area receiving an urban level of services.

(2) The Council may

- (a) set different commercial tax rates for commercial property located in areas of the Municipality designated by Council, based on the assessment of commercial property under the *Assessment Act*;
- (d) set additional tiered or escalating commercial tax rates based on the factors set out in clauses (a) to (c) that are in excess of the rates set in clauses (a) to (c); and
- (e) set additional or different commercial tax rates using any combination of clauses (a) to (d).

(3) Commercial tax rates set by the Council under subsection (2) apply in place of the commercial tax rates set under subsection (1) in the areas designated by the Council.

### **Area rates and uniform charges**

**96** (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.

(3) The Council may provide

- (a) a subsidy for an area rate from the general rate in the amount or proportion approved by the Council;
  - (b) in the resolution setting the area rate, that the area rate applies only to the assessed value of one or more of the taxable commercial, residential or resource property and occupancy assessments in the area.
- (4) The Council may, in lieu of levying an area rate, levy a uniform charge on each
- (a) taxable property assessment;
  - (b) dwelling unit in the area.

Administrative Order 2014-012-ADM, the *Rural Transit Grants Administrative Order*

### **RECOMMENDATION**

It is recommended that: Halifax Regional Council:

- 1) Maintain the current transit tax structure with the existing Regional Transportation area rate boundary and service cost allocations to the Local Transit and Regional Transportation area rates.
- 2) Maintain the Rural Transit Funding program grants as unrestricted – available for grant recipients to use for their operating and/or capital costs – and maintain the program mileage allowance at \$0.50 per kilometer, so as not to exceed the planned 2023/24 program funding level of \$370,000.

### **EXECUTIVE SUMMARY**

#### **Transit Taxation**

The current transit tax structure has provided resources for expansion of transit services across HRM, particularly funding Regional Express services that originate from outside urban areas. The current Local Transit and Regional Transportation area rates share the cost of services across large areas of the municipality, reflecting the broad – direct and indirect – benefits of the public transit, while funding transit services at reasonable levels of taxation.

No change is recommended. The current funding model meets the requirements of the municipality and aligns well with service benefits and regional transit use patterns. The proposed changes do not align the principles of the current policy; however, the changes are included in this report as Alternative 1.

#### **Tax and Service Boundary Overview**

The history of HRM's current residential tax structure dates back to the years following amalgamation, with adjustments made since then, reflecting the evolving approach to HRM services, as regional standards for facilities, equipment and services have been established. The current urban-suburban-rural structure was a policy compromise made by elected officials during the early years of HRM, based on services available at that time. The urban-suburban-rural tax boundaries have not materially changed over the past 25 years. Apart from transit services, hydrants and sidewalks, all municipal services are provided across the entire Halifax region. Both transit services and hydrants are funded by specific area rates.

Policymakers, elected officials, and academics have highlighted the desirability of “pricing” services, implying that users pay, and non-users do not. In practice, municipal services are challenging to price given that they are public goods, i.e., not competitive, and widely accessible. Individual households often look to direct benefits to determine if their taxes reflect services. In a property tax system, both direct and indirect benefits are implicit in taxes levied. This means both seen and unseen services and infrastructure.

Simply put, the public finance theory behind property tax is to raise sufficient, less volatile revenues over time to provide public services. While HRM does have user fees for select services, it is for those where there is a clear rationale to price them: recreation programs, ferry and bus services and permit applications.

## **BACKGROUND**

### **History of the Regional Transportation Rate**

The purpose of the shift in Transit Taxation in 2009 was to:

- 1) Remove taxation barriers to geographic expansion of transit in HRM, allowing strategic expansion of transit as identified in Regional Plan and to provide a viable funding mechanism for MetroX (Regional Transit) routes with bus stops (Park & Ride locations) in sparsely populated areas
- 2) Make taxation of transit more consistent across HRM, better reflecting access to, and benefits of, the transit system.

Transit costs, formerly collected on the urban general rate and three separate rural area rates, began to be collected through two specific transit area rates:

- The *Regional Transportation* area rate was applied to all residential/resource properties, except those outside the HRM *commutershed*<sup>1</sup> (the Eastern Shore, east of Jeddore Harbour, and Musquodoboit Valley areas were excluded).
- The *Local Transit* area rate was applied (in addition to the Regional Transportation rate) to all residential/resource properties within a 1-km walking distance<sup>2</sup> of a transit stop.

**Notes:** 1. *The commutershed is defined as those areas of the municipality from which people regularly travel into the urban core. The outer edge of the commutershed is seen on the [Generalized Future Land Use map](#) (Regional Plan) as the Rural Commuter area.*

2. *The 1-km walking distance was based on North American research on transit ridership, which indicated that people within a 15-minute walk of a transit stop were most likely to use it. Based on an average urban walking speed of 4km per hour, a 1-km walking distance was recommended.*

The two rates allow the taxes to better match those who directly and indirectly benefit from the different services. The Local Transit area rate funded local, community bus routes that people are more likely to access by walking. The Regional Transportation area rate funded services such as the MetroLink (since then converted to Express routes), MetroX (now branded as Regional Express service) and ferries that are used by people traveling from diverse areas of HRM and beyond. The Regional Transportation area rate also funded a portion of the conventional transit services, to reflect the broad benefits of Transit to the municipality (described further below). This funding model recognized the wide reaching direct and indirect benefits of Halifax Transit and it shares service costs amongst the two overlapping transit area rates.

Since 2009, Halifax Transit has grown from a fleet of 259 buses, 24 access-a-buses and 3 ferries with a budget of \$70 million dollars, to a fleet of 369 buses, 47 access-a-buses and 5 ferries with a budget of nearly \$124 million, providing more than one million vehicle-hours of service, annually, to move residents, employees, and visitors to the Halifax region.

The current tax structure has allowed the development of Regional Express routes to Tantallon, Porters Lake, Fall River, and the airport (Regional Transportation area rate policy). Further, it has helped to fund expansion of urban and suburban services, including through the Moving Forward Together Plan, by allowing taxation to follow transit services (Local Transit area rate policy).

The Regional Transportation area rate was reviewed and debated by the Budget Committee and Regional Council in winter of 2018, with no changes made to the existing tax structure.

### Existing Rural Transit Funding Program

The Rural Transit Funding Program provides grants to non-profit community organizations to subsidize the cost of providing community-based transit services in rural communities within the Municipality. These transit service providers offer an alternative form of public transportation outside of Transit's service area.

During 2020/21 Regional Council provided approximately \$274,000 in funding through the Rural Transit Funding Program to four organizations:

- BayRides
- East Hants Community Rider
- MusGo Musquodoboit
- MusGo Valley-Sheet Harbour

Amounts provided through the Rural Transit Funding Program are allocated in two ways:

1. An annual lump sum payment of either \$5,000 or \$10,000 based on the number of in-service vehicle kilometers travelled in each quarter of the municipal fiscal year, as reported in required quarterly financial reports; and
2. A flat rate of up to \$0.50 per kilometer travelled while providing transit service (subject to annual budget availability, as per *AO 2014-012-ADM, section 14*).

Grants are not automatically renewed each year. If an organization in the program intends to apply for a grant in the following fiscal year, projected ridership and in-service vehicle kilometers for the following fiscal year must be provided as part of its third quarter financial report submission.

## DISCUSSION

### Part 1

#### Current Transit Use and Funding

The cost of various transit services is shared between the two transit area rates and shared between residents of the two areas covered by those rates. Below is a summary of the costs of services are currently shared among residential/resource properties in the two Transit tax areas. Although the Regional Transportation area rate (along with commercial taxes) funds 100 per cent of the Regional Express service, more than 78 per cent of the Regional Transportation area rate funding comes from within the Local Transit area. Similarly, about 5 per cent of conventional transit service is funded by those outside the Local Transit area. The table below demonstrates that each service is partially funded from the Local Transit area and from the broader commutershed.

**Table 1**

Service	% Funded by Transit area rates (within Local Transit Area)	% Funded by Transit Area Rates (outside Local Transit area)
Conventional Transit Service	94.6%	5.4%
Access-a-Bus Service	94.6%	5.4%
Ferry Service	78.4%	21.6%
Regional Express Service	78.4%	21.6%
Express transit service from Sackville and Portland Hills	78.4%	21.6%
All other Park & Ride facilities	94.6%	5.4%
<b>All Transit Services</b>	<b>91.9%</b>	<b>8.1%</b>

Based on the most recent transit use data from Statistics Canada (Journey to Work, 2016 census) and 2021/22 transit taxes billed, we can examine at how much the average single-family home pays for transit services vs the regular transit use of residents. This information is summarized by District.

**Table 2**

**Area Rate funding by District (sorted by Transit Use)**

District	% Transit Tax <sup>1</sup>	# Homes	% Paying Tax <sup>2</sup>	% Paying Local <sup>3</sup>	Avg Transit Tax / Home	Transit Use <sup>4</sup>
5	6.8%	6,746	100%	100%	\$342	22.7%
8	7.7%	4,894	100%	100%	\$400	21.9%
10	6.4%	5,072	100%	100%	\$364	20.4%
6	5.2%	5,815	100%	100%	\$314	14.3%
9	9.1%	7,193	100%	100%	\$484	13.9%
12	7.0%	6,123	100%	98%	\$359	12.8%
15	3.9%	6,650	100%	95%	\$259	12.4%
3	6.7%	9,416	100%	93%	\$303	12.0%
7	13.8%	4,678	100%	100%	\$725	11.5%
4	5.4%	8,761	100%	97%	\$305	11.2%
16	11.7%	8,670	100%	93%	\$475	8.0%
14	3.9%	8,544	100%	60%	\$219	7.6%
11	4.1%	8,848	100%	41%	\$193	6.4%
13	3.6%	9,957	100%	11%	\$170	3.1%
1	2.1%	8,283	75%	6%	\$124	3.0%
2	2.5%	12,093	75%	23%	\$101	2.3%
All HRM	100%	121,743	96%	70%	\$295	10.3%

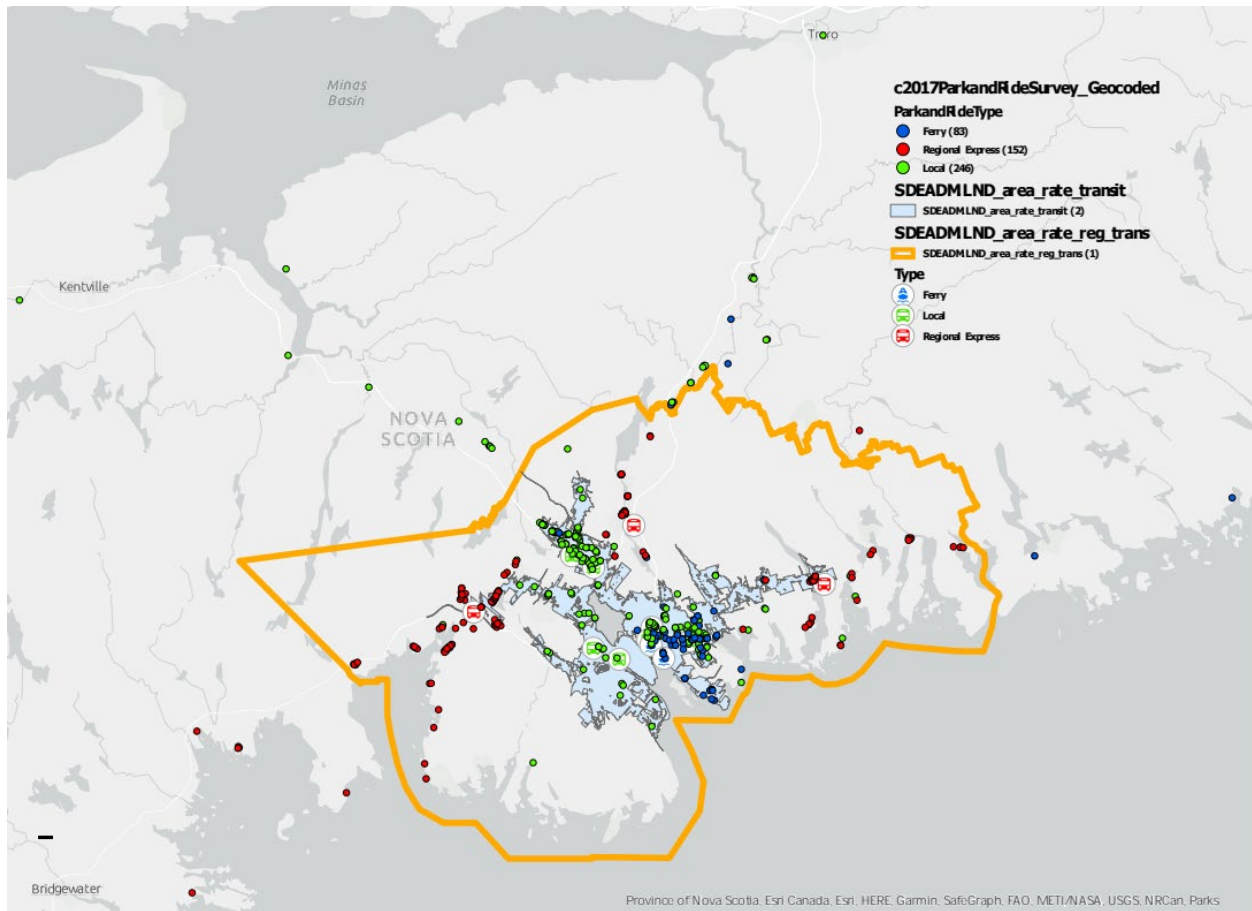
**Notes:** 1. % **Transit Tax** indicates the percentage of transit tax revenues collected within each district, including taxes on apartments and vacant land. 2. % **Paying Tax** indicates the number of single-family homes paying either the Local Transit and/or Regional Transportation rate. 3. % **Paying Local** indicates the number of homes paying the Local Transit rate. 4. **Journey to work** data does not include transit trips to school or occasional travel for shopping, appointments or leisure.

It is not surprising to see that the eleven districts with more than 90 per cent of homes within one kilometer of a bus stop have the highest ridership level.

Within those eleven districts, transit use ranges from 8 per cent to almost 23 per cent, without any relationship to the average amount paid. For the five districts with 60 per cent or fewer homes near a bus stop, there is a strong correlation between access, transit use and average transit taxes paid. This is about as strong a correlation as one could expect from a property tax system.

In 2017, Halifax Transit carried out a survey of its Park & Ride users and asked them to identify where they lived, i.e. their journey's "origin." Survey results are detailed on the below map. A larger map is included as Attachment 1.

**Figure 1**



Interestingly, while most ferry and conventional service Park & Ride users (**blue** and **green** dots) were from the urban/suburban (Local Transit) area, some ferry and conventional service Park & Ride users originated in the rural areas and even beyond the boundaries of HRM. Most Regional Express users (**red** dots) originated in the rural commutershed (within the Regional Transportation boundary, but outside the Local Transit area). And there were some Regional Express riders who lived outside HRM and a few who traveled from the Local Transit area. Shared access and use, with some strong preferences. Based on these survey results, the Regional Transportation area seems to reflect access and benefit well.

### Review of the Regional Transportation Area Rate Allocation and Boundary

First, let's consider the proposed change to **who pays** the Regional Transportation area rate. The third part of the April 6, 2021, motion from Deputy Mayor Lovelace states:

- **Revise Regional Transportation Tax boundary to apply to those within 3kms of a Regional Express stop, 1km of a conventional or rural bus stop, or within a Rural Transit Funded service area.**

Staff have compiled the Alternative Regional Transportation Area map (Attachment 2) showing:

- 3kms of a Regional Express stop in **dark blue**,
- 1km of a conventional or rural bus stop in **light blue**, and
- within a Rural Transit Funded service area as **orange**.

As can be seen on the map, the revised Regional Transportation area stretches much further east than the current boundary, including areas well outside the Rural Commutershed (as identified in the Regional Plan). It also leaves gaps within the commutershed area, such as the areas around Terrance Bay/Sambro, Beaver Bank, Goffs and Cow Bay. As a result, the assessment base of the revised Regional Transportation area would be about 9 percent lower than it currently is.

This proposed policy reflects a quite different approach in cost allocation from the current one, focusing primarily the direct benefits of transit services, suggesting that those most likely to use the service or benefit from the service directly should fund the service. It also transfers additional costs for regional and rural services to urban and suburban property owners in the Local Transit tax area, while discounting the benefit rural residents receive from regional and express services in the rural and suburban areas of the municipality.

Now, let's consider *what is funded* by the Regional Transportation area rate. The first two parts of the April 6, 2021, motion from Deputy Mayor Lovelace state:

- **Fund the ferry system to the Local Transit area rate.**
- **Fund grants for rural transit from the Regional Transportation area rate.**

Staff have reviewed the costs of five program areas within Halifax Transit for the 2021/22 fiscal year. The breakdown of actual costs, based on cost centres and service hours for each activity are shown below.

**Table 3**

	Scheduled Annual Hours	21/22 Boardings	21/22 Revenue	21/22 Expenses	Net 21/22 Expenditures	
Conventional Bus	926,898	16,432,687	22,302,754	102,214,932	\$79,912,178	82.4%
Regional Express	34,018	138,959	291,469	3,751,381	\$3,459,912	3.6%
Rural Transit Grant	n/a	n/a	\$0	\$356,851	\$356,851	0.4%
Ferry	14,956	782,780	\$1,132,122	\$7,399,826	\$6,267,704	6.5%
AAB	84,784	123,947	\$150,851	\$7,083,768	\$6,932,917	7.2%

In 2021/22, Transit area rates funded 54.3 per cent of Halifax Transit expenditure. As such, the 2021/22 transit tax allocation, based on existing policy, produced the known tax rates.

**Table 4**

*With current policy and Regional Transportation area:*

Taxation Area	Local Transit	Regional Transp.
<b>Funding Required</b>	<b>\$32,855,000</b>	<b>\$19,900,000</b>
<b>Assessment Base</b>	<b>\$33,167,177,400</b>	<b>\$42,280,339,700</b>
<b>2021/22 Transit Rates</b>	<b>\$0.099</b>	<b>\$0.047</b>

Per the two motions, if only Regional Express services and the Rural Transit Grants are fully funded from the Regional Transportation area rate, the 2021/22 transit tax allocation would be altered, as shown below.

**Table 5**

*With proposed policy and new Regional Transportation area:*

Taxation Area	Local Transit	Regional Transp.	Both Rates
<b>Funding Required</b>	<b>\$37,930,000</b>	<b>\$14,825,000</b>	
<b>Assessment Base</b>	<b>\$33,167,177,400</b>	<b>\$38,592,310,200</b>	
<b>New Transit Rates</b>	<b>\$0.114</b>	<b>\$0.038</b>	<b>\$0.153</b>
<b>2021 Transit Rates</b>	<b>\$0.099</b>	<b>\$0.047</b>	<b>\$0.146</b>
<b>Rate Change</b>	<b>\$0.015</b>	<b>-\$0.009</b>	<b>\$0.007</b>



This proposed change would mean a tax rate decrease of approximately 0.9 cent to those paying only the Regional Transportation rate (about \$23 per home) and an increase of about 0.7 cent to those paying both transit rates (about \$18 per home). Since the boundary is changing, those the area rate “gap” areas around Terrance Bay/Sambro, Beaver Bank, Goffs and Cow Bay, currently paying the 4.7-cent Regional Transportation rate, would stop paying and save about \$128 per home. However, more than 5,100 homes in Districts 1 and 2 would be paying a Regional Transportation rate (of 3.8 cents) for the first time, with approximately 600 of them seeing a tax increase of \$50 or more. The impacts (estimated at 2021/22 rates and assessments) are summarized below, with additional detail in Attachment 3.

**Table 6**

<b>Proposed Regional Transportation Area and Allocation</b>	<b># Homes Impacted</b>	<b>Districts Impacted</b>	<b>Average Impact (per Home)</b>
<b>Properties Added to Reg. Transp. Area</b>	5,161	1, 2	\$35
<b>Properties Removed from Reg. Transp. Area</b>	14,374	1 to 4, 6, 10 to 16	-\$128
<b>Properties Remaining in Reg. Transp. Area</b>	17,381	1, 2, 11 to 13	-\$23
<b>Properties in Local Transit Area</b>	85,970	All Districts	\$18

Staff would not recommend such a large boundary extending beyond the rural commutershed, especially given that the services provided across most of the area are not being provided by HRM and the Municipality cannot control or monitor the service levels provided by the four community transit providers.

Additionally, since the service in any of the four areas could be discontinued without Council direction, the assessment base for the area rate is at risk and could lead to revised boundaries and (increased) rates without warning.

**Transit Tax Structure Conclusion**

The current tax transit structure has allowed Halifax Transit to expand in both rural and urban areas over the past thirteen years. In rural areas, this service expansion has occurred without any need to change the Regional Transportation boundary. Furthermore, the shared funding model (with overlapping area rates) is well aligned with the use of local and regional services across the urban, suburban and commutershed areas. The allocation of property taxes is well aligned with transit availability and use. The proposed change would shift costs to those in rural areas benefiting less from Halifax Transit services. As such, staff are recommending no change to the existing structure.

**Consideration of Capital Funding in Rural Transit Funding Program**

In accordance with Administrative Order Number 2014-012-ADM – Respecting Grants for Rural Transit, Rural Transit Funding Program grants are unrestricted, and recipients can use grants received to fund either operating or capital expenditure. It is recommended that these grants continue to remain unrestricted to subsidize the cost of providing rural transit services. Community groups can apply for capital grants (up to \$25,000) from HRM’s Community Grants program. MusGo Rider has successfully applied in the past.

It is recommended that the mileage allowance for the four rural transit operators remain set at \$0.50 per kilometer for the 2023/24 fiscal year so as not to exceed the current program funding level of \$370,000. Current expected expenditures for fiscal 2023/24 are \$353,000 (based on a projection of 626,000 kilometers) and is detailed below:

**Table 7**

**Projected Expected Mileage Allowance – 2023/24 Program**

	<b>2023/2024 Projections at \$0.50 per km (Current)</b>		
<b>Transit Service</b>	Lump Sum	Projected Kms	<b>Total projected funding</b>
BayRides	\$10,000	193,000	\$106,500
East Hants Community Rider	\$10,000	58,000	\$39,000
MusGo Musquodoboit	\$10,000	260,000	\$140,000
MusGo Valley-Sheet Harbour	\$10,000	115,000	\$67,500
<b>Total Projected Funding</b>	<b>\$40,000</b>	<b>626,000</b>	<b>\$353,000</b>

Analysis has been completed between pre- and post-pandemic kilometres reported by grant recipients. In 2019/20, 579,000 kms were driven compared to 456,800 in 2021/22. Program costs have been estimated using 2023/24 program forecasts of 626,000 kilometers. This implies a return to pre-pandemic ridership levels. Rural transit operators re encouraged to seek other government grants both inside HRM and through eligible programs at the provincial level.

**Part 2**

**Overview: Tax Boundaries and Linkages to Theory and Practice**

HRM's current legislative structure is the result of policy and legislative actions taken in the 1995 to 1998 period, commonly known as amalgamation. The goal of this policy was to improve efficiency, achieve economies of scale for eligible services, reduce duplication and strengthen regional integration of its separate and unique communities.

The Halifax Regional Municipal Act (1996-1999) Municipal Government Act (MGA) (1999-2008) and currently the Halifax Regional Municipality Charter (The Charter) (2008 – present), prescribe how the municipality can levy taxes, collect revenue and account for services provided:

**Tax Rates**

**94 (1) The Council shall set separate commercial and residential tax rates for the area of the Municipality determined by the Council to be**

- (a) a rural area receiving a rural level of services;
- (b) a suburban area receiving a suburban level of services; and
- (c) an urban area receiving an urban level of services.

Subjective interpretation of *services, taxes and direct and indirect benefits* creates challenges to mutual understanding of municipal public finance. Urban economic theory dictates that households locate where they can maximize their utility, simply, they locate where the best mix of services, prices and transport costs are, subject to household budget constraints.<sup>1</sup>

<sup>1</sup> Glaeser, Ed, "Conversations with Bill Kristol, "The Case for Cities," August 2022.

### Taxation Boundary Origins and Benefits

More than 26 years have passed since amalgamation, and it is important to understand how the boundaries were determined. In short, *rural* was easier to determine (i.e., the former Halifax County). The Urban and Suburban boundaries were a policy compromise to reflect the small but meaningful difference between some of the combined legal entities. Simply, *Suburban* was a compromise for those areas not considered fully urban or fully rural.

Individual households often look to direct benefits to determine if their taxes reflect services.<sup>2</sup> In a property tax system, both direct and indirect benefits are implicit in taxes levied. This means both seen and unseen services and infrastructure. For example, being close to a transit stop and using the service to commute to work is a *direct* benefit. Road work funded in another area of HRM via general rate revenues is an *indirect benefit*. The household may not use that piece of infrastructure daily, but the region benefits from well-maintained infrastructure that otherwise would have deferred maintenance liabilities.

### Tax Revenues by Taxation Boundary Area

For the most recent fiscal year (final billing), tax revenues are summarized by rate category and property classification.

**Table 8**

**Property Tax Revenues by Tax Rate Category (2021/22)**

Category	Urban Tax	Suburban Tax	Rural Tax
General Rates	\$455,085,930	\$17,335,471	\$60,912,965
Mandatory	\$141,026,664	\$8,640,159	\$25,725,235
Transit Rates	\$47,764,813	\$1,333,148	\$3,560,176
Supp. Educ.	\$12,313,133	\$579,907	\$1,930,342
Hydrants	\$7,189,938	\$118,466	\$169,102
Local Area Rates	\$309,976	\$278,366	\$342,972
<b>Tax Area Totals</b>	<b>\$663,690,454</b>	<b>\$28,285,518</b>	<b>\$92,640,793</b>
Property Taxes	\$784,616,765		

**Table 9**

**Property Tax Revenues by Property Classification (2021/22)**

Class	Urban Tax	Suburban Tax	Rural Tax
Residential	\$396,952,480	\$26,216,152	\$70,865,523
Commercial	\$266,188,804	\$1,862,802	\$20,119,638
Resource	\$549,171	\$206,564	\$1,655,632
<b>Tax Area Totals</b>	<b>\$663,690,454</b>	<b>\$28,285,518</b>	<b>\$92,640,793</b>
Property Taxes	\$784,616,765		

### Past Research on Linking Taxes and Services

HRM Finance has done substantial research and analytical consideration to improve the linkages between taxes paid and services received, understanding that most modern tax systems raise general revenue for general services while permitting funding of specific or local services/infrastructure.

In 2005, Finance staff created principles for a Community Tax Reform, these principles are characteristic of an income tax system and are not consistent with current public finance literature on property tax.

<sup>2</sup> *Solving the Housing Price Crisis*, Part II, C.D. Howe Institute, March 4, 2022

**Figure 2**

**Principles for Municipal Tax, 2005-2009 Committee**

**Proposed Principles for any New Tax System**

Equity  
Economic Competitiveness  
Economic Efficiency  
Respect for other Governments  
Stability  
Simplicity  
Transparency and Accountability

Since this time, HRM Finance has completed economic analysis and linked policies closer to urban economic theory. While efficiency, transparency and competitiveness are valuable principles, the most important principles of a modern property tax system are: 1) efficiency (hampered by taxing building investment and not land only) and 2) neutrality, i.e., taxes broadly reflect services and linkages to economic rationale (no subsidy) is maintained.

Importantly, a property tax system cannot remedy equity objectives. Both Lincoln Institute of Land Policy (LILP) support this research along with HRM's study on commercial property tax in 2018 by Canmac Economics.<sup>3</sup>

**Why the Current Structure is Desirable and Works**

Policy change must be considered relative to available alternatives. The optimal economic solution is known as marginal cost pricing<sup>4</sup>, which is used by both power utilities and well-structured and competitive airlines and telcos. For a municipality to achieve marginal cost pricing of its services, several criteria must be met:

1. The service must be costed on a measurable per unit basis and be quantifiable.
2. It must be transparent, i.e., the consumer (household) is fully aware of services provided by location.
3. Its price must be dynamic, i.e., the total price adjusts based on quantity consumed.

While HRM has some services costed to the unit level (solid waste services, recreation programs) it does not have full understanding of costs per individual service. Budgets are done on Business Unit basis and include most general rated services. The regional nature of services makes it difficult to attribute specific costs to these services.

**Service Boundaries and Services by Business Unit**

*Most municipal services in HRM are provided across the region and not within a specific boundary*, with a few exceptions. Halifax Transit, as discussed above, provides services primarily within its urban service boundary. Hydrants are available in most commercial centers and densely populated areas, with water service area boundaries are defined by Planning documents. However, apart from hydrants, water and sewer services are not funded by property taxes – they are funded by user fees collected by Halifax Water – so these planning boundaries do not impact taxation boundaries.

Members of the public, staff, and elected officials often conflate infrastructure and services. Services require hard and/or soft infrastructure to be delivered, but their delivery area is not limited to the infrastructure itself. Access to municipal services depends on both mode of service provision and mobility of residents and other users.

<sup>3</sup> An Economic Analysis of the HRM Commercial Tax, Canmac Economics, 2018.

<sup>4</sup> Ibid.,

HRM is structured on a departmental/business unit level (BU). This is the most straight-forward way to understand its overall service offerings. The list of services by BU is shown below.

**Figure 3**

**Services by Business Unit**

Business Unit (External Facing)	Service Type	Regional or Local
<b>Public Works (PW)</b>		
	Parking Services	R
	Project Planning & Transportation Asset Mgmt	R
	Design and Construction Services	R
	Road Operations & Construction	R
	Solid Waste Resources	R
	Traffic Management	R
<b>Parks &amp; Recreation (P&amp;R)</b>		
	Recreation Programming	R
	Parks	R
	Regional Recreation	R
<b>Planning &amp; Development (P&amp;D)</b>		
	Buildings & Compliance	R
	Infrastructure Planning	R
	Regional Planning	R
	Current Planning	R
<b>Halifax Regional Police (HRP) &amp; RCMP</b>		
	Support Division	R
	Operations Division	R
<b>Halifax Regional Fire &amp; Emergency (HRFE)</b>		
	Operations	R
	Performance and Safety	R
<b>Property, Fleet &amp; Environment (PFE)</b>		
	Corp Real Estate	R
	Facility Design and Construction	R
	Facilities Maintenance & Operations	R
	Corporate Fleet	R
	Environment & Climate Change	R
<b>Halifax Public Libraries (HPL)</b>		
	Branches/Public Services	R
	English language, Learning/Literacy	R
<b>Halifax Transit</b>		
	Access-A-Bus Service	Mixed
	Conventional Service	Mixed
	Ferry Service	Mixed
	Transit Facilities	Mixed

Most service areas listed above can reasonably be considered regional in nature. Notably, several of the services listed are funded by, in addition to property taxation, specific user fees based on actual usage, e.g., transit, recreation, commercial solid waste disposal, P&D building permits and on-street parking. In concordance with the Fiscal Sustainability Strategy (FSS), staff have committed to a tax and fee review to identify opportunities to reduce reliance on property taxes and through greater application of user-fees where there are clear cost/benefit impacts for the individual user. While this work is important to HRM's revenue mix, it will not materially impact tax revenues or service boundaries.

**A Historical Perspective – 2000/2001**

Looking back at the tax structure presented with the 2000/01 budget, the **General (Rural) Rate**, i.e., those services included regardless of geography were as follows:

1. General Administration
2. HRM Fire (HRFE)

3. Major Recreation Facilities

The **Urban** tax base included the above, and:

1. Halifax (formerly Metro) Transit
2. Sidewalks
3. Hydrants (1,200 feet)
4. Streetlights
5. Crosswalk Guards
6. Recreation and Community Facilities

**Area Rates** (i.e., those specific rates for local infrastructure, not services)

1. Volunteer Fire Departments
2. Community Transit
3. Sidewalks
4. Sidewalk Plowing
5. Streetlights
6. Crosswalk Guards
7. Supplementary Education
8. Recreation and Community Facilities

This tax structure is from a moment in time post amalgamation. It is a useful reference as HRM was a legal entity beyond two fiscal years and illustrates the various rates present. In the 26 years following amalgamation, most services and infrastructure have converged toward being general rate funded. This reflects the current regional approach to delivery of most services.

### Increasing Trend of Region-wide Services

The existing tax structure has grown from an amalgamation of four tax structures, with an emphasis on local autonomy of services and taxation, to a planned region-wide approach and standardization of services. In the 2000/01 tax structure referenced above, decisions as to whether streetlights were installed, crossing guards were hired or new equipment purchased for volunteer firefighters were made a local level and required local funding to put in place. Currently, these decisions are based on Council-approved service standards, along with region-wide training, design, and procurement standards. As a result, volunteer-staffed fire stations are now funded by all general tax rates and general revenue. The same is now true for recreation facilities throughout HRM.

Other changes since 2000/01 include:

- Several local **Supplementary Education rates** were consolidated into one regional Supplementary Education rate,
- **Hydrants** were delinked from the Urban General rate and made a separate area rate,
- Transit taxes were removed from the Residential/Resource general rate and two new area rates – Local Transit and Regional Transportation – were created; Community Transit area rates were consolidated and funded through the Local Transit area rate.

As a result, only **sidewalk costs** remain the stated differentiator between the residential/resource urban general rate and the suburban and rural rates. The urban tax boundary has not changed since 2000/01 – apart from the addition of some properties, mostly in the Waverley and Fall River area<sup>1</sup>, when urban sidewalk area rates were eliminated in 2013 – even though urban infrastructure has changed significantly since then. In practice, not all urban areas have sidewalks, and the rate does not imply that they will. It is merely a stated difference and a decades-old policy legacy. Sidewalks are funded within the urban tax area based on priority rankings within capital budget limitations. Sidewalks within the suburban and rural tax areas are selected and funded in accordance with the recently approved [Rural Active Transportation Program](#). **[Note: 1. The areas added in 2013 can be seen shaded in orange on HRM's [Tax Area Map](#).]**

### **Conclusions: The Structure Works**

No changes to the tax boundaries are recommended. Given the regional nature of most municipal services, the existing urban, suburban, and rural tax boundaries *do not relate to* specific differences in those services, apart from sidewalks. Economic theory states that as transport costs increase by living further away from the Central Business District and home values are less, all else held equal. This theorem is the foundation of allocating municipal costs between properties. *Simply put: the differentiating factor is home values, not general tax rates, which determine a household's taxes payable.* Other localized services with meaningful geographic variation have had specific area rates developed for them.

### **FINANCIAL IMPLICATIONS**

Recommendations are based on revenue neutrality. There will be no incremental budget costs resulting from recommendations or alternatives adopted. Substantial administrative costs within internal service business units will be incurred to implement changes to taxation billing criteria, mapping, or other policy changes. This would put a stain on existing internal operations without incremental staff resources. Funding would come through increases in BU level operating budget levels, primarily through Finance & Asset Management (FAM).

### **RISK CONSIDERATION**

No risks identified.

### **COMMUNITY ENGAGEMENT**

No community engagement was required.

### **ENVIRONMENTAL IMPLICATIONS**

No environmental implications were identified.

### **ALTERNATIVES**

Regional Council could:

1. Modify the tax structure for Halifax Transit services, effective April 1, 2023, to:
  - a) Fund the ferry service and all express services operating fully within the Local Transit area from the Local Transit area rate,
  - b) Fund the Rural Transit Grant program from the Regional Transportation rate,
  - c) Change the Regional Transportation boundary to include the Local Transit area, a 3-km buffer surrounding Regional Express stops and the area served by community transit services receiving the Rural Transit Grant as shown in Attachment 2.

### **ATTACHMENTS**

Attachment 1 - Park & Ride User Origin Map

Attachment 2 - Alternative Regional Transportation Area Map

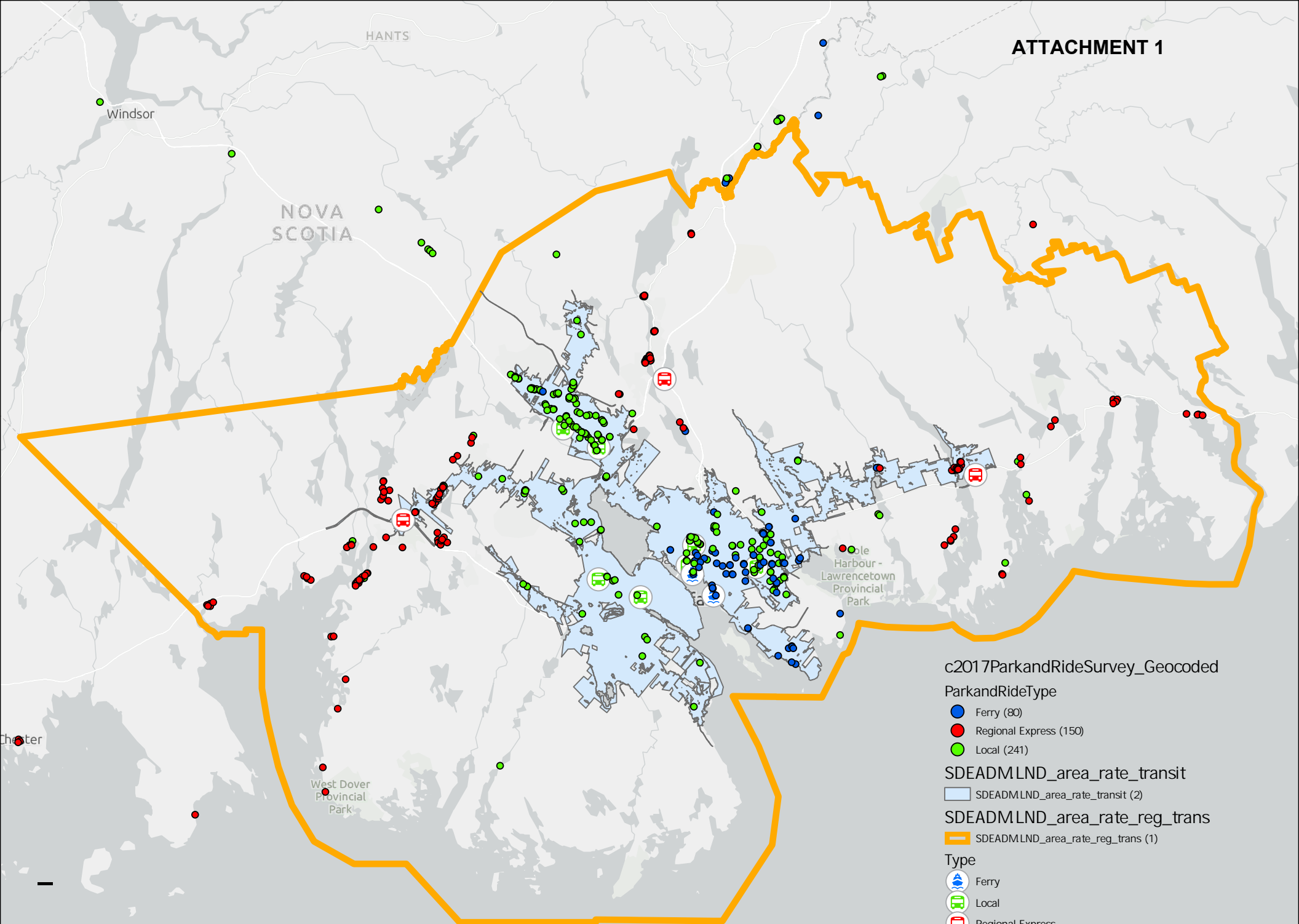
Attachment 3 - Detailed Impacts of Alternative Regional Transportation Area

A copy of this report can be obtained online at [halifax.ca](http://halifax.ca) or by contacting the Office of the Municipal Clerk at 902.490.4210.

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c2017ParkandRideSurvey\_Geocoded

ParkandRideType

- Ferry (80)
- Regional Express (150)
- Local (241)

SDEADM LND\_area\_rate\_transit

□ SDEADM LND\_area\_rate\_transit (2)

SDEADM LND\_area\_rate\_reg\_trans

▬ SDEADM LND\_area\_rate\_reg\_trans (1)

Type

- 🚢 Ferry
- 🚌 Local
- 🚏 Regional Express



**Detailed Impacts of Alternative Regional Transportation Area**

<b>Properties Added to Reg. Transp. area</b>		
<b>District</b>	<b># of Homes</b>	<b>Avg Tax Increase</b>
1	2,075	\$40
2	<u>3,086</u>	\$33
	5,161	

<b>Properties Removed from Reg. Transp. area</b>		
<b>District</b>	<b># of Homes</b>	<b>Avg Tax Decrease</b>
1	1,340	-\$147
2	98	-\$72
3	627	-\$110
4	290	-\$155
6	10	-\$62
10	1	-\$321
11	5,193	-\$104
12	22	-\$145
13	2,340	-\$170
14	3,548	-\$128
15	332	-\$61
16	<u>573</u>	-\$197
	14,374	

<b>Properties Remaining in Reg. Transp. area</b>		
<b>District</b>	<b># of Homes</b>	<b>Avg Tax Decrease</b>
1	4,364	-\$26
2	6,199	-\$19
11	88	-\$14
12	132	-\$27
13	<u>6,598</u>	-\$26
	17,381	

**Properties in Local Transit area**

District	# of Homes	Avg Tax Increase
1	517	\$22
2	2,770	\$11
3	8,826	\$15
4	8,482	\$15
5	6,752	\$16
6	5,835	\$15
7	5,125	\$34
8	4,896	\$19
9	7,206	\$23
10	5,088	\$17
11	3,670	\$15
12	6,017	\$17
13	1,066	\$19
14	5,243	\$13
15	6,349	\$13
16	<u>8,128</u>	\$24
	85,970	