

COMMON COUNCIL REPORT

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| M&C No. | 2023-17 |
| Report Date | January 17, 2023 |
| Meeting Date | January 23, 2023 |
| Service Area | Strategic Services |

Mayor Donna Noade Reardon and Common Council

SUBJECT: Letter to the Minister of Local Government and Local Governance Reform

AUTHORIZATION

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| Primary Author | Commissioner/Dept. Head | Chief Administrative Officer |
| Kevin Fudge | Kevin Fudge | J. Brent McGovern |

RECOMMENDATION

Finance Committee recommends:

Common Council send a letter to the Minister of Local Government and Local Governance Reform in support of the Expert Panel recommendations on Equalization as well as to request the elimination of restrictions on setting the Non-Residential and Heavy Industrial multiplier.

EXECUTIVE SUMMARY

At the November 3rd, 2022, meeting of the Finance Committee, staff made two presentations that included:

1. The Expert Panel recommendations on the Municipal Equalization program in the Province of New Brunswick.
2. Pursuant to the City's Fair Tax Report, an analysis of the City's ability to enter the property tax Room vacated by the Province of New Brunswick.

Finance Committee unanimously endorsed a recommendation to Common Council to send a letter of support to the Province respecting the Expert Panel recommendations on equalization as well as to request the Province amend legislation to give authority to municipalities to set the non-residential and heavy industrial multiplier without restriction.

PREVIOUS RESOLUTION

N/A

REPORT

1. Expert Panel Recommendation on Equalization

In November of 2021 the Province released a White Paper on Municipal Reform advising that a new equalization formula would be established because the current formula was not adapted to the new local governance structure. Thereafter, an expert panel was put in place in May 2022 comprised of former provincial civil servant Nora Kelly and Pierre-Marcel Desjardins, a Université de Moncton professor with expertise in economics and local government. The Expert Panel was tasked with identifying, assessing, and proposing options related to a new system of fiscal transfers between the Province of New Brunswick and Local Government entities. Consultation took place in the summer months between the Expert Panel and municipal stakeholders that culminated with a 21 Page Report submitted to the Government of New Brunswick in September 2022 with recommendations. (Appendix A).

In October 2022, the Province created an *Act Respecting Community Funding* that included a different formula than recommended by the Expert Panel. Based on the formula that was proposed by the expert panel, it is estimated the City of Saint John would have received a significant increase in equalization payments with future payments indexed to Provincial Tax Base Growth. The actual formula implemented used the 2022 Equalization payment as a base, froze the budget for 5 years and phased out the direct Core Funding component in order to allocate funds to a Provincial pool fund regional projects within the Regional Service Commission (RSC) based on application. Saint John who previously received 89% of the core funding (calculated based on the nonresidential tax base) would receive 57% cost share benefit based on the calculation within the Regional Service Commission if applications by the Fundy region were successful.

Conclusion – The independent Expert Panel recommended Equalization Formula based on fiscal capacity would have benefited the City of Saint John.

2. Fair Taxation – Provincial Tax Room

The City of Saint John has been consistent with its requests respecting fair tax reform which included more control over the setting of tax rates and tax classes

as well as for the Province to vacate property tax room to allow municipalities to enter into that room.

In November 2008, recommendation #42 in the Jean Guy Finn report entitled “Building stronger Local Governments and Regions” included property tax room be made available from the Provincial Government by reducing the Provincial property tax rate to \$1.50. Furthermore, on October 27th, 2017, Common Council adopted a resolution based on a Fair Tax report that included:

- (1) *Common Council requests the Province vacate the levying of provincial property taxes to provide tax room for municipalities.*
- (2) *Common Council requests the Province change legislation to provide municipalities control over setting tax classes and tax rates.*

In 2017, the City also engaged Fair Tax experts Harry Kitchen and Enid Slack who stated the following on page 9 of their report:

“The property tax is a good tax for local government but not necessarily appropriate to pay for the redistributive services provided by the Provincial government, such as education and health care. The Province should gradually get out of levying property taxes”.

And further on page 53 of their report:

“Moreover, eliminating the provincial property taxes would reduce the pressure on the municipal property tax rate and increase transparency in the property tax system”.

In the report, Slack and Kitchen conducted an environmental scan on Property Tax Authority, comparing New Brunswick Property Tax legislation on the setting of tax rates and tax classes to legislations in other Provinces in Canada. New Brunswick had at the time the most restrictive and controlled tax structure in the Country with only two tax classes and a fixed 1.5 multiplier. Most other provinces were either free to set their own tax rates without provincial restriction or had more authority to set tax rates within regulated fairness limits. Slack and Kitchen also benchmarked NB’s property tax multiplier of 1.5 to other comparable cities in Canada that have a unique mix of Residential, Commercial, Industrial and Major Industrial classes. The benchmark Commercial, Industrial and Heavy Industrial all exceeded the multiplier fixed in NB, and in some cases significantly. In 2021 the

ALTUS group published a study that benchmarked commercial multipliers across major urban cities across Canada and the average multiplier was 2.73.

On May 31, 2022, the Provincial Government introduced legislative amendments that established a new heavy industrial classification of property tax and provided authority to municipalities to set the local tax multiplier within a range of 1.4 – 1.7 times the residential property tax rate for Non-Residential and Heavy Industry Classes.

The Province announced in its 2022-2023 budget that the Provincial Property Tax rate for Non-Residential properties would be reduced by 15%, reducing its Provincial property tax rate from \$2.1860 to \$1.8560. This reduction created new tax room for the City of Saint John based on its 2023 Tax base of approximately \$6.7M to enter.

Considering the City's residential property tax rate is currently \$1.62, maximizing the multiplier to 1.7 allows the City to only enter approximately 60% of the Provincial Tax room vacated. The 15% reduction in the Provincial tax rate in Saint John equates to a 33-cent tax rate reduction for non-residential customers while the increase in the City's multiplier from 1.5 to 1.7 generates a 19-cent increase based on the City's current tax rate of 1.62. Based on the City's tax rate, Saint John would need a multiplier of 1.787 to enter 100% of Provincial Tax Room vacated.

Conclusion - Additional flexibility above 1.7 is needed in legislation to set the non-residential and heavy industrial class multiplier to enter 100% of the tax room vacated by the Province.

STRATEGIC ALIGNMENT

Aligns with Council's priority to Perform.

SERVICE AND FINANCIAL OUTCOMES

Fair Tax is critical to long term financial sustainability and local service delivery.

INPUT FROM OTHER SERVICE AREAS AND STAKEHOLDERS

N/A

ATTACHMENTS

1. Report of the Expert Panel on Provincial Municipal Fiscal Arrangements in New Brunswick – September 2022.
2. Finance Committee Presentation - Property Tax Multiplier & Equalization Grant Recommendations – November 3rd, 2022