Municipalities
Newfoundland and Labrador

2014 / MNL Position Paper on the Municipal Fiscal Framework

What's The Plan?

A comprehensive review of the municipal fiscal framework

> "Everything in municipal government flows from its fiscal condition. Solutions may not be simple, but the status quo is no longer acceptable."

MNL has been actively researching and advocating for fiscal change since our President's Task Force on Municipal Sustainability in 2004. The priorities outlined below are the culmination of our internal research and that of leading economists like Dr. Wade Locke and Dr. Tom Cooper at Memorial University. However, it also reflects the extensive municipal consultations we undertook in partnership with the Department of Municipal and Intergovernmental Affairs. These consultations were summarized in a discussion document that was distributed at the 2014 MNL Municipal Symposium and formed the basis of a feedback session we conducted at that time.

Several things were clear from that consultation process. Not surprisingly, most municipal representatives – 94% – believe their council needed an increase in revenue. In fact, 85% characterize that increase as moderate or large. When asked whether they needed new sources of revenue – versus increases to existing sources – 96% of those consulted said that new sources were necessary.

However, it is important to note that the sector is willing to do its part with it's own ability to raise revenue. When asked what orders of the government should be responsible for providing extra funding, the split was almost even between federal, provincial and municipal.

Position Paper

of the Municipal Fiscal Framework

A comprehensive review - October 2014

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INTRODUCTION

OUR PRINCIPLES

There must be an incremental increase in municipal revenue that is sustainable and predictable. Over the next ten years municipalities are projecting they will need to spend almost $3 billion on operations and another $3 billion on capital investment. This second number does not necessarily account for the capital cost of new federal waste water treatment regulations which we estimate to be in the area of $400 million. Current municipal revenue sources are not sufficient to meet these very real needs.

A new framework must reflect the extremely limited local tax base facing many smaller municipalities as well as the lack of capacity within these municipal governments to manage a complex taxation system. If municipalities have to invest in new administrative resources simply to collect any new money, the impact on services to and quality of life for residents will be nil.

We need a focus on revenue-sharing. The local government taxation system is too fragmented and too weak to manage a significant number of new tax tools. Unless the structure of the system is to be significantly enhanced, there is no way most of the small communities in the province could manage a new toolkit of local tax tools. Many have a hard time managing the few they already have.

We believe the municipal fiscal system must be sustainable in the long run. That means the phasing in of required changes to the system is necessary and acceptable. However, we need to ensure that this 'phasing in' is part of a known schedule of changes that the sector plays a role in creating. And this schedule must start with, and include significant changes in, the 2015 provincial budget.

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INTRODUCTION

BACKGROUND

The provincial-municipal fiscal framework, more than any other issue is going to determine the future of municipal government in this province. There has not been a comprehensive fiscal review of the municipal sector since 1973, 40 years ago. A lot has changed since that time, much of which municipal government was powerless to respond to.

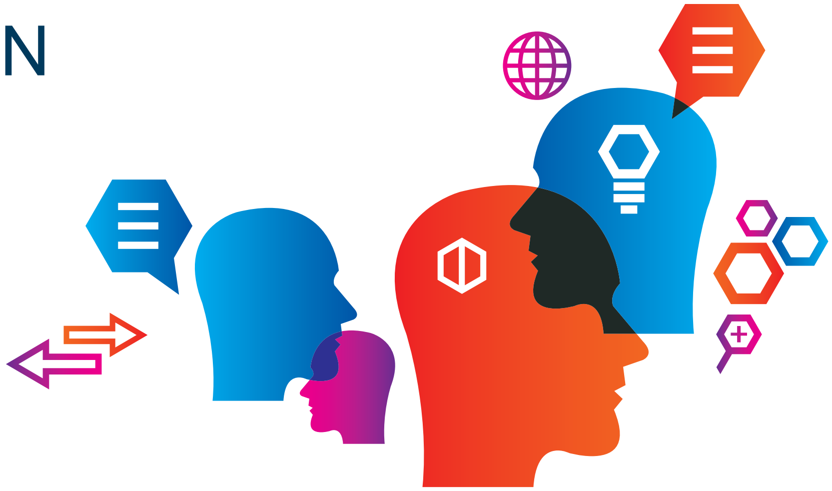
The current level of support from the province, in the form of municipal operating grants (MOGs), is almost as low as it has ever been. Recent changes have increased the levels to most municipalities, while eliminating them for the largest seven. In fact, when inflation is considered, the current MOG level is about a third of what it was in the mid-1990s.

What municipal governments have done, with the decline of MOG levels, is to rely more on property tax revenue. This was the only option for many municipalities, it is also recognized that is was the responsible thing to do. But now that revenue stream is hitting its ceiling.

The property tax is regressive, unfair, and it doesn't work for municipalities or the landowners. The property tax doesn't react to increased incomes, just increased property value. As a result, the tax makes no distinction for one's ability to pay because it is based on an asset, not income. Because property tax is blind to the payee's status, municipal leaders can be put in the terrible situation between funding the municipality or allowing certain residents enough income to buy groceries or pay the utility bill.

It is also important to note that the sector is doing things to offset costs. Municipalities regionalize services, approximately 75% of local governments are actively engaged in a service sharing agreement(s), but that provides only a limited savings, and in some cases it can cost more, depending on the service, i.e. waste management.

Regionalization alone will not cure municipal fiscal problems.



> "The property tax is regressive, unfair, and it doesn't work for municipalities or the landowners."

DEVELOPING OUR PRIORITIES

Priority **ONE**	Priority **TWO**	Priority **THREE**

MNL has been actively researching and advocating for fiscal change since our President's Task Force on Municipal Sustainability in 2004. The priorities outlined within are the culmination of our internal research and that of leading economists like Dr. Wade Locke and Dr. Tom Cooper at Memorial University.

1 2 3

Priority ONE Group

- Provincial Tax Rebates
- Provincial Gas Tax Transfer
- Business and Municipal Utilities Taxes
- MOG Reform
- Regionalization

PROVINCIAL TAX REBATES

Outside Newfoundland and Labrador, only PEI does not offer rebates on the provincial portion of the HST. When the harmonized tax was introduced in 1993 this province offered no rebate because the new tax rate actually provided significant savings to residents and institutions from the combined total of the formerly separate federal and provincial sales taxes.

That was 21 years ago. The time has come to address this inequity. Taxes and fees are meant to pay for services provided to individual or institutions. Sales taxes should not be paid by municipal governments because the provincial government provides no such services to municipal governments. The federal government recognizes this with their rebate of the federal portion of the HST. An HST rebate could mean close to $30M to the sector.

For the same reason municipal governments should not have to pay the Health and Post-Secondary Education Tax, commonly called the Payroll Tax. Currently, 17 municipalities and one Inuit Community Government are over the $1.2 million threshold in total payroll for this tax and collectively remit over $2.5 million.

RECOMMENDATION

That the provincial government provide a 100% rebate of the provincial portion of the HST and a 100% rebate of the Payroll Tax to municipal governments.

PROVINCIAL GAS TAX TRANSFER

Just as an HST rebate is reasonable based on the argument that taxes are imposed to pay for services rendered, there seems to be little reason for municipalities to pay the provincial gas tax - itself a form of sales tax. Indeed, across Canada it is the most common means of transferring funds from provincial to municipal governments. A one cent per liter transfer could provide approximately $11M in funding to municipal budgets.

Analysis shows there are few, if any, administrative barriers to doing so. However, the question of the basis of distribution remains unresolved. Would such a transfer be based on population, sales, or some other measure such as percentage of total road networks or vehicles? These issues were not addressed during the fiscal framework discussions and need to be analyzed for impact before a decision is made regarding the distribution mechanism.

RECOMMENDATIONS

1. That the provincial government transfer a portion of the provincial gas tax to municipal government.
2. That a temporary task force be created between MIGA, MNL and the Department of Finance to determine the distribution mechanism.

BUSINESS AND MUNICIPAL UTILITIES TAXES

The Taxation of Utilities and Cable Television Companies Act provides for municipal governments to charge a 2.5% tax on gross to a utility as defined by the Act. It also allows a municipality to charge consumers a tax based on their consumption of the services provided by utilities.

While the former is in wide use, the latter is rarely used. There are several reasons for this: many municipal governments do not want to be seen as the source of another tax; many do not have sufficient administrative capacity to implement the tax; and implementation has proven inconsistent for those who attempt it as utilities are often hesitant to add the charge to their bills citing the high cost of adapting their billing processes.

However, the legislative and regulatory mechanisms are in place to use this tax. It has been in place since 1993 and has faced little or no real challenge to its legitimacy outside a legal challenge from Sprint Canada which was settled out of court in the sector's favour.

RECOMMENDATIONS

1. That the maximum business utility tax be increased to 5%.
2. That the municipal utility tax be eliminated.
3. That the legislation be amended to strengthen the definition of utilities to include cell and Internet service providers as well as satellite television providers.

MUNICIPAL OPERATING GRANT REFORM

Recent changes to the Municipal Operating Grant have seen increases for smaller communities where raising operating revenue is a serious challenge. Changes to the formula were to make it easier for municipal governments to understand and predict their grant into the future. MNL would argue the formula - with the inclusion of the "remoteness index" - does little for either of these goals. Additionally, the formula does not actually calculate an amount for each municipality, but rather simply determines distribution. This means the amount of the grant is still left to the provincial budget process each year and is, therefore, impossible for municipal governments to predict.

The quantity of the operating grant also needs to be addressed. Even with recent increases it is just over one-third of it's peak when allowing for inflation. In the face of this drastic loss of revenue most smaller municipal governments have cut services and raised taxes. However, they have not been able to make up for the loss and our municipal services and the system as a whole is suffering. The municipal operating grant must be transparent and predictable and the quantity must be based on a formula rather than the vagaries of the provincial budget process.

Recent changes to the capital works funding program show that the provincial government can make progressive changes to their financial planning systems to allow municipalities to plan their investments and budget in advance. This three-year commitment is critical to municipal governments as the ability to plan effectively is almost as important as the level of funding provided.

RECOMMENDATIONS

1. That the MOG formula be used to generate an amount based on need, not just the distribution of funds, and therefore recognize the real cost of providing municipal services and the capacity of municipal governments to provide these services.
2. That the formula, to protect provincial budgeting effectiveness, be used to generate a five-year financial commitment which is reviewed in every third year to ensure it still represents true need and the capacity of the provincial government to fund.
3. That this five-year commitment include a schedule of annual increases, indexed at no less than the rate of inflation.

REGIONALIZATION

Beginning in 2010, Municipalities Newfoundland and Labrador has led a discussion and debate on the idea, purpose, and form of a system of regional government in the province. MNL released three discussion papers on regional government, a short pamphlet, and a workbook, while making regional government presentations at the MNL Symposium and Convention, as well as at events held by the Professional Municipal Administrators and the Newfoundland and Labrador Association of Fire Services. MNL also conducted seven municipal consultations devoted exclusively to discussing and debating regional government.

Regional government should be guided by the following principles:

- A structure that is accountable and fully run by municipalities;
- A structure that is empowered to perform certain services and responsibilities;
- A structure that supports municipalities and enhances municipal capacity;
- A structure that provides a form of better local government to local service districts and unincorporated areas;
- A structure that is flexible and can account for the different needs of municipalities and communities;
- A structure that is not another layer of government, but instead a collaborative extension of local government that strengthens the municipal system;
- A structure that is inclusive and based within a reasonable and useful boundary;

Regional government should serve as:

1. A structure through which member municipalities collaborate in the planning, delivery, and financing of specified services on a regional basis;
2. A structure through which member municipalities plan the future development of their region in terms of land use (e.g. commercial and/or industrial sites), major infrastructure (buildings, roadways, water and wastewater systems, trails), and protection and use of resources (e.g. surface and ground water, major parks, and green spaces/greenbelts);
3. An enabler of service-sharing, including those services designated as regional, and other partnerships between member municipalities;
4. A forum through which member municipalities can address issues that cross municipal boundaries and are of regional significance;

REGIONALIZATION

5. A forum for representation of residents, municipalities, and communities and as a vehicle for advancing the interests of a region as a whole, thus positioning regions as potential contributors to the province's well-being and growth; and
6. A structure to serve as a form of representational local democracy to residents of local service districts and unincorporated communities.

A regional government must have some defined responsibilities. In doing so, the regional government will have a purpose and mandate to fulfill and will become an integral part of the region. MNL believes the following responsibilities would make sense for a regional government.

- Land-use planning
- Regional planning
- Economic development
- Solid Waste Management: Regional service boards would likely still exist, however, the municipal representatives on these boards would be selected by the regional government and would report back to the regional government.
- Regional drinking water maintenance and quality
- Regional wastewater treatment
- Fire and Emergency Services
- Regional Emergency Management Planning
- Regional Sport, Recreational, and Cultural Infrastructure Planning, and Maintenance
- Representative local government for local service districts and unincorporated areas
- Other Services as agreed to by the member municipalities and communities on either a regional or sub-regional basis.

Regional government should not include a system of regional taxation on the residents of municipalities. Rather, the regional government should function through a system where each municipality is billed for the costs of the regional government and the specific services that are used. However, the regional government should directly tax the residents of local service districts and unincorporated areas for the cost of administering and servicing these areas and for providing local government.

REGIONALIZATION

Non-municipal residents use municipal roads and services without contributing directly to the cost of those services. In some cases a municipal government can impose a poll tax on non-municipal residents who work in the municipality. However, if the LSD where those employees live imposes any kind of service fee the municipality's poll tax is no longer applicable and the employees are not compelled to pay it.

In addition, there is the long-held concern that residents of LSDs and unincorporated areas are receiving municipal services like roads, snow clearing and street lighting without paying their fair share. They also have access to schools, health care, and other public and private services without contributing to the infrastructure that makes these important services possible.

The boundaries of a region cannot be based solely on geography; the provincial government's amalgamation policy has been driven by geography for years to uncertain success. A region must be drawn in a manner that will allow the participating municipalities and communities to work together, while providing them with access to the human and fiscal resources needed for sustainability. As a result, MNL has developed two criteria (based on New Brunswick's Finn Report) to guide the region boundary creating process.

All regions within the regional government system that MNL will put forward must meet the following criteria:

- A minimum property assessment base of at least $300 million; and
- A minimum population of 5,000.

Any municipality that can meet, or come close to meeting, both of these criteria will be excluded from the regional government unless there is an expressed interest to be included.

Regional government is not another level of government because it will be composed of individuals that currently sit on already-existing councils.

In fact, a regional government will be similar to a joint council, which represents the seed from which all municipal regionalization should grow. Many joint councils struggle because they do not operate under any legislative framework and have no resources to use. Regional government will solve these limitations. Municipalities do not view joint councils as another level of government, and, in its most general form, the regional government proposed by MNL will be a joint council with teeth.

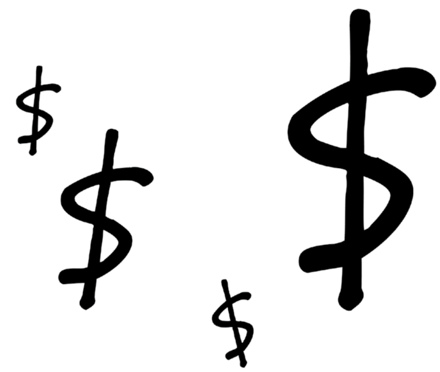
RECOMMENDATION

That the provincial government work with MNL to implement the necessary structural and legislative changes to create a sustainable regional municipal government system in Newfoundland and Labrador.

Priority TWO Group

- Transfer a Percentage of the Provincial Portion of the HST
- Transfer an Income Tax Equivalent
- Equalization Program
- Infrastructure Plan

TRANSFER A PERCENTAGE OF THE PROVINCIAL PORTION OF THE HST



The primary financial challenge facing municipal governments is the overwhelming reliance on a single source of revenue - the real property tax. Several options for new or improved own-source revenue sources have already been discussed. However, these sources - reliant on weak and declining local tax bases and suffering from a lack of administrative capacity - will not be sufficient to meet the capital and operating demands of municipal governments in the near-to-mid term. Over the next ten years municipal governments expect to spend almost $6B on operating costs and capital investment. Clearly, transfers from the provincial government will need to be a significant part of the municipal fiscal solution, in particular for smaller municipalities where the local tax base is particularly strained.

One of the fundamental challenges facing municipal governments is the lack of access to so-called “growth taxes” - sales and income taxes. Research by Dr. Wade Locke has shown conclusively that very small changes to these provincial taxes would mean significant improvements in municipal government financial capacity.

Dr. Locke’s research also showed that it would be administratively difficult to impose these taxes through the already strained municipal government tax system. It would make much more sense to collect them through the provincial tax system and transfer the funds to the municipalities.

The HST is one such option - potentially providing up to $100M annually to the municipal government sector. The HST is, technically, a regressive tax - disproportionately impacting those with lower incomes. However, it is significantly less regressive than the real property tax and would therefore improve the overall regressiveness of the municipal tax system.

In addition, the HST is an efficient tax - it is difficult for taxpayers to avoid and easy to collect and administer. There appears to be little in the way of administrative challenges in transferring a portion of the HST - from new or existing HST revenue - to municipal governments based on the portion generated within their boundaries.

RECOMMENDATION

That the provincial government transfer a portion of the HST, permanently, to municipal governments based on the percentage of tax revenue generated within each of their boundaries.

TRANSFER AN INCOME TAX EQUIVALENT

The other growth tax that MNL believes should be part of the municipal fiscal tool kit is personal income tax. As with sales tax, it would be administratively cumbersome and expensive to try to implement a truly “municipal” income tax. It has been estimated that a 1% increase in the income tax, assigned to municipal governments, would generate anywhere from $100M to $116M. Current provincial tax policy has been to make every effort to reduce the personal and corporate income taxes in the name of maintaining competitiveness. MNL would argue that continuing to let municipal services and infrastructure fall so far behind the rest of Canada has a far greater impact on competitiveness. However, a portion of existing income tax revenue could just as easily be shared with municipalities and would provide significant improvement in municipal fiscal capacity with very little impact on provincial revenue. Therefore, MNL is not expecting the provincial government to increase the personal income tax. Permanently dedicating percentages of the sales and income taxes as municipal transfers also provides the predictability that municipal councils do have currently.

It has been pointed out that distribution of the transfer could be challenging as tax filers may not reside in the municipality they list as their residence. However, just as the federal Gas Tax transfer is not an actual transfer of a portion of the gas tax, a provincial income tax transfer could simply be an amount derived from the tax rather than an actual transfer based on income tax reported in each municipality. In fact, this may be the administratively simpler solution.

Finally, as provincial policy is to keep reducing the impact of income tax wherever possible, it has been pointed out that income tax is a declining source. This may be true, but diversification of the municipal tax base is the priority for MNL, so a declining source is still useful, especially when it immediately increases municipal financial capacity by up to 20%. We have immediate and critical expenditure needs and an additional, but declining, source is better than no new source at all.

RECOMMENDATION

That the provincial government work with MNL to design a permanent transfer to municipalities based on the provincial income tax.

EQUALIZATION FORMULA

Transfers like those based on sales tax and income tax alone will provide an inequitable amount of benefit to those municipalities that already have a stronger financial foundation. In Dr. Locke's words: "…more affluent communities will continue to be sustainable while municipalities facing fiscal stress will find themselves only marginally better." To counteract this imbalance we would need to implement a municipal "equalization program" that would redistribute a percentage of the sales or income tax transfer to those municipalities.

An equalization program has existed in Nova Scotia since 2002. A modified version of the program was developed by Dr. Locke in his 2011 report for MNL. Dr. Locke presumed 20% of the tax transfer would be redistributed to smaller municipalities who would qualify based on how their "standard revenue" compared to "standard expenditures".

This program would provide significant improvements to the revenue stream of smaller municipalities while having only proportionally minor impact on the revenue stream for the larger municipalities that would be net contributors to this program. Based on income tax alone, this equalization program would generate a fund of over $20 million to distribute among the smaller municipalities with weaker tax bases. With a sales tax transfer included in the program the amount would close to double.

RECOMMENDATION

That the provincial government investigate the use of the "equalization program" outlined by Dr. Wade Locke in his research for MNL as a means of balancing the distribution of sales and income tax transfers.

INFRASTRUCTURE PLAN

We need a plan to deal with the massive infrastructure gap we are facing. The estimated $400M required to build the waste water treatment capacity required by the new federal regulations alone will cripple the municipal sector. Not only is it beyond the capacity of the sector to fund, it is beyond the capacity of the engineering and construction sector to design and build it given current demands on those firms.

We need to address the financial demands and how we are going to meet them. We need to address equitable investment in infrastructure by protecting the ability of smaller municipalities to afford these critical investments through favourable cost-sharing ratios.

RECOMMENDATION

That the provincial government work with MNL and stakeholders to develop a strategic plan for addressing the increasingly serious infrastructure gap.

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Priority THREE Group

- Accommodations Tax
- Water Meters
- Tax Collection Capacity
- Blended Commercial Taxes
- PILT (Taxation of Government Buildings)
- Access to Crown Lands

ACCOMMODATIONS TAX

Currently only one municipality in the province can require an accommodations levy - the City of St. John's. The levy is collected by all accommodations providers and is used to fund Destination St. John's and Mile One Centre.

The City of Corner Brook is working with its tourism sector to build a consensus that a levy should be used there to support tourism development. The Town of Happy Valley-Goose Bay is doing the same, although not necessarily so focused on tourism marketing activities. The Town of Gander attempted to institute a levy several years ago, but opted to accept an offer from local hoteliers to subsidize marketing activities.

Accommodation levies are becoming more common across Canada. Municipalities in eight provinces are permitted to use them. In almost all cases these levies are a percentage of the hotel room cost. They range from 1.5% to 5% with the majority at approximately 2%.

Issues:

Value - The accommodations levy represents a financial benefit to those few municipalities with significant accommodations, in particular hotels where the majority of room nights will be generated. Therefore, it's impact on the financial health of the sector will be limited. That said, there appears to be no reason to limit its use to a select number of municipalities. Tourism continues to grow as a sector and new accommodations are being developed on a regular basis. A municipality with limited accommodations today may well be able to generate significant revenue from this source in ten years.

Use - The City of St. John's focuses it's use of the levy on tourism development and does so in conjunction with industry oversight. This model is not consistent across Canada. There appears to be no reason to limit the use of revenue from this source short of appeasing the sector that the money will be used for their benefit. This seems to come from the mistaken assumption that accommodations levies hurt tourism. There is no evidence for this position.

Rate - Rates vary across the country and are based on a number of factors including the use of the revenue and local market conditions. There appears to be no reason to prescribe a rate in this case. Clearly there will be a need to support municipalities in how to set rates and how to institute a levy in general. However, limiting the rate in legislation is needlessly prescriptive and severely restricts the flexibility of the municipality in adjusting their rate to suit their particular needs.

RECOMMENDATIONS

1. MNL adopt the position that all municipal governments be afforded the authority to implement an accommodations levy as a percentage of room rates within their boundaries.
2. That no restrictions be placed on the use of said accommodations levy.
3. That a guidance document and training be developed for the implementation of the levy, covering issues such as sector consultation.
4. That the hospitality sector, through Hospitality Newfoundland and Labrador, be included in an advisory committee convened to advise on the design of the necessary amendments.

WATER METERS IN HIGH WATER USE BUILDINGS

Water meters are in common use across Canada and around the world as a means of charging for water usage and as a means of conserving water. Recent research by Memorial University suggests that expanded use in this province would have positive impact on our excessive water usage.

In NL, charges for water use are extremely low and do not cover the cost of providing this service to residents. IN addition, we know more resources are required to ensure the safety and efficiency of our drinking water systems. More and better trained staff are required, More up-to-date equipment is required. This investment cannot be borne on the back of existing tax revenue. New revenue, through higher water and sewer fees along with metering, must be generated.

Ideally, meters could be installed in all buildings and appropriate fees would be used to ensure drinking water systems are financially and environmentally sustainable. However, installing meters in our fragmented system would prove extremely expensive and time consuming.

RECOMMENDATIONS

1. That the use of meters, at least in the short term, be promoted for identifiable high-usage customers such as fish plants or other industrial and institutional users as a requirement of the municipal permitting process.
2. Regional water operators be hired with transitional funding from the provincial government.
3. That these water operators work with the municipal governments they serve to determine the degree of metering required in their region and to provide advice to councils on setting water fees for those not metered.

IMPROVE TAX COLLECTION CAPACITY

It's a common and long-held complaint that the system for collecting municipal taxes, in particular real property tax, is too cumbersome and too expensive. Cutting off services, going to court, tax sales, and collection services are all expensive and can be administratively demanding. This leads to smaller municipalities in particular, the ones most in need of operational funding, with up to 20% of their tax revenue uncollected.

There are two solutions to this challenge and we believe both should be used. The first is to give municipalities stronger tools for collecting taxes owed. The second is to provide a stronger, more efficient means of managing tax collection, specifically for those municipalities with lower administrative capacity.

Collection of taxes by a municipality should have the same weight as collection of provincial income taxes. Currently, a municipality must take a taxpayer to civil court to enforce payment. Non-payment of municipal taxes should be treated the same as non-payment of income tax. Non-payment of provincial income tax is prosecuted through the provincial and federal supreme court system vis-à-vis the Newfoundland Income Tax Act and section 222 of the federal Income Tax Act. Section 222 states that "(2) A tax debt is a debt due to Her Majesty and is recoverable as such in the Federal Court or any other court of competent jurisdiction or in any other manner provided by this Act." As "creatures of the province", and therefore of a competent jurisdiction, municipal taxes may be treated as provincial and federal taxes for collection purposes.

However, any legal avenue is likely to be beyond the reach of many smaller municipal governments. In these cases, it would be useful to have the administration of municipal taxes, specifically property taxes, administered through a central or shared agency. This agency could spread the administrative cost of managing tax collections across many municipalities and ensure greater accuracy and collections.

It would be important for this entity to be municipally owned and controlled. Tax policy is a core function of municipal governments while it's administrative functions could easily be centralized, it would be critical for councils to retain policy direction in terms of rates and the administrative cost of this centralization.

RECOMMENDATION

1. That the provincial government work with MNL to investigate the feasibility of a municipally-owned entity which would be available to municipal governments to coordinate and administration their municipal taxes.

BLENDED COMMERCIAL TAXES

Currently municipalities can charge a real property tax on businesses that own property and a business tax on all businesses.

The City of St. John's merged it's business realty (real property) and business occupancy (business tax) taxes in favour of a single business tax based on real property. This means commercial owners of multi-business buildings will have to pay for the entire property and collect revenue from their tenants directly to make up the cost.

The City of St. John's cites several benefits to this approach:

1. Simplifying administration in the Assessment department
2. Simplifying administration in the tax billing and computer departments
3. Reduce tax arrears due to the ability of being able to place a lien on the property
4. Federal government departments which occupy private property will pay a greater share of the tax burden, as will Federal government properties

Issues:

There are several considerations:

1. The St. John's process has been revenue neutral and would certainly have to be in other cases if support from the provincial government and the business community is expected.
2. The City took ten years and multiple, in-depth consultations to convince the business community to go along with this approach.
3. The business realty tax rate was increased, and all commercial property owners pay the same mil rate now.
4. The benefits of this approach rely heavily on the kind of business community the municipality has - if there are few multi-business properties, it is unlikely to bring much benefit.
5. The change resulted in the provincial government opening several of it's leases to relieve landlords from the new cost burden.
6. The City brought in provisions for allowances for commercial vacancies and vacant commercial land
7. Currently, this represents a revenue source available to only one municipality and may be construed as an inequity.
8. Newfoundland and Labrador is one of the last jurisdictions to allow a business occupancy tax.

RECOMMENDATIONS

1. That municipalities be given the option to implement either a blended or two-stream commercial tax system.
2. That a guidance document and training be developed for the implementation of a blended business tax, covering issues such as sector consultation.

TAXING PROVINCIAL BUILDINGS

In all other provinces, municipal governments receive Payments in Lieu of Taxes (PILT) for the services provided to provincial buildings and properties. The federal government pays PILT for this reason.

It has been argued that MOG represent PILT in Newfoundland and Labrador. However, this is a faulty argument. The MOG is an unencumbered grant for operations, not a payment for services provided. It can't be both. In most provinces the provincial government pays PILT as well as providing for unencumbered grants and contributing to the cost of municipal infrastructure.

RECOMMENDATIONS

1. That the provincial government and it's crown corporations agree to provide Payments in Lieu of Taxation to those municipal governments where they own buildings or properties that would otherwise be subject to real property tax.
2. That the provincial government and it's crown corporations work with MNL and our members to develop a protocol for determining the application and determination of Payments in Lieu of Taxation to ensure consistency across the province.

ACCESS TO CROWN LANDS

The provincial government maintains title to large pieces of land in many municipalities in Newfoundland and Labrador. Current provincial government policy only allows for the sale of provincial Crown Land at fair market value. Many municipalities do not have the financial resources to outright purchase Crown Lands. Purchasing Crown Lands also represents a significant financial risk for many municipalities, as the land is being purchased for its potential future revenue, not its current revenue. The cost and risk involved in purchasing Crown Land is a significant deterrent for many municipalities interested in acquiring Crown Land to develop. The cost and risk involved in purchasing Crown Land constrains municipal development.

RECOMMENDATION

1. That the Provincial Government work with MNL to review how Crown Lands are sold, and to consider land transfer options not currently available, such as long-term leasing and lease to buy arrangements.

Municipalities
Newfoundland and Labrador

Our people • Our place • Our potential

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