

Financing local governance

Any reform to local governance must include a review of and adjustments to how the system will be financed. New Brunswickers want to pay for a system that provides a level of service that is fair, and they want to have input in to what they pay for. The following changes have been brought forward in the context of the existing local governance system, recognizing that not all challenges with the current property tax structure have been addressed. Additional taxation reform would be best re-examined once the restructuring and regional collaboration efforts are underway.

The government also understands the importance of improving the use of technology and information sharing to make the system simpler and clearer. Further work will take place to determine the information and data needs of the various partners involved.

Changes to local governance financing will address the following:

- phase one - property taxation adjustments
- community funding and equalization grants
- fine revenue
- business improvement areas
- municipal election financing
- phase two - finances

4.1 PHASE ONE - PROPERTY TAXATION ADJUSTMENTS

In New Brunswick, property taxation is an important source of revenue for both the provincial and local governments. The local portion of the tax is levied to finance the provision of services including, but certainly not limited to, recreational infrastructure and programming, local roads, fire and police protection.

Property taxes are the primary revenue source for local governments. In recent years, many local government representatives and stakeholders have advocated for additional financial resources and greater financial flexibility. Local governments want to have more control over their own finances, to be better positioned to respond to the changing service needs of their residents. The property taxation adjustments include:

4.1.1 Different tax rates – With the restructuring of existing local governance entities, local governments and rural districts will maintain different tax rates in different areas to reflect the level of service being provided.

4.1.2 Phase-in of impacts – Increases or decreases in tax rates will result from the restructurings and the cost allocation for the services that are available in different

portions of a local government. These will be determined during the transition in 2022 and will be phased in to mitigate the impact to property owners.

The need to maintain different tax rates, as well as the phase-in of the impact will be addressed in each individual regulation as the newly formed entities are created under the *Local Governance Act*.

4.1.3 Provide local rate flexibility on non-residential (business) property – Currently, the local non-residential property tax rate is legislated and fixed at 1.5 times the local residential rate. A change will allow local governments and rural districts flexibility in setting non-residential tax rates by permitting the non-residential rate ratio to range from 1.4 to 1.7 times the local residential rate.

This adjustment will allow greater flexibility in determining the relative share of property tax revenues generated from residential and non-residential properties. This will provide additional financial resources to communities that choose to use this tax rate flexibility.

Legislative amendments to that effect will be made to the *Real Property Tax Act*, effective for the 2023 property taxation year.

4.2 COMMUNITY FUNDING AND EQUALIZATION GRANT

In this restructured local governance system, equalization funding will continue to be required to ensure local governments have access to adequate resources to deliver good quality services at comparable tax rates.

A new grant formula will be created to ensure communities that need support receive adequate funding, while those that are financially stronger are not recipients of equalization funding. The development of a new formula will take into consideration the new local governance structures, their new fiscal environment, and will be guided by generally accepted Principles of Public Finance, such as equity, neutrality, predictability, viability, and simplicity. The provincial government will introduce amendments to the *Community Funding Act* in the first half of 2022 to be implemented by January 1, 2023.

4.3 PROPERTY ASSESSMENT

The property assessment function will remain the responsibility of the provincial government. Service New Brunswick will continue its efforts to make the assessment process more clearly understood and fair. It will also work with local governments and regional service commissions to ensure building permit and other relevant information is shared to improve the reliability of assessment data. Service New Brunswick will also work to modernize its systems to improve data sharing with its partners.

4.4 FINE REVENUE

The provincial government will work with municipal associations on a sharing proposal for revenue derived from fines that will focus on the revenue increases resulting from the newly enabled and improved technology for traffic control.

4.5 BUSINESS IMPROVEMENT AREAS

During the engagement process, residents and organizations representing downtown districts suggested that more can be done to bring vibrancy and sustainability to urban areas. Feedback was received on the way property assessments are conducted in the province, including the assessment of vacant land and under-utilized properties within business improvement areas.

To encourage the development of vacant and under-utilized properties within the boundaries of business improvement areas, government will work with Downtown New Brunswick, municipal associations, and other stakeholders to explore ways to support development in downtowns. Incentives and more regular assessment inspections will be considered for downtown properties. Similar efforts will be made to look at how to best support industrial parks. Increased development and investment should generate increased property values, which would be of mutual benefit to the provincial government, local governments, and business improvement areas. This would also ensure the long-term sustainability of the province by fostering vibrant downtowns throughout New Brunswick.

The Department of Finance and Treasury Board, along with other departments, will review and modernize the property remediation, collection, tax sale and property divesture processes. Improvements have been recommended by local governments, developers, and the not-for-profit sector. The government is committed to balancing the rights of property owners with the needs of those stakeholders.

4.6 MUNICIPAL ELECTION FINANCING

Increasing the transparency in municipal election financing was identified as an issue during the engagement process. For comparison, candidates in federal and provincial elections are subject to contribution limits and financial reporting requirements. New Brunswick is one of the last remaining jurisdictions in Canada without financial reporting requirements for candidates running in municipal elections. Government is committed to working with stakeholders, including Elections New Brunswick to develop a made-in-New Brunswick model to increase the transparency and accountability of candidates in municipal elections. Once developed, the new model will be enacted for the next municipal general elections in 2026.

4.7 PHASE TWO - FINANCES

In the *2008 Building Stronger Local Governments and Regions (Finn Report)*, it was suggested that any adjustment to the financing system be done after the institution of local governance restructuring.

Following the implementation of the main elements of local governance reform, a broader conversation is required to look at ways to finance the new local governance structure. The items to be considered in phase two are as follows:

4.7.1 Provincial property tax rates - Many have advocated for the provincial government to reduce provincial property tax rates. It is important to note that all provinces except Newfoundland and Labrador generate provincial revenue from property taxation. The provincial government will continue to explore reducing the provincial property tax rates for business property owners, cottage owners, rental, and other types of residential properties.

4.7.2 Cost of roads - The provincial government currently has a special provincial levy of \$0.4115 on owner-occupied residential properties (homeowners) in all local service districts to help offset the costs of local road services. Adding the cost of local roads to the local rate for properties located in current local service districts, whether the local service district is restructured with a local government or becomes part of a rural district, would ensure that owners of all types of property share that cost. To help offset the resulting tax increases for non-owner-occupied residential properties, other residential properties and non-residential properties, additional elements could be considered. It would, however, correct a current imbalance in the system and reduce the incentive for urban sprawl.

4.7.3 Condominiums and apartment building services - These properties are fully taxed, but do not receive some of the local services delivered to homes. High-density development is to be encouraged, as it is less costly to service, less capital-intensive from an infrastructure perspective and reduces the need for providing services over large geographic areas. Increasing the local service offerings to these properties will be explored and encouraged.

4.7.4 Canada Community Building Fund 2024-2034 (gas tax funding) - In 2023, transitional provisions as they relate to the funding for the newly incorporated areas will be required. Government will then consult with stakeholders in advance of the next 10-year agreement.

4.7.5 Municipal Assessment Committee - The creation of a committee comprised of representatives from the municipal associations and officials responsible for the provincial assessment function (Service New Brunswick) will be explored to enhance cooperation and information sharing between the provincial government and local governments.

4.7.6 Revenue generation opportunities - Additional local revenue generation opportunities will be explored to diversify the revenue sources available to local governments.

The intent is to bring forward further changes related to finances before January 1, 2025.