ANTIGONISH
Our Community

TO: MUNICIPAL & TOWN COUNCILS
FROM: MUNICIPAL & TOWN STAFF
SUBJECT: CONSOLIDATION: FINANCIAL CAPACITY CONSIDERATIONS
DATE: OCTOBER 7, 2022

SUMMARY

Municipal and Town Councils are exploring the consolidation of the two municipal units into one using the following organizing question:

"Would the residents, businesses and the overall community be better served if the Town of Antigonish and the Municipality of the County of Antigonish became one municipal unit?"

As Councils explore the potential of consolidation, and hear the reflections of the community, several themes have been discussed for the potential impact of consolidation. This memo will provide information on financial capacity considerations related to consolidation.

Of specific note:

- Based on audited year-end actuals, reported by the Department of Municipal Affairs & Housing, both the Town and County are in strong, stable financial shape.
- Based on assessment by Town & County finance officials, consolidation would not result in an increase in property tax rates.
- History has demonstrated that tax rates have not increased due to the merger in any of the six mergers that have taken place since 2000. In each of these instances one or both municipalities were in worse financial condition than the Town and County.
- Town and County revenues, based primarily on taxable assessment and long-term contracts, are largely secured with little risk of variability.
- In a consolidated municipality area rates are used to ensure property owners are taxed only for the services they have access to. This is the approach used by Antigonish County today.
- Detailed financial projections based on service assessments will take place throughout the consolidation period. Financial and service decisions will be made by local officials, rather than the NS Utility and Review Board.
- A KPMG assessment in 2003, completed well after councils filed their applications to the NS Utility and Review Board for annexation and amalgamation, determined that based on no change to service levels or tax rates, an amalgamated municipal unit would see a net financial benefit of approximately $600,000 per year.

FINANCIAL CAPACITY

Historically, the Town and County has demonstrated strong financial capacity. Our strong financial capacity has allowed both municipalities to continue to budget and plan-ahead financially. Both municipalities have been able to make sound financial decisions. Past financial information (audited consolidated financial statements, Financial Condition Indicators, etc…) validate that both municipal units are in good financial standing. The confirmation of these decisions is well represented through a consistent tax rate levy structure during varying economic times throughout the years.

Review of Tax Rates

The *What We Heard Report* framed the discussions of financial capacity largely in terms of the affect of consolidation of tax rates. Since 2000 municipal mergers of various types (amalgamation, dissolution & consolidation) have been considered on eight occasions. Six of them have occurred. History has demonstrated that tax rates have not increased due to the merger in any of the mergers that have taken place. Furthermore, tax rates were not projected to increase in the mergers that did not take place.

It is important to note that five of the six mergers that have taken place since 2000 were primarily due to the poor financial condition of one of the partners. Even in these instances of poor financial condition, a merger did not result in increased tax rates for either partner.

County and Town finance officials have reviewed the budgets and audited financial statements of both municipal units for fiscal year 2020/21 to complete a tax sensitivity analysis. The purpose of this exercise was to assess if the level of spending completed by the two municipal units in that year would result in an increase on the tax rate of either unit if the operations were combined. These budgets and statements have been reviewed as they are – of two separate municipal operations. No assumptions of future service levels have been made; nor has there been any attempt to identify and reduce duplication. Based on this analysis, financial officials for both units have stated that they do not anticipate any increase in tax rates due to a merger.

The *What We Heard Report* shared that residents do not want to pay for services to which they do not have access. It is common in a municipality where access to municipal services vary for a base tax rate to be established for common services and supplemented with area tax rates and levies in parts of the municipality where service levels are different. This is the approach used in the County of Antigonish now to support fire protection, fire hydrants, streetlights, sewer and water services. In a merged municipality tax rates would be determined in the same fashion they are today: based on the service access and levels, appropriately funded, and approved by Municipal Council. This approach is also framed in one of the Consolidation Guiding Principles. Table 1 illustrates the existing approach to residential taxation in various areas of the County and the Town.

Table 1

1) Arisaig Tax bill				
Description:	**Assessment:**	**Rate:**		**Taxes:**
Residential Assessment	$ 200,000	$ 0.880		$ 1,760.00
4 Valley's Fire Levy (Max)				$ 200.00
		Amount Due ->		**$ 1,960.00**
2) Fringe Area Tax bill				
Description:	**Assessment:**	**Rate:**		**Taxes:**
Residential Assessment	$ 200,000	$ 0.880		$ 1,760.00
Fire Hydrant Levy	$ 200,000	$ 0.114		$ 228.00
ACVFD Rate	$ 200,000	$ 0.070		$ 140.00
Thorne Ridge Streetlights				$ 21.34
Sewer (1 unit)				$ 316.29
		Amount Due ->		**$ 2,465.63**
3) Heatherton Tax bill				
Description:	**Assessment:**	**Rate:**		**Taxes:**
Residential Assessment	$ 200,000	$ 0.880		$ 1,760.00
Pomquet Fire & Emergency Rate	$ 200,000	$ 0.150		$ 300.00
Sewer (1 unit)				$ 316.29
		Amount Due ->		**$ 2,376.29**
4) Town Tax bill				
Description:	**Assessment:**	**Rate:**		**Taxes:**
Residential Assessment	$ 200,000	$ 1.110		$ 2,220.00
Fire Hydrant Levy	$ 200,000	$ 0.037		$ 74.00
Sewer (avg)				$ 228.41
Solid Waste (1 unit)				$ 339.29
		Amount Due ->		**$ 2,861.70**

To allow for a comparison with County rates, the Town Residential Rate of $1.110 can be further broken down as follows to show amounts associated with the fire department and streetlights:

- General Rate = $0.967
- Town Fire Depart = $0.122
- Streetlights = $0.021

Should the Town and Municipality decide to consolidate a Co-ordination Committee, supported by a CAO and municipal staff, would prepare a combined operating and capital budget in preparation for the launch of a consolidated municipal unit. Typically, the first year in a merged municipality sees very little change in existing services, fees and tax rates. History shows us that municipal mergers in other parts of Nova Scotia have not created property tax rate increases in the years following a merger.

Specific to commercial property tax, reviews of Annapolis County, Cumberland County, and the Regions of Queens and West Hants illustrate the impact past mergers in Nova Scotia had on tax rates. Like residential taxation, these mergers did not result in tax rate increases. Like the residential tax rate, a merged municipality is permitted to levy different commercial tax rates in different areas. In fact, most do.

It is reasonable to levy different tax rates based on the access to municipal infrastructure and services. Most Town businesses have access to on-street or municipal parking. Many front sidewalks and in-street stormwater systems making them highly walkable and accessible. While there are some exceptions, most County businesses, even in the fringe, do not have access to this kind of municipal infrastructure and services, and that is reflected in a lower tax rate. The Town commercial tax rate is $2.63/$100 of assessment; the County rate is $1.44 / $100 of assessment. Depending on location, a Fire Levy between $0.07 and $0.15 / $100 of assessment and UARB Fire Protection Rate of $0.113 / $100 of assessment is also added in the County.

Financial Assessments

On occasion Councils have been asked to produce a detailed business plan or “pro forma statements” as part of its decision making on consolidation. A pro forma financial statement uses assumptions about revenues and expenses to project performance into the future. They are a common private sector forecasting tool in transactions like the purchase or merger of a business.

In the instance of municipal government, projection of revenues are largely secured in the form of taxable assessment and long-term contracts. However, the projection of expenditures is dependent on many factors, one of the most significant being municipal service levels. This requires council to make decisions, or at the very least weigh the various options, for all municipal services. An exercise of this scope takes time, involves a significant number of interdependencies, and cannot be appropriately completed at this stage.

In assessing the occasional call to produce pro forma financial statements, municipal staff spoke with the auditors for both the County & Town, MNP. As a national firm, MNP has experience with municipal mergers and restructuring both in Nova Scotia and across Canada. Our auditors shared municipal staff’s apprehension of developing pro forma statements at this early stage, drawing on examples from Nova Scotia and Ontario. Many of the key inputs are yet to be determined, therefore the information would not be meaningful.

The purpose of this process of consolidation is to empower local decision makers to assess and decide how municipal services will be provided to the residents, businesses, and communities within a consolidated municipality. The assumptions that would provide the basis of pro forma statements will be decisions of the Co-ordination Committee during the consolidation period and then the consolidated Municipal Council thereafter. There will be a significant number of decisions to be made over time if Councils decides to move forward. Furthermore, if the County and Town consolidate, the first fiscal year of the consolidated municipality would begin on April 1, 2025. The accuracy and usefulness of these forecasts almost three years into the future would at best be limited and at worst misleading.

In the absence of pro forma statement, other forms of financial assessment have been completed. The revenues of both municipal units are largely secured in the form of property taxes and levied rates, as is demonstrated in the exceptionally low rate of uncollected taxes (3.6% in the County and 4.5% in the Town). On the other side of the ledger, expenses have been largely stable and funded as is demonstrated by low debt service costs and strong liquidity ratio.

History is also helpful. From 2001 – 2006 the County and Town disputed the merits of amalgamation and annexation through the traditional regulatory process in front of the NS Utility and Review Board. Common to that process, all decisions related to an annexed or merged municipality were assessed and decided by the Board. As part of that process in 2003 the comparative impact of amalgamation was completed. Like our tax sensitivity analysis, the assessment by KPMG was also based on the previous year's financial statements. While operations and the organizations have grown since 2003, the service areas and organizational structures of both municipalities remains largely the same.

The KPMG assessment determined that based on no change to service levels or tax rates, an amalgamated municipal unit would see a net financial benefit of approximately $600,000. The primary sources of this net benefits were projected to be in the areas of general government services & solid waste management. Like our current process, the KPMG report also states that, "the financial impact on taxpayers [ie: future tax rates] would ultimately be decided by the elected representatives."

Municipal Financial Condition Index

The Financial Condition Indicators (FCIs), developed jointly by the Province of Nova Scotia, the Federation of Nova Scotia Municipalities and the Association of Municipal Administrators, help municipal councils and Nova Scotians make sense of municipal financial information by providing a variety of sources of information in a single document.

Thirteen indicators are examined to provide a general picture of municipal financial condition. This information is organized into three dimensions that focus on the stability of municipal entities' revenue, how they spend their money and manage their finances, and an overall assessment of their ability to meet current and future needs in a balanced and independent manner. Thresholds are based on jurisdictional scans, literature reviews and municipal consultations.

A strong indicator of future condition is past condition. The FCIs for both the County and Town of Antigonish, based on the 2020/21 audited statements for both units, can be found here: https://antigonish.ca/wp-content/uploads/2022/04/Financial-Condition-Indicators.pdf. The overall assessment for the both the County and Town of Antigonish is green (low risk). This means that, although the municipalities have a few challenges, they are considered low risk for fiscal instability. Like our tax sensitivity assessment, the Department of Municipal Affairs combined these results to demonstrate what a combined municipality may look like. Likewise, the overall assessment is green, or low risk. Based on a review of financial indicators of municipalities from across the province, Antigonish County and Town are among the most financially stable counties and towns. A consolidated municipality would continue to be one of the most financially stable municipalities in the province.

Without repeating the financial indicators stated in a previous section, neither municipal unit has incurred a deficit in the past five years, and both have strong reserves for their size. While both strong, the Town has a stronger residential tax effort than the County, meaning the Town has more ability to increase its residential tax rate without negatively affecting its residents.

The One NS Commission has stated that these indicators are important to consider in making any decisions related to municipal finance because, "… a small number of Nova Scotia municipalities are experiencing significant financial challenges. However, looking at the economic and population trends, it is clear municipalities will face significant challenges in the future that they may not have the resources to address. This intensifies the need for municipalities to take innovative and collaborative approaches. Both can help mitigate risks associated with change, as well as accelerate economic growth and optimize community progress."

Provincial Transition Funding

When it becomes clear municipalities will merge, either through a regulatory or legislative process, the provincial government provides grants to support consolidation related costs. These costs can include professional services like legal, financial, IT, human resource and communications support, salaries & stipends, training, elections, asset management planning and associated supplies and expenses. Most often agreed upon expenses are funded at 100% by the provincial government. In the most recent instance of the consolidation of Windsor and West Hants, the provincial government authorized a grant of up to $1.5M for consolidation expenses. This grant was based on the needs identified by Windsor and West Hants, formalized in a contribution agreement between the Province and the Co-ordination Committee, and agreed to after the municipalities made application to consolidate.

Provincial Post-Transition Funding

Like transition funding, the provincial government historically provides post-transition funding to municipalities that choose to merge in the form of multi-year capital funding.

This funding is based on the needs of the community. Some communities identify needs around recreational infrastructure, others water and sewer. If Councils choose to consolidate there will be opportunities for pursue post-transition funding to support identified and necessary investments in water and sewer systems across our communities.

GUIDING PRINCIPLES

Before community engagement began, Municipal and Town Councils framed the following Guiding Principle related to financial capacity if consolidation were to proceed:

4. Continue fair taxation and user pay approaches: Residents and businesses should only be taxed for services and infrastructure they have access to. Property tax rates and infrastructure debt should utilize area tax rates and utility fee approaches that exist today wherever possible.

A commitment made by the Councils but not framed in a Guiding Principle, is that changes to funding and the operation of volunteer fire departments is not a part of any discussions on consolidation. The Town and County will only discuss changes to volunteer fire services during this process if a request is made by the fire departments.

Based on feedback from the community, it appears these guiding principles are still appropriate and should be considered reflective of the community's perspective and expectations as council's consider their decision.

NEXT STEPS

Councils are invited to reflect on the information contained in this memo as it relates to its principal question: "Would the residents, businesses and the overall community be better served if the Town of Antigonish and the Municipality of the County of Antigonish became one municipal unit?"

Councils are further invited to discuss and provide feedback on this information. Additional information may be obtained based on specific questions of councils. Otherwise, councils are invited to consider this information in its decision making related to consolidation.