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# ECONOMIC DEVELOPMENT SUBCOMMITTEE REPORT

## TOWNS TASK FORCE

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Submitted to UNSM Board of Directors

February 14, 2014

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## Background

The Towns Task Force Report recognizes the importance of successful, vibrant downtowns to municipalities, and towns in particular. While some Nova Scotia downtowns are thriving, others are struggling from depopulation, changing retail habits, competition from big box retail outside of downtowns, and high commercial property taxation. The Task Force includes recommendations that speak to the matter of economic development in downtown areas, namely:

***Goal 6 – Provide new tools and incentives to increase economic growth in downtowns.***

Ten tasks were assigned to the Economic Development Sub-committee related to this goal. Contained in this report are the sub-committee's recommendations on implementing these tasks. This report is submitted to the Towns Task Force Coordinating Committee, and then presented to the UNSM Board for approval. Recommendations approved by the UNSM Board will be forwarded on to the Province for consideration.

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### **Recommendation 23: BIDCs & Waterfront Development Organizations**

*The authority of Business Improvement District Commissions (BIDCs) and Waterfront Development organizations should be reviewed to determine if new tools would be helpful to assist these organizations to carry out their role.*

**Outcome:** The committee hosted BIDC / Mainstreet / WDC workshop in Truro on November 15. The purpose of the workshop was to bring together staff from these agencies to look at how the Province and municipalities can enhance downtowns, mainstreets and waterfront areas. The workshop produced a report with a number of recommendations targeted at provincial and municipal government. The report is attached as Appendix A.

<p><b>Committee Recommendation:</b> That a committee be formed comprised of UNSM, AMA, the Province, BIDC's, Waterfront Development Corporation, and Private Sector representatives to review the report to determine ways to move forward.</p>
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### **Recommendation 24: Downtown Commercial Tax Rates**

*Municipalities should be enabled to offer a lower commercial tax rate within defined geographic boundaries of the downtown core. Therefore, the lower rate would apply to all operations within an area and not just to one business.*

**Outcome:** This recommendation was approved by the UNSM Board in 2013 and sent to the SNSMR Minister for consideration.

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### **Recommendation 25: Building Code Review**

*Undertake a review of the Building Code to seek ways to encourage commercial and residential redevelopment in downtown core. This review would not impact health and safety, but look at means to facilitate the use and reuse of buildings downtown, for example, the construction of residential units over commercial operations on the ground floor.*

**Outcome:** The Economic Development Committee met with senior staff from Labour and Advanced Education. It was concluded that the *Building Code* was recently updated and that it was not recommended to amend fire code regulations related to developing residential units above commercial properties. It was also recommended that the UNSM and the Province (SNSMR, Communities, Culture and Heritage) develop a public education and awareness plan to notify municipalities of how to take advantage of sections of the Building Code, such as creating heritage districts.

**Committee Recommendation:** That a UNSM-Provincial Committee be formed to develop a public awareness plan for municipalities on how municipalities can take advantage of sections found in the *Building Code Act* and *Heritage Property Act*.

## **Recommendation 26: Municipal Development & Leaseback**

*Amend legislation to permit municipalities to construct or renovate a building and lease it back to the private sector in order to facilitate development in the same fashion as is permitted for incubator malls.*

**Outcome:** The committee recognizes incubator malls as a potential tool for economic development. Business incubators can offer entrepreneurs with flexible office space, lower start-up costs, business support, and guidance.

It is the view of the committee that both the *Municipal Government Act* and the *HRM Charter* allow municipal units the ability to undertake the activities listed in this task:

### ***Municipal Government Act: Power to expend money***

- 65 The council may expend money required by the municipality for
- (x) lands or buildings required for a municipal purpose;
  - (ao) industrial parks, incubator malls and land and other facilities for the encouragement of economic development;

### **Powers of municipality regarding property**

- 50 (5) A municipality may
- (c) lease property owned by the municipality at market value;

### ***HRM Charter: Power to expend money***

- 79 (1) The Council may expend money required by the Municipality for
- (x) lands or buildings required for a municipal purpose;
  - (ap) industrial parks, incubator malls and land and other facilities for the encouragement of economic development;

### **Powers of Municipality regarding property**

- 61 (5) The Municipality may
- (c) lease property owned by the Municipality at market value;

<p><b>Committee Recommendation:</b> The committee agrees that legislative amendments are <i>not</i> necessary for municipal development of incubator malls.</p>
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## **Recommendation 27: Waive Building Permit Fees**

*Council should have the ability to waive building permit fees and development fees in the downtown area.*

**Outcome:** UNSM Solicitor Kevin Latimer indicated that legislative changes would be required to address this recommendation. The Committee indicated that having this explicit authority would provide another tool for municipalities to encourage development within the downtown core.

**Committee Recommendation:** That the UNSM write Minister of Service Nova Scotia and Municipal Relations requesting an amendment to the MGA to enable municipalities to waive or reduce the cost of building permit fees and development fees in downtown areas, as defined by Council.

**Coordinating Committee Discussion:** The risk of creating competition between neighbouring municipalities was raised. Building permits are an important source of revenue that not all towns would be capable of waiving.

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## **Recommendations 29 and 30: Mainstreet/Façade Programs**

*Consider re-establishing the Mainstreet Program, a successful program formally offered by the Province of Nova Scotia. Allow for municipal façade programs as a means to assist private businesses in downtown areas.*

**Outcome:** A Mainstreet/Municipal Façade Program survey has been developed which will be sent out to municipal staff on the AMA listserve as well as all UNSM members (See Appendix B). Results from the survey will be passed on to the Province for consideration.

Proposed committee tasked to review downtown workshop report would also provide information on the key elements to include in a re-established Mainstreet/Façade Improvement Program.

**Committee Recommendation:** That the UNSM write the Province requesting the re-establishment of a Mainstreet and Façade Improvement Program utilizing the information gathered from the member survey.

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### **Recommendation 31: Joint Development Zones**

*Amend legislation to allow and encourage the creation of joint development zones between two municipalities, even if they are not geographically connected. The zones would have one residential and one commercial tax rate. The rates which may be different than those in the partner municipalities should also have one set of by-laws and service levels such as planning, street standards, and fire protection. These joint development zones should be established through a public hearing process.*

**Outcome:** The Economic Development Sub-Committee, while not opposed to this recommendation, views joint development zones as a low-priority relative to the other Task Force Recommendations for the following reasons:

- Uncertainty as to the benefit for municipalities
- Jurisdictional scan provided no examples of joint development zones in Canadian municipalities
- Uncertain as to whether there would be much take-up from municipalities
- May divert business away from downtowns
- UNSM solicitor indicated considerable legislative amendments would be required to support this concept.

**Committee Recommendation:** That the UNSM write the SNSMR Minister in support of this recommendation, but indicate it would prefer the department prioritize the other proposed Towns Task Force legislative amendments.

**Coordinating Committee Recommendation:** After considering this task and the recommendation of the Land Use Planning Subcommittee, the Coordinating Committee does not recommend legislative amendments to allow Joint Development Zones.

### **Recommendation 32: Tax Increment Financing Programs**

*Amend legislation to allow tax increment financing programs. This process would see a municipality determine the base property taxes that are being collected in an area. It would then borrow money to improve the area and all revenue generated as a result of the improvements will be used to repay the loans, etc. After a certain period, all tax proceeds from the area would revert to general revenue.*

**Outcome:** SNSMR staff conducted research on this topic, found in Appendix C. The outcomes of tax increment financing (TIF) programs are mixed, and research indicates that they divert re-development rather than encouraging economic growth. The Committee concluded that complexity, risk and cost of Tax Increment Financing is prohibitive for smaller municipal units, making it inappropriate as an economic development tool for Nova Scotia's municipalities.

**Committee Recommendation:** That the UNSM Board *not* to amend legislation to allow tax increment financing, as the risks outweigh the benefits for most Nova Scotia municipalities.

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### **Recommendation 33: Lower Commercial Tax Rate**

*Municipalities need to recognize that the commercial-residential tax gap is a growing problem and should consider lowering commercial tax rate to promote healthier commercial sectors.*

**Outcome:** Committee compiled research comparing commercial-residential property tax gaps across Canada. The report is attached as Appendix D.

**Committee Recommendation:** That the UNSM Board includes the Commercial Tax Research in the final Towns Task Force report, to encourage municipalities to consider lowering commercial tax rates.

Further, the committee recommends that the UNSM Board *not* support any legislative amendment that would impose a limit on the property tax gap between commercial and residential property taxes.

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**Note:** The Economic Development Subcommittee was involved in Recommendation 28: Encourage Brownfield Development. The recommendations for this task were developed jointly with the Land Use Planning Subcommittee, and appear in that report.

## **Appendix A: Report from Downtown-Mainstreet-Waterfront Development Workshop**

November 13, 2013

### **Background**

A workshop, hosted by the Union of Nova Scotia Municipalities (UNSM) and provincial staff, was held on November 13, 2013 with representatives from Downtown Development Associations, BIDC's (Business Improvement District Commissions), and Waterfront Development Corporations. The purpose of the workshop was to gather input regarding how municipalities and the Province can develop programs and policies that foster economic development in downtowns, mainstreets, and waterfront areas.

This report is a summary of what was heard during the workshop. It will be brought forward to the UNSM Board of Directors for further discussion. The report will also be vetted through various provincial departments with a mandate for downtown development.

### **Key Findings**

During breakout sessions, participants were asked to provide input to the following questions. A synthesis of responses follows.

- I. What makes downtowns, mainstreets, and waterfronts key destination areas?
- II. What needs to happen to get us there?
- III. What can municipalities do to advance this? What can the Province do to advance this? What can businesses do to advance this?

#### I. Key Destination Areas

In terms of ideal characteristics, participants envisioned a place where people want to go, to work, live, play, and recreate. There are a variety of shops, products and services that appeal to both residents and tourists. There is plenty of green space, seating, activities and infrastructure to support festivals or special events that draw people to the area. Community centers, libraries, or cultural venues serve as anchors for the area.

The destination is attractive and inviting. Facades are neat, tidy and add charm. Heritage buildings mix with newer buildings. There are plenty of places for people to walk, and interesting things to explore (e.g., artisan markets, unique play areas, restaurants, coffee shops,

retail outlets, farmers markets, organic foods, mobile vendors). Where destination areas are on the coast, or near a waterway, people have easy access.

The area is accessible, safe and easily navigated. Upon arrival to the area, visitors find access to affordable parking within a relatively short distance from destination area, or use public transit for easy access. There is evidence of investment in infrastructure and on-going maintenance (e.g., flat sidewalks, safe crosswalks, proper lighting, wheelchair accessible, public restrooms). Visitors can meander independently by following clear signage.

## II. Required Actions: What needs to happen to get us there?

In order to make the ideal vision a reality, participants offered the following suggestions.

Working collaboratively is essential. Stakeholders must work together to develop a common vision and a long term plan. There must be agreement that attractive downtowns/mainstreets/waterfront areas are a priority. We must get people talking and involved in decisions made about their communities, and try new methods of engagement (i.e., social media). Businesses also need to work together towards common goals (e.g., hours of operation). A framework is needed for Business Improvement Districts (BID's) that enhances BID involvement in municipal planning and economic development activity. Community development and BID activity must be considered a priority. Businesses need to understand how they contribute to the community, and communities need to understand how they benefit from businesses.

There needs to be investment in infrastructure (e.g., flat sidewalks, safe crosswalks with proper lighting and markings). Create active transportation plans. Provide education to create awareness on the importance of unification and maintenance.

Attract the right mix of products and services to downtowns (e.g., local food products, retail, boutique shopping, smaller versions of box stores that offer compelling products, restaurants, essential services – drug store, groceries). Keep jobs downtown. Showcase local artists in vacant buildings. A second wave of activity at night is necessary for vitality – offer evening events that keep or bring people to the downtown.

Provide consistent funding (federal, provincial, municipal) and incentives to businesses.

The distribution of gas tax, which is due for re-negotiation, should be based on value of infrastructure, as it was intended, as opposed to population and assessment. Provide more information about government funding and how it can be accessed (e.g., Nova Scotia Tourism

Agencies First Impressions Program). Attract immigration and provide resources for succession planning for small businesses to mediate population declines (i.e., graduated tax incentive programs). Support lower tax rate option for downtown to attract businesses. Offer sustainable and affordable incubator space (i.e., put into vacant lots for a set period of time rent free or pay utilities only).

### III. Moving Forward – Provincial, Municipal, Business Actions

#### **Provincial**

1. Provide program funding to municipalities to enhance and run BIDS.
2. Explore whether the Province can quantify change in sales tax for businesses located within the BID.
3. Develop provincial policy on planning to direct growth in a sustainable way (issues arising from allowing big box store development outside of downtowns).
4. Establish a provincial advisory group to advise municipalities on how to deal with boundary development.
5. The Economic Development Strategy in Nova Scotia (e.g., RENS, Economic Development, BIDS, NSBI) is complex, and there is lack of clarity regarding who takes the lead on what. There is lack of coordination at the local level. There should be one point of contact.
6. A request to develop a commercial space should be referred to an Economic Development Officer, or equivalent, to consult with local needs.
7. More planners focused on downtown. Work collaboratively with municipal planners.
8. Be proactive in attracting youth (e.g., graduate incentive), and immigrants.
9. NSBI should focus outside of Halifax Regional Municipality (HRM) and around the province.
10. The Province should forge linkages between the federal government and municipalities, be the information sharer/broker (e.g., Province and UNSM need to talk to the Federal government to get ACOA onboard).
11. Work with Downtown Atlantic Canada to streamline processes (e.g., grant applications that require the same information to be entered several times).
12. Improve communications with respect to existing government funding programs and services (e.g., list available grant programs on web sites).
13. Focus on business retention and expansion of businesses.
14. Consider procurement policies to support downtowns (e.g., tendering for office space – financial cost should not be the only consideration).
15. Main Street/Façade Improvement Programs

- a. If total funding is \$1.5 million, larger funding limits would be necessary
  - b. Need significant access to funds
  - c. Facade program at the business level – coordinating Mainstreet program should be done at community/BID level
  - d. Collaborative programs work best and leverage more. A façade program that is for an entire block or street will have a bigger impact.
  - e. Communication is important. Make sure the message is clear, understandable, heard by the intended audience, and delivered through multiple media.
  - f. If federal government could match funds (ACOA), this would be a meaningful sum
16. Formation of Business Improvement Districts (BIDS)
- a. Incentive for businesses to vote for a BID
  - b. Time consuming to create a BID – easier to create once you have a CEO
  - c. Eligibility should be flexible: individual community should be able to decide
  - d. Should be used for marketing, beautification, consulting, façade improvement

## **Municipal**

1. Set lower tax rates on certain streets as incentives to specific types of businesses to precede outlets such as Burger King, MacDonald's (to keep downtown unique).
2. Establish municipal bylaws to control signage so large corporate signage does not overpower the downtown image.
3. The Municipal Government Act needs new tools - incentives, graduated commercial taxes, increased tax base to encourage development. Within the Act, determine if there are things that can be done by regulations vs. legislation (i.e., requirement for municipality to sell an asset at fair market value; encourage an entrepreneur prepared to make an investment by deferring taxes or graduating taxes).
4. Brownfield and school property (asbestos) is a high priority issue. There is a disconnect between levels of administration (school board) inherited by the municipal units and lack of communication between school boards and communities. Schools are being closed when they are still partly viable ( i.e., could be used for community programming).
5. Develop programs to educate businesses on embracing downtowns and the value of BIDS.

6. Explore assets of smaller municipalities. They may have more limited financial resources, but may have other things to offer like land.
7. Develop 'buy local' policies for downtown markets.
8. More planners focused on downtown. Work collaboratively with provincial planners. A request to develop a commercial space should be referred to an Economic Development Officer, or equivalent, to consult with the local needs.
9. A recommended planning framework for mix of residential/commercial uses (e.g., 40 per cent residential as part of every new development; restriction in some towns that the first floor on mainstreet be commercial).
10. Work towards commercial tax rate being no more than 2.5 times higher to residential rates.
11. Review and revise bylaws that might impede municipalities to improve and attract new businesses. These need to be flexible. Initiate community consultation in support of bylaw and regulatory changes. Respect knowledge and expertise of the business community.
12. Invest in infrastructure.
13. Political will to put strategic plans in place, not on a shelf.
14. Encourage collaboration among municipal governments.
15. Increase communications from municipalities about how their communities are governed and increase opportunities for engagement.
16. Evaluate events and their potential positive impact holistically, through a collective lens (i.e., should not incur due hardship for community groups – costs for policing and road closures).
17. When a community has done their own engagement, municipalities should not redo that engagement.
18. Host a showcase day. Invite investors and developers to tour empty retail and residential properties, partnering with local communities.
19. Create a space to have youth who are interested in 'stay at home' businesses to pitch ideas (e.g., Refresh in Annapolis Valley).

20. Mandate growth or develop processes to assess the impact of business development on other areas (e.g., Dartmouth Crossing impact on downtown Sackville and increase on infrastructure and services).
21. Small businesses are concerned about increased assessments, subsequent to facade improvement. This creates a disincentive. Communities could partner with the municipality for beautification projects with funds from BID. Maintenance is also a huge cost. Marginal populations can be employed to maintain area (e.g., students).

### **Business**

1. Develop more BIDS that are better coordinated, supervised, with newsletters (e.g., Manager of BIDS, New York).
2. Educate businesses on the value of BIDS. Demonstrate success by taking a business from a successful BID to an area that is considering a BID. Share information on the quality benefits of BIDS (i.e., illustrate sales increase). Secure grants to develop technology to collect pedestrian counts in order to illustrate benefits, and assist with planning.
3. Keep businesses open when tourists are visiting, or during special events. (There is recognition that this poses challenges for sole proprietors who aren't able to stay open seven days a week).
4. Showcase involvement and investment in the community.

## **Appendix B: Mainstreet and Façade Improvement Survey**

### SURVEY DETAILS

As part of Towns Task Force, a joint municipal/provincial initiative, we are collecting feedback from municipal administrators related to the ideal policies of any downtown beautification program.

The link to this survey is intended to be distributed through the AMANS listserv and UNSM members with results being made available shortly thereafter. Responses are completely anonymous, but the survey results will be included in the Town's Task Force final report and provided to the provincial department administering the program.

### BACKGROUND

The former Mainstreet program was active in Nova Scotia from the mid 1980s early 1990s. The program ended in 1993 due to a policy decision. The Regional Development Authorities structure that came into place afterwards was based on many of the same principles. The program had funding for facade improvement to help businesses on main streets with small construction work. The funding limit was approximately \$10,000 per business.

On July 26, 2013 the Province announced 'Mainstreet 2.0' as a companion to the First Impressions tourism program. The stated goal is to support the development of attractive, distinctive and visitor-friendly downtowns and main streets. The details of this program are still under development, and there has been a change in government. The announced grants were up to \$1,000 for municipalities, community groups and possibly individual businesses. Total program funding was announced to be \$1.5 million per year. There is an opportunity to express interest in a mainstreet & facade improvement program, and suggest ideal criteria.

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### SURVEY

1. Healthy, attractive and visitor-friendly downtowns provide a benefit to nearby rural municipalities.

*(Strongly Disagree-Disagree-Neutral-Agree-Strongly Agree)*

2. Investing in a mainstreet or façade improvement program is an effective way to promote economic development in downtowns.

*(Strongly Disagree-Disagree-Neutral-Agree-Strongly Agree)*

3A. Of the organizations listed below, please select the one you feel would be best suited to be the lead for a mainstreet program.

*(Municipalities, Individual Businesses, Business Development Associations, Other - Please list)*

3B. The ideal grant amount will depend on the type of organization applying for funds. Based on your answer above, please indicate the ideal level of funding (per recipient) to ensure meaningful impact on the appearance of a façade.

*(\$1000-\$5000, \$5000-\$10,000, \$10,000-\$20,000, \$20,000 and above)*

4A. Cost sharing would be required for this type of program. Please select ALL partners that would be expected to contribute funds

*(Municipalities, BIDS, Businesses, Community Groups, Non-Profit Organizations)*

4B. Based on your answer above, what would be a reasonable contribution from each partner for every dollar of provincial funding?

*(0%, 25%, 50%, 75%, 100% (equal contribution), 150%, 200%)*

5. What should be eligible criteria for a Mainstreet Program? From the list below, please select all that you feel apply.

*Facade Improvements; street/sidewalk improvement, signage/banner, streetlight; public washrooms; public WiFi in downtown; street furniture; beautification; other\_\_\_\_\_*

6. Which month would be the ideal application deadline for this type of program, for planning and budget purposes? Please select the following month:

*Jan, Feb, March, Apr, May, June, July, Aug, Sept, Oct, Nov, Dec*

7. Generally, how many months (after the application) would implementation of these types of projects require? *(Please enter the # of months below)*

## Appendix C: Tax Increment Financing (TIF)

### Background

Tax Increment Financing (TIF) is a tool to revitalize urban areas – often for brownfield remediation. Its use originated in the State of California in 1950, and became an increasingly popular tool for local governments throughout the US as federal infrastructure funding declined in the 1970s and 80s. Recent legislation has allowed municipalities to use TIF in [Alberta](#) (2005), [Ontario](#) (2006), and [Manitoba](#) (2009).

Alberta has active “Community Revitalization Levy” programs in downtown [Edmonton](#) (estimated to generate between \$600m-\$1.6b over 20 years), [Calgary’s Rivers District](#) (\$108m invested) and [Cochrane](#) (\$13m invested). Ontario is currently using Tax Increment Equivalent Grants rather than TIFs. Manitoba has two “Community Revitalization Levy” programs, in [Winnipeg](#) and [Brandon](#).

### Concept

The structure of TIF districts varies from one jurisdiction to the next, but in general, the municipality designates an area as a development district meeting the following criteria:

- It must be blighted; causing an impediment to development
- Financial assistance is deemed necessary for development to proceed
- Redevelopment will benefit the entire community

A municipality then enters into contracts, or arranges contracts with any private or public entity to improve infrastructure, acquire property, borrow money or force the repair of private buildings within the designated TIF district.

The municipality provides a grant or loan to the redevelopment agency on the basis of this tax increment over a period of 10 to 35 years. To finance this grant or loan, the municipality issues a TIF-backed bond.

Within the district, annual assessment value is frozen at pre-revitalization levels (or increases at a prescribed rate). Investment in this area is assumed to raise the assessed values within the district – creating a *tax increment* for the municipality. Taxes are still collected on this tax increment, but these are deposited into a special TIF account.

All of the property taxes resulting from the improved assessment in the area are deposited into a special increment fund, which is used for the repayment of the TIF-backed bonds. After the TIF period expires, the area is once again assessed and taxed at the market rate. If the balance

of expenditures is paid off, any positive balance and subsequent tax revenue is collected by the municipality.

### Evaluation

#### **Pros**

- Allows municipalities to direct development into areas that remain blighted, underdeveloped areas
- Removes upfront financial barriers to redevelopment
- Uses potential increase in property values to borrow against development cost

#### **Cons**

- TIF spending may receive less public scrutiny than other spending by local governments
- Financing model relies on projections of increased value, and thereby increased revenue.
- Other areas are essentially required to subsidize the increased cost of basic services to the area during the TIF period.
- This type of financing is more expensive to municipalities because TIF bonds are riskier: unless specified, the municipality is not liable to repay the bond if assessment does not increase as expected.
- May divert investments from other areas rather than create new growth.
- Beneficiaries not necessarily those within the region.
- TIF carries many of the typical risks of government intervention in the market system.

**Conclusion:** The complexity and cost of TIF is prohibitive for smaller cities. In the opinion of the Sub-Committee, TIF would be inappropriate as an economic development tool for Nova Scotia's municipalities because of its complexity, cost and the associated risk to municipalities.

### Additional Notes and Subcommittee Discussion:

TIF is a relatively complex financial instrument that was developed in areas of the United States, primarily as a way to “skirt around constitutional and statutory debt limitations imposed by the state”<sup>1</sup>.

In the TIF model, city councilors designate the area as a development district. In principle, these areas must be blighted in some way, causing an impediment to development. The area will not have been developed on its own without assistance, and the improvements will bring a benefit to the entire community.

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<sup>1</sup> [TD Economics, 2004. \*Minding the Gap\*. \(pg 32\)](#)

**Caution:** There are issues with the discretion provided to municipalities in selecting development districts or blighted areas. TIFs involve the use of public money to facilitate redevelopment. These programs are interventions on behalf of a municipality to direct development into the designated area. There are instances of bias, where larger development projects are given preference, to the detriment of smaller independent businesses.

There is also considerable moral hazard associated with granting development funds. Once a developer receives TIF funds, it sets a precedent for other developers who then seek assistance.

To pay for the renewal, municipalities can issue bonds to be payable, solely by the funds derived from its connection with the development; and these bonds do not typically count against the municipalities legal debt limitations. Bond issuances borrow against the estimated increment. They provide the municipality with immediate funds for redevelopment, but rely on the assumption that the property will generate the estimated incremental tax revenue after being developed.

**Caution:** The tax revenue is frozen or raised gradually in these areas for the set duration; between 10 and 35 years. During this time, the cost of providing services is likely to increase due to inflation, increased service demand within the TIF district, and other upward pressures on municipal expenditures.

## Appendix D: Commercial Property Tax Research

### Background

Recommendation 33 of The Towns Task Force, states that Municipalities need to recognize that the commercial-residential tax gap is a growing problem and should consider lowering commercial tax rate to promote healthier commercial sectors. The Economic Development Subcommittee conducted a review of commercial property tax policy to be taken into consideration.

### Current State of Commercial Property Taxes

Section 73 of the *Municipal Government Act* gives council the ability to set separate commercial and residential rates. Commercial property tax rates in Canada have historically been higher than residential rates, and a Nova Scotia is no exception.

An equitable tax system distributes the tax burden in proportion to the services provided and the ability to pay. There is no economic justification for over-taxation of the commercial properties, beyond what is required to pay for the services used by that property. However, if businesses attract customers and employees from outside the local government's jurisdiction, the costs of providing services to those people while they are in the jurisdiction should be paid by the businesses that attract them, and their property taxes should cover those costs<sup>2</sup>.

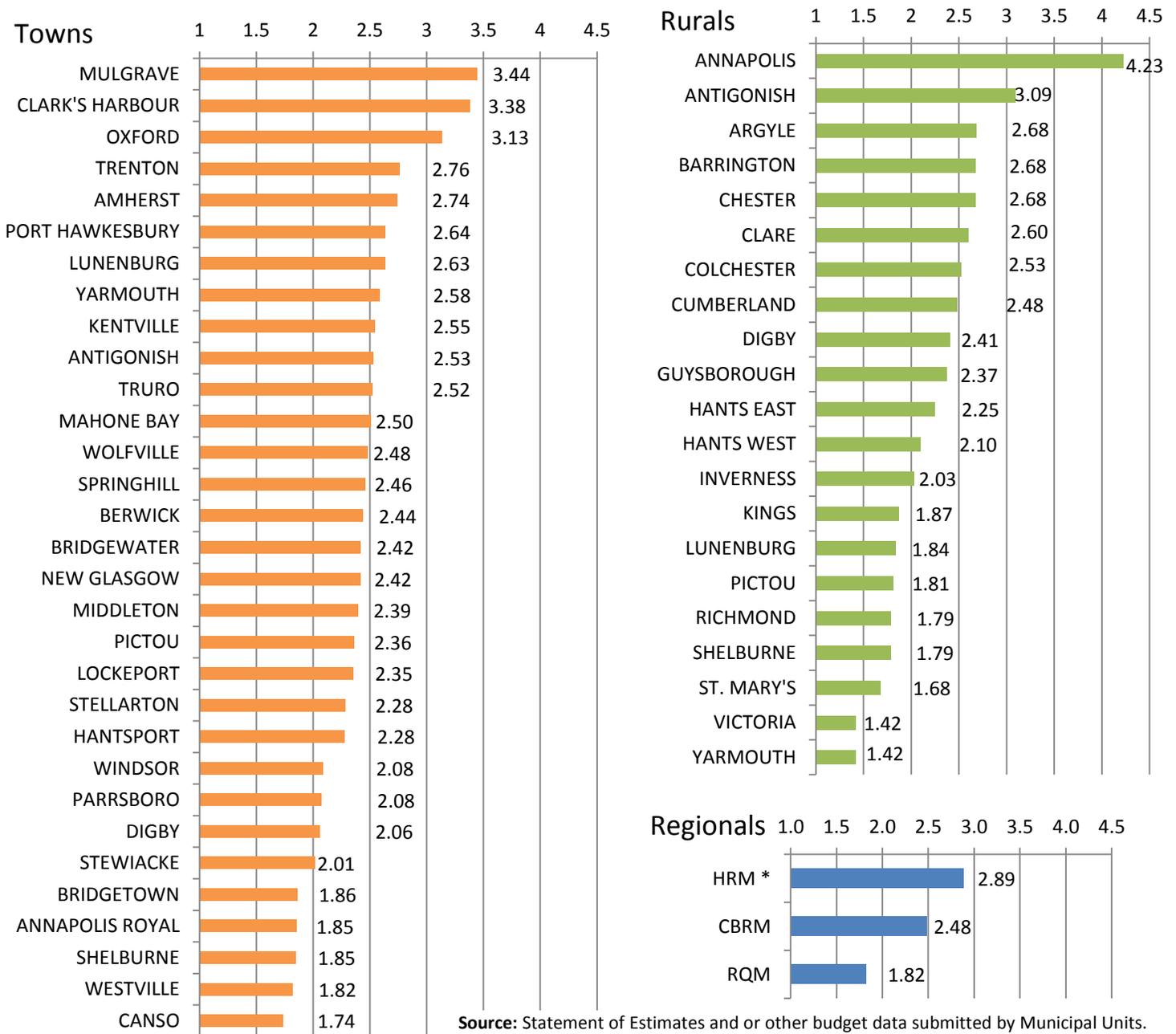
**Fig. 1: Average Commercial and Residential Property Tax Rates in Nova Scotia (2004/05-2012/13)**



<sup>2</sup> This is the benefits received approach, as identified in Bish (2003) [Property Taxes on Business and Industrial Properties in British Columbia](#).

Since 2004/05 the weighted average of commercial rates have increased slightly from 2.91% to a high point in 2009/10, and since decreased to 3.38% as of 2012/13. The weighted average of residential rates has remained stable throughout this period. Currently in Nova Scotia, the average commercial property tax rates are approximately 2.75 times higher than residential rates, when weighted by assessment. Fig. 1 (above) shows that this ratio increased slightly over the past nine years, but there is considerable variation between municipalities, as seen below in Fig. 2.

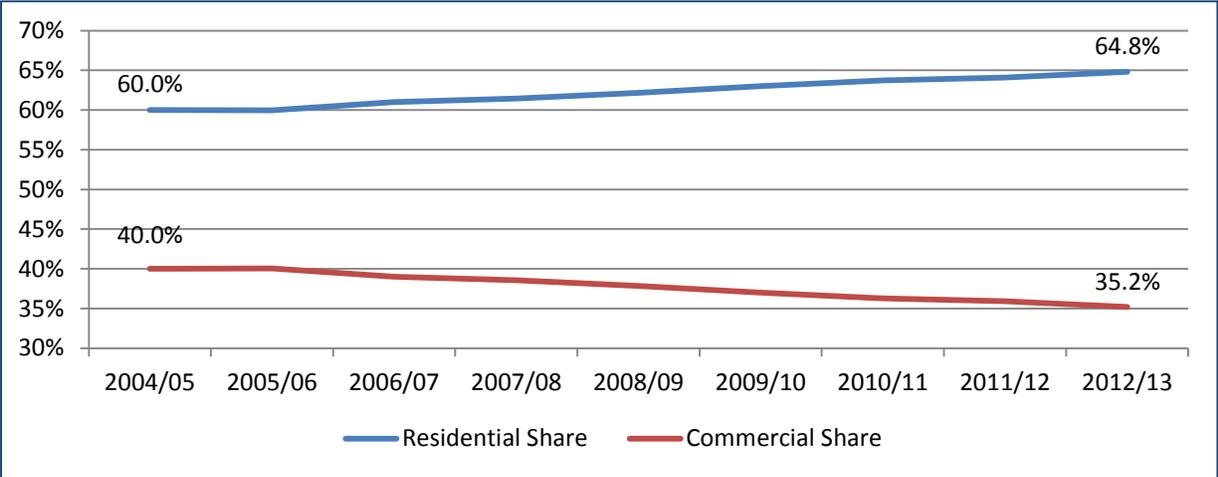
**Fig. 2: Commercial / Residential Tax Rate Ratios (2012/13)**



Source: Statement of Estimates and or other budget data submitted by Municipal Units.  
 \*HRM aggregated rate data provided separately. Calculations by SNSMR.

Despite this gap in rates, the share of total property taxes paid by commercial properties has decreased over the same period. Figure 3, shows the share of total property tax revenue contributed by residential and commercial properties. These figures include business occupancy tax and the residential CAP.

**Fig. 3: Residential and Commercial Share of Property Tax Revenue (2004/05-2012/13)**



The gap between commercial and residential property tax rates has been a growing concern for the business community. The [Canadian Federation of Independent Business](#) and the [Nova Scotia Chamber of Commerce](#) have expressed concern and both groups recommend the ratio of commercial to residential rates be restricted to 1.5 and 2, respectively.

Similar policies exist in Ontario, where the ratios are capped at 1.98 for commercial properties, 2.63 for industrial properties, and 2.74 for multi-residential properties. In New Brunswick, owner occupied residential properties receive a provincial tax property tax credit and only pay the municipal rates, as determined by the mayor and council of municipalities and rural communities to finance local services. Non-residential properties (businesses) and non-owner occupied residential properties pay both the municipal and provincial rates. The provincial portion of commercial property tax is restricted to 1.5 times the corresponding residential rate, but the total property tax that businesses pay is roughly 2.9 times the total that owner-occupied residential properties pay.

To determine the impact of a restricted commercial-residential rate ratio, this subcommittee tested the following scenario: If municipal units in Nova Scotia maintained their current revenue from property tax, but had this ratio restricted to a maximum of 2.0, what would the impact be for residential taxpayers?

**Fig. 4: Per Dwelling Unit Increase in Residential Property Tax, Capped Ratio of 2 (2012/13)**

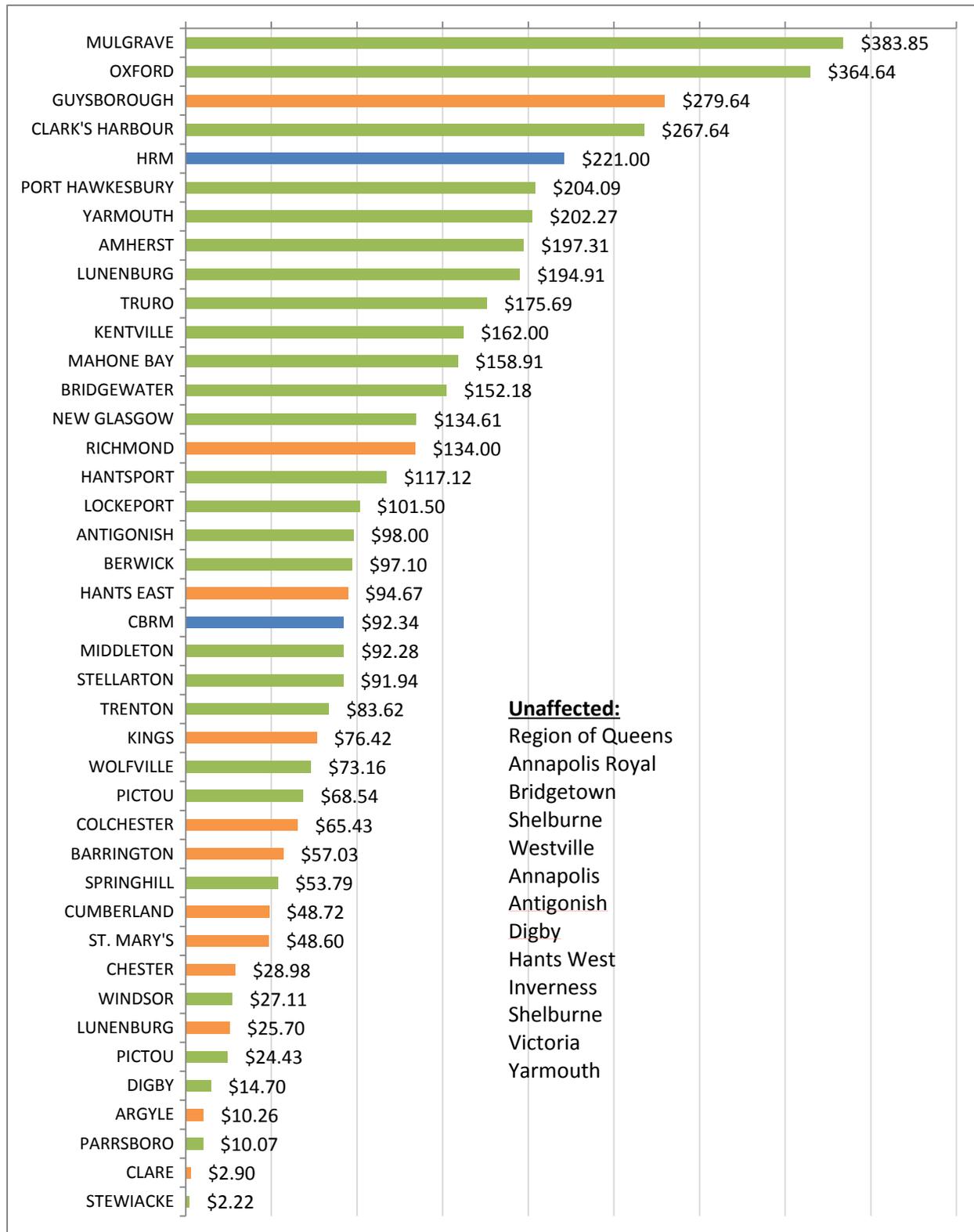
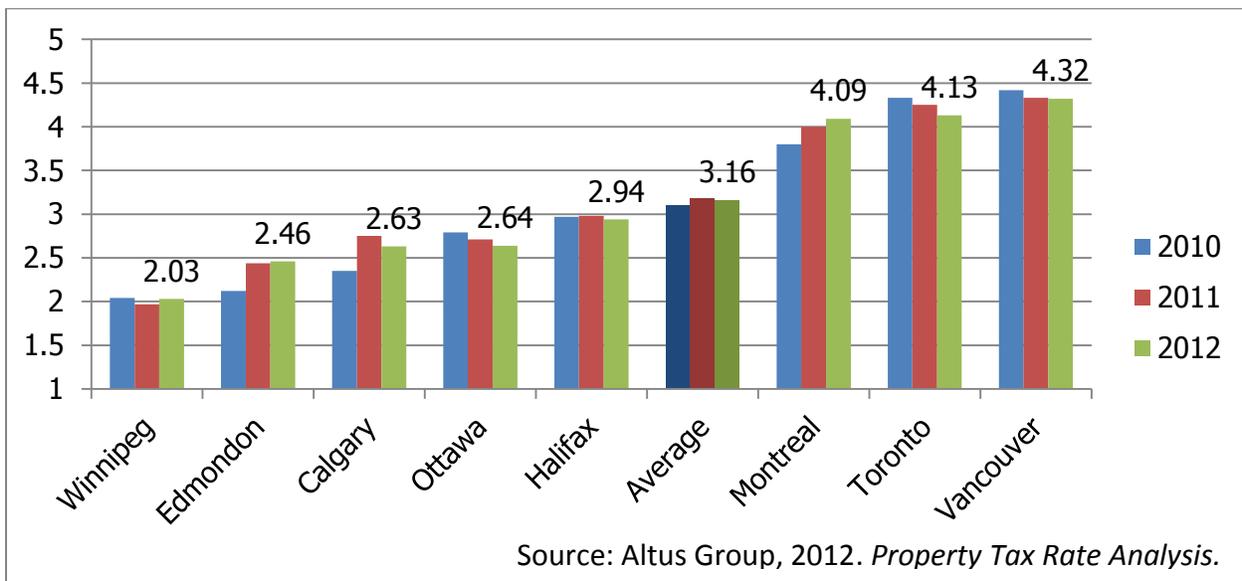


Fig. 4, above, shows the increase in residential property tax per dwelling unit in the affected municipalities. In this capped ratio scenario, 41 municipal units would need to *increase* the residential rate and *decrease* the commercial rate. The remaining 14 would be unaffected. Note that this analysis was conducted for the purpose of discussion, and is not currently under consideration.

As compared with other major Canadian Cities, the property tax ratios in Halifax Regional Municipality are slightly below average. Unfortunately, a similar inter-provincial comparison for smaller municipalities is not available.

**Figure 5: Commercial to Residential Tax Rate Ratios, Canadian Cities (2010-2012)**



The impact of downtown commercial property tax rates was recently considered by the [HRM Business Location Study](#), completed March 2013 by Altus Group for the HRM Community Design Advisory Committee. The study found that commercial tax is a factor, but relatively low in determining location decisions. Their major recommendations were to incent more people into the regional centre through *lower* residential property taxes and to invest in transportation and parking in the downtown area.

### Conclusion

The Economic Development Subcommittee has conducted this research and analysis to be made available to municipalities for consideration. The disparity between commercial and residential rates continues to be an issue, but must be considered in the context of all the financial pressures municipalities face.