

**Differentiated Tax Rate Model
August 26, 2003**

A. Aims:

To provide an illustrative model that will:

- distinguish between Trust Area Services, General (base) local trust committee services and Additional (discretionary) local trust committee services and to define appropriate costs allocation formulas for each; and
- demonstrate the impact of the differentiated tax rate model for both General and Additional services.

The discussion of a differentiated tax model in this paper is intended to supplement the Trust Area Governance Renewal Report, dated September 2003.

B. Trust Area Service (TAS) Cost Allocation

Trust Areas Services costs, including the operations of Trust Council, Executive Committee, Council Committees, Trust Area Programs, and Trust Fund Operations are considered to be base services that apply to all local trust areas and are recovered through assessment-based property tax levies. The calculation and allocation of TAS costs is shown below and in Table A.

Direct costs	\$888,410
25% Admin Overhead	294,465
Less Recoveries:	
- Prov. Grant	(294,000)
- Interest/Surplus	<u>(91,335)</u>
 Net Cost to Allocate	 <u>\$797,540</u>

The following table shows the allocation of Trust Area Services net costs of \$797,540.

**Table A
Trust Area Services Costs**

Island	Assessment	Assessment Ratio	Cost Allocation
Lasqueti	64,046,336	1.40%	11,182
S. Pender	66,474,450	1.46%	11,606
Thetis	79,143,200	1.73%	13,817
Saturna	90,156,061	1.97%	15,740
Denman	136,908,750	3.00%	23,902
Hornby	185,917,900	4.07%	32,459
Gambier	237,522,402	5.20%	41,468
Mayne	264,993,615	5.80%	46,264
Galiano	280,041,456	6.13%	48,891
N. Pender	410,076,026	8.98%	71,594
Gabriola	490,993,700	10.75%	85,721
Bowen	639,823,104	14.01%	111,704
SaltSpring	1,622,070,687	35.51%	283,191
	4,568,167,687	100.00%	797,540

C. Local Planning Service (LPS) Cost Allocation

The following calculations show the full net cost of local planning services in the current budget.

Direct Costs	\$1,755,445
75% Admin Overhead	883,405
Recoveries:	
- Surplus	(103,200)
- Fees	<u>(110,000)</u>
Net Cost	<u>\$2,425,650</u>

Local planning services costs are comprised of General (essential) services and Additional (discretionary) services. These categories are established in the *Islands Trust Act*, s. 14, with respect to budget. Currently all LPS costs are categorized as General however the aim of the Differentiated Tax Rate Model is to distinguish between services and costs that are General versus those which are Additional .

There are currently 13,100 available planner hours available per year in the current budget. The hourly or unit cost of LPS services, including all support and operational costs is \$185 (\$2,425,650 divided by 13,100 hours). This service unit is used in Table B to derive base LPS service costs for each local trust area, as well as the equalization required to bring some islands up to a base funding level. Finally Table B shows the remaining capacity, if any, for discretionary LPS services.

There are likely several approaches to calculating both Essential LPS costs as well as the Equalization Transfer. Table B is illustrative of one such approach.

Table B
Base LPS Costs, Equalization and Discretionary Capacity

	A	B	C	D	E	F	G	H
Island	Current Tax Levy	TAS Base Costs	LPS Capacity	LPS Units Avail.	Essential LPS Units Required	Essential LPS Costs	Equalization	Discretionary Capacity
Lasqueti	50,241	11,182	39,059	211	400	74,000	(34,941)	-
S. Pender	51,492	11,606	39,886	216	400	74,000	(34,114)	-
Thetis	61,392	13,817	47,575	257	400	74,000	(26,425)	-
Saturna	71,704	15,740	55,964	303	400	74,000	(18,036)	-
Denman	107,454	23,902	83,552	452	500	92,500	(8,948)	-
Hornby	144,607	32,459	112,148	606	600	111,000	159	989
Gambier	185,529	41,468	144,061	779	700	129,500	2,119	12,442
Mayne	207,440	46,264	161,176	871	750	138,750	3,270	19,156
Galiano	214,475	48,891	165,584	895	750	138,750	3,907	22,927
N. Pender	320,513	71,594	248,919	1,346	900	166,500	12,014	70,405
Gabriola	391,501	85,721	305,780	1,653	1,000	185,000	17,598	103,182
Bowen	111,704	111,704	(0)	(0)	-	-	(0)	-
SaltSpring	1,318,032	283,191	1,034,841	5,594	2,500	462,500	83,397	488,944
	3,236,084	797,540	2,438,544		9,300	1,720,500	(0)	718,044

Key to Table B calculations:

1. Col A - from 2003 Surveyor of Taxes data
2. Col B – from Table A
3. Col C equals Col A less Col B
4. Col D equals Col C divided by \$185 base planning unit
5. Col E based on forecast for essential services (approx. 70% of total available units)
6. Col F equals Col E multiplied by \$185
7. Col G equals Col C less Col F for 'deficit' islands -- total subsidization required by 5 islands is offset by the other 7 in proportion to their surpluses as calculated by Col C less Col F
8. Col H equals Col C less Col F less Col G

D. Summary and Impact

There is an inherent inability for some islands to fund essential operations under the current cost recovery formula. The resulting shortfall for five islands therefore requires subsidization from the other seven surplus islands to meet an essential level of service that would be expected to sustain the Islands Trust's mandate.

A mechanism would need to be developed to assist the shortfall islands in developing self-sufficiency, for both essential and discretionary service levels. This could be done over a 5 to 10 year period.

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