

# Successful Municipal Practices: Responding to New Challenges



## *Tools for Change*

### **TAX SHARING:**

### **Pelly Trail Economic Development (PTED)**

### **Village of Binscarth, Town of Russell and Rural Municipalities of Russell, Shellmouth-Boulton and Silver Creek**

In October 2000, five municipalities in an area known as the Pelly Trail region signed an agreement to share growth in commercial property tax revenue within the region, located west of Riding Mountain National Park, in the area along the Manitoba-Saskatchewan border. The agreement, managed by Pelly Trail Economic Development (PTED), is part of an economic development strategy aimed at strengthening the entire region by attracting new commercial development to the area.

PTED, formed in 1996, began to investigate tax sharing in 1998. PTED felt that tax sharing could support economic development by reducing intra-regional competition for new development by spreading the benefits of commercial growth to all partners, focusing all participants on a common goal by promoting regional thinking, and contributing to a cooperative, progressive image that would be attractive to prospective developers.

A consultant was engaged to study how tax sharing could be beneficial for Pelly Trail. Following his study, the consultant facilitated a joint council meeting to discuss the potential benefits of tax sharing. At this and subsequent meetings, a number of issues were discussed before reaching a final agreement, including the formula used to share taxes and the other terms of the agreement.

The agreement to share taxes is built on a recognition that although the five participating municipalities each have different amounts of existing commercial development and 'selling points' (infrastructure, land base, transportation links), each contributes something important to the region's competitiveness. For example, Binscarth has a large school and is an attractive home for prospective families, the Town of Russell has a large labour force, the RM of Russell has considerable current industrial development and is looking to develop and fill a new industrial park, and the RMs of Shellmouth-Boulton and Silver Creek have the land base to support new development, including ag value-added industry and tourism facilities.

The councils agreed to share incremental commercial property tax growth (created either by attracting development or encouraging expansion of existing development). Of this new revenue, 70% is contributed to a tax sharing pool and 30% is retained by the host municipality to cover ongoing costs of servicing the new development. By retaining 30%, the municipality will not be 'out of pocket' because of the new development.

*Tax sharing is part of Pelly Trail's vision for a strong, competitive region. It can reduce intra-regional competition, focus participants on a common goal, and contribute to a cooperative, progressive image.*

*The agreement is built on a recognition that each of the participating municipalities contributes something important to the region's competitiveness.*



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It was also agreed that tax sharing would only begin after direct costs associated with the development (e.g. water and sewer extensions to a new site) are recovered by the host municipality. This might mean that all new tax revenue from a project is retained by the host municipality for the first several years. Once full recovery is achieved, new taxes generated by the project are shared as per the agreement.

In order to start all partners off on a level playing field, the agreement also includes a clause which enables municipalities to exempt one new project from the tax sharing agreement. This allowed municipalities who had already been working individually on developments to retain the tax revenue from these projects.

From the tax sharing pool, approximately 70% of pooled funds are shared amongst all partners, with the remaining roughly 30% being contributed to a PTED reserve fund to support future economic development projects. The shared portion is allocated to each of the five municipalities based on a formula that takes into account total municipal assessment and municipal population relative to total regional assessment and population. This proprietary formula was developed by the consultant and discussed at length before being approved by all five municipalities.

The financial accounting for shared taxes is handled by PTED at the end of each fiscal year. In case of potential disputes, an arbitration process is included in the agreement.

According to the negotiated terms, the agreement is to be renewed every five years. If a municipality decides they no longer want to be party to the agreement, they can serve notice that they wish to withdraw. This notice can be given between 12 and 24 months before the end of the current five year term.

Attracting new development and realizing growth in tax revenues takes some time. Although limited growth has been shared so far, it is less than 3 years into the Pelly Trail agreement, and councils have already seen a change in the perspective they bring to issues - approaching challenges with a cooperative, regional view. The Pelly Trail partners are extremely enthusiastic about the potential that tax sharing and working cooperatively hold for their region.

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*For more  
information on tax  
sharing, Successful  
Municipal Practices,  
and the Tools for  
Change program,  
see the Association  
of Manitoba  
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website, at  
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