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September 24, 2018

J. Scott MacKenzie, Q.C.
Chair and Chief Executive Officer
Prince Edward Island Regulatory and Appeals Commission
P.O. Box 577
Charlottetown, PE C1A 7L1

**Subject: Greater Three Rivers Area – Summary of Estimated Financial Implications if Geographic Area is Smaller**

Dear Mr. MacKenzie:

Any reduction in the geographic area included in the Greater Three Rivers Area would result in both a lower population base and lower total property tax assessed values. Both of these factors have financial implications. To assist you in quantifying the loss in gas tax funding and annual operations, we have estimated what the impact would be for a population loss of 100 people. For your analysis, you could then simply increase the amounts calculated below if the population decrease was say 200 or 300.

**(A) Reduction in Gas Tax Funding Capital**

Gas tax funding is used to invest in capital projects; as a result, there is no impact on the annual operating budget. Having said that, the gas tax funds are critical to finance capital projects in the region in future years. Gas tax funding is calculated at the rate of $95 per person; therefore, a population reduction of 100 would result in a reduction in gas tax funding of $9,500 per year.

**(B) Annual Operations**

(i) Province of PEI revenue sharing would be lower as both the development credit and base funding would be decreased. Currently, for all unincorporated areas, base funding is estimated at $98,700 and development control funding is estimated at $25,800, for a total of $124,500 annually. These amounts are based on total non-commercial tax assessments (2017 values) of approximately $235 million. Applying a reduction in population of 100 to the non-commercial tax assessment based on a prorated basis would result in a recurring annual decrease in provincial revenue sharing of approximately $4,200 per year (reduction in population x total assessed value x existing funding level)

(ii) Both commercial and non-commercial property tax revenue would be lower. The current financial projections show total commercial and non-commercial revenue from the unincorporated areas at $158,900 annually ($41,400 commercial and $117,500 non-commercial). Applying a reduction in population in the unincorporated areas on a prorated basis to total property tax revenue would result in an estimated decrease of $5,300 annually. In the financial projections which cover years one to five, this revenue is actually shown as Province of PEI Property Tax Offset Funding. In year six, the transition to property tax revenue begins and is phased in at the rate of 1 cent per year.

**Considerations**

It is important to note that the entire budget for the proposed Greater Three Rivers Area is premised on the geographic area, population base, and total property tax assessment values as detailed in the notes to the projected financial statements. During the mediation process, many financial structures were investigated and negotiated with changes in total revenue considered as assumptions were modified. The final rate structure and budgeted revenue reflects the details negotiated in the mediation process. To keep the Greater Three Rivers Area total revenue at the same level, the Province of PEI could consider the following minor adjustments to their financial commitment:

1. Maintain the property tax offset funding related to unincorporated areas at $158,900 for years one to five, then decreasing in years six to ten as detailed in the mediation agreement (no adjustment is made for the decrease in population and tax base).
2. As noted above, Province of PEI revenue sharing will be decreased by approximately $4,200 per year. This amount could simply be added to the annual property tax funding offset to keep this revenue assumption intact.
3. The loss in gas tax funding is estimated at $9,500 per year. This amount could be added to the transitional funding.

With these adjustments, the projected financial statements would reflect total revenue amounts consistent with those analyzed by all seven councils as they decided to move forward with amalgamation.

As noted above, these amounts are calculated based on a population loss of 100 people.

If you have any questions, please do not hesitate to call.

Everett Roche

Everett Roche, CPA, CA
Managing Partner, MRSB