

REGIONAL MUNICIPALITY OF OTTAWA-CARLETON
MUNICIPALITÉ RÉGIONALE D'OTTAWA-CARLETON

REPORT
RAPPORT

Our File/N/Réf.
Your File/V/Réf.

DATE 3 December 1996

TO/DEST. Co-ordinator
Corporate Services and Economic Development Committee

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **RATIONALIZING RESPONSIBILITY FOR PROPERTY TAX
BILLING AND COLLECTION ADMINISTRATION
("PROPERTY TAXATION") IN OTTAWA-CARLETON**

DEPARTMENTAL RECOMMENDATIONS

That the Corporate Services and Economic Development Committee receive and table this report with the following recommendations to be considered at a special meeting scheduled for 9 December 1996:

That the Corporate Services and Economic Development Committee approve in principle the following:

- 1. That the RMOC assume full responsibility for property taxation;**
- 2. That the Area Municipalities be requested to approve the transfer of this responsibility conditional upon being recognized as a prescribed service under the double majority legislation provisions of *The Savings and Restructuring Act, 1996*;**
- 3. That, (if necessary), the Province be requested to amend existing legislation to allow for the transfer of this responsibility;**
- 4. That staff, in co-operation with the Area Municipalities, develop a transition plan to ensure an effective transfer of responsibility.**

PURPOSE

The purpose of this report is to review the potential benefits of transferring the responsibility for property taxation to the RMOC from the Area Municipalities, as directed by Regional Council on 10 July 96.

BACKGROUND

Earlier this year, through the joint efforts of the Area Municipality CAOs and the Region's CAO, a Co-ordination Committee was established to identify ways of improving municipal services, while at the same time reducing costs, increasing accountability and allowing for public input. In total, thirteen different services were identified; one of which concerned property taxation.

In order to conduct the review of property taxation a subcommittee chaired by the CAO from the Township of Osgoode was established, with a membership consisting of representatives of the City of Gloucester, Township of West Carleton and the RMOC. The objective of the subcommittee was to review the existing property taxation system in Ottawa-Carleton to determine if a more cost effective model exists for this service.

In order to collect the necessary property tax information, the RMOC on behalf of the subcommittee, distributed a survey to each Area Municipality. All but three Area Municipalities provided responses to the survey. Gloucester, Kanata and Rideau informed the subcommittee they would not be participating in the review and in the case of the City of Gloucester, the representative was removed as a member of the subcommittee. The remaining municipalities provided the majority of the information as requested.

Following the decision of these municipalities not to participate, Regional staff decided that the subcommittee approach to conducting this review was not workable given the direction of Regional Council to report back in the "fall" of '96. Consequently, this report has been developed by Regional staff only. It is proposed that this report be tabled for review and response by the Area Municipalities.

ANALYSIS

In order to account for Gloucester, Kanata and Rideau in the review, property tax statistics were obtained from their respective Financial Information Returns (FIRs) and their 1996 budget submissions and in some cases were estimated based on responses received from other Area Municipalities of similar size.

Under existing legislation, the eleven Area Municipalities are charged with responsibility for property taxation for all realty and business taxes in Ottawa-Carleton, including taxes related to the Area Municipalities, Regional Government, and the six school boards. This is accomplished through eleven separate municipal organizational structures, which collect in total \$1.3 billion in property taxes (including payments in lieu). Details are provided in Annex A.

The analysis conducted to date indicates the existing model may not be the most efficient and does not respect the relative property tax sharing by local government. Because eleven different management structures are in place to perform this function, a significant amount of overhead is associated with supporting these separate organizational structures. Some of these inefficiencies originate from diseconomies of scale in areas such as staffing, supplies, and technology and are reflected in the comparative analysis that follows.

Consistent with responsible management practices, each Area Municipality has a management structure in place to oversee the property taxation function and to ensure duties are carried out in the most efficient manner. The drawback is higher costs associated with the existence of eleven separate but similar organizations.

The current level of automation also varies from one municipality to another. Property taxation is a function that is common to municipalities across the country, but until recently has been somewhat neglected from an information technology standpoint. With the recent advances in technology, a number of significant opportunities exist to improve the cost effectiveness and service levels related to this function. For instance, the introduction of interactive voice response (IVR) systems and kiosks would allow taxpayers to inquire about the status of their accounts, or even allow property tax payments to occur. Technology of this type requires significant up-front capital costs for both equipment and application development and is more difficult to justify when servicing a smaller group of accounts.

As indicated earlier, three different property taxes are collected by the Area Municipalities: Area Municipality taxes, Regional taxes and School Board taxes. The mill rates levied for these purposes varies between Area Municipalities. On average, school taxes make up 55% of the total, with Regional taxes making up 29%, leaving the Area Municipalities with responsibility for the remaining 16%. Annex B contains a breakdown of the 1995 mill rates by municipality. In general, the Area Municipalities are responsible for the smallest share of the mill rate and yet have been delegated responsibility for all property taxation.

Notwithstanding that school taxes account for the largest share of the property tax, it was not considered viable for School Boards to take on responsibility for property taxation, given the Province's recent direction. The Provincial Government, through the Crombie Commission, is reviewing the existing education system and the revenue raised from school taxes. To date it has recommended reducing the dependency on the property tax bill for school funding and to replace the majority of it with provincial grants that would have otherwise been provided to municipal government.

COMPARATIVE INFORMATION

To help determine the cost of administering property taxation, comparative analysis was done using the City of Winnipeg's, the City of Calgary's, and the City of Mississauga's property taxation function, and the RMOC's water customer accounts operation as benchmarks. Winnipeg and Calgary were selected for this comparison because they closely resemble the Ottawa-Carleton area in population and also manage a comparable number of property tax accounts. Both of these cities provide relevant examples of larger property taxation functions that provide varying degrees of efficiencies that result from achieving economies of scale. The City of Mississauga was selected because it is representative of a municipality that supports a considerable tax account base and because it is located in Ontario is governed by the same property taxation regulations as Ottawa-Carleton. In addition, the RMOC's water customer accounts operation was used because of the similarities that exist between this function and property taxation.

Ottawa-Carleton Area Property Taxation

Ottawa-Carleton's population is estimated to be 719,000 (1995 census). The aggregate number of property tax accounts throughout the region is estimated to be 214,000 for realty and 22,000 for business accounts, for a total of 236,000. In total, at least **65 full time equivalents (FTEs)** support the property taxation function in Ottawa-Carleton at a total staffing cost of **\$2.7 million**. A further breakdown of staffing FTEs and costs by municipality can be found in Annex C.

Winnipeg

The City of Winnipeg, with a population of close to 642,000, is responsible for managing 200,000 realty taxes and 14,000 business taxes, for a total of 214,000 accounts (91% of Ottawa-Carleton's total amount). The City of Winnipeg has indicated that **39 FTEs** are required to support the property taxation function (60% of the current aggregate total in Ottawa-Carleton). The cost of staffing these positions totals **\$1.3 million**.

Calgary

The City of Calgary, with a population of close to 750,000 residents, manages 261,000 realty tax accounts and close to 22,000 business accounts, for a total of 283,000 accounts (20% more than Ottawa-Carleton). To support this function, the City indicated it employs the equivalent of **52 FTEs** for property taxation purposes (80% of the current aggregate total in Ottawa-Carleton). The cost to the City of staffing these positions totals **\$2.3 million**.

From an operational perspective there is a difference between the City of Calgary and the Area Municipalities in Ottawa-Carleton. In Calgary's case only one bill is issued, while the Area Municipalities issue two bills per year. The City of Calgary has estimated that an additional bill would have a minimal impact on staffing requirements.

City of Mississauga

The City of Mississauga, with a population of 480,000, manages 185,000 realty tax accounts and approximately 20,000 business accounts, for a total of 205,000 accounts (87% of Ottawa-Carleton's total amount). The City has identified that **25 FTEs** are required to support the property taxation function (38% of the current aggregate total in Ottawa-Carleton). The cost to the City of staffing these positions totals **\$1.1 million**.

As far as operational requirements are concerned, the City of Mississauga best represents the conditions currently in place in Ottawa-Carleton. For example, the City produces two billings a year, which is consistent with the Area Municipalities in Ottawa-Carleton. In addition, Mississauga operates under the Ontario tax laws, and as such, shares the same provincial regulations as the Area Municipalities in Ottawa-Carleton.

Ottawa-Carleton Water Customer Accounts

The RMOC's Water Customer Accounts manages 145,000 residential water accounts and 6,000 commercial accounts, for a total of 151,000 accounts (64% of Ottawa-Carleton's property tax accounts). The 145,000 residential accounts are billed every two months and the 6,000 commercial accounts are billed on a monthly basis, representing a higher level of activity than what is found in property taxation functions. This function is supported by **24 FTEs** (37% of the aggregate total in Ottawa-Carleton's current property taxation requirement). The cost of salaries and benefits necessary to support this operation totals **\$1.1 million**.

These comparisons support the thesis that larger property taxation and water customer operations do provide economies of scale that are not realized in smaller operations. As shown in the following table when the size of the account base increases, the number of accounts supported per FTE also increases, resulting in a lower cost per account.

Area:	Accounts Supported by FTE	Staffing Cost per Account	Total Number of Accounts
Ottawa-Carleton Property Taxation	3,600	\$11.60	236,000
Winnipeg	5,500	\$ 6.10	214,000
Calgary	5,500	\$ 8.10	283,000
Mississauga	8,200	\$ 5.20	205,000
Water Customer Accounts	6,300	\$ 7.30	151,000

It has been recognized that in some cases staff may perform additional duties other than those directly related to property taxation and while every effort was made to identify FTEs and not positions, consideration would need to be given at the time a transition plan is created to account for these situations.

CUSTOMER SERVICE ISSUES

While concern has been raised about the perception that a larger operation would result in a reduction in service, the Cities of Calgary, Winnipeg and Mississauga provide excellent examples of larger operations that do not support this view.

The argument of having “personal” knowledge of the taxpayers and not being close enough to the community, is a difficult one to support. The example of the RMOC’s Water Customer Accounts operation provides conclusive evidence that services of this nature can be provided to a larger group of taxpayers in the Ottawa-Carleton region, while still maintaining a consistently high level of service.

The savings achieved through the consolidation of the property taxation function could be invested in technology such as an IVR system and customer service kiosks. The introduction of these technologies would also facilitate an increase in the existing level of service.

CONCLUSION

With a consolidated property taxation function, the taxpayers of the Ottawa-Carleton region would be able to realize some significant savings. Based on the evidence presented specifically by the Cities of Calgary, Winnipeg and Mississauga, and the Water Customer Accounts function, it is estimated that a consolidated property taxation function could save between 15% - 20% of the current cost. These savings would largely be as a result of a reduction in the total FTE requirement, with additional contributions coming from the introduction of technology.

Because of the transition costs that would be required to implement this transfer of responsibility to the RMOC, it has been estimated that savings would not be realized for the first two years and would instead be used to offset the set-up costs. Some of the Area Municipalities have indicated that they are in the process of looking at replacing their existing property taxation applications with ones that better meet their needs. By acquiring one application instead of several, there would be an opportunity for additional savings.

To allow this transfer of responsibility, changes to the existing legislation that governs property taxation at the municipal level are required. While it has not yet been confirmed by the Provincial Government, recent amendments made to the Municipal Act under ‘*The Savings and Restructuring Act, 1996*’ do not appear to make provisions for the transfer of property taxation to the upper tier. If this is confirmed to be the case, the only way to shift responsibility for this function would be if the Provincial Government was to enact legislation that changes the Municipal Act and the Regional Municipalities Act to specifically allow the RMOC to assume responsibility for property taxation in Ottawa-Carleton.

CONSULTATION

This report is tabled at this time for public consultation and comments and responses from the Area Municipalities.

FINANCIAL IMPLICATIONS

The transfer of responsibility for property taxation raises some issue around the financial impact it would have on the Area Municipalities and the RMOC. For example, the Area Municipalities currently retain the revenues arising from the collection of penalties and interest charges. In February of this year, the Finance Commissioner tabled a report authored by C.N. Watson and Associates which reviewed the existing inter-municipal service arrangements that are in place between the Area Municipalities and the RMOC. One area the report addressed concerned the interest revenue retained by the Area Municipalities resulting from the collection of regional taxes. Based on the collection of \$344 million in Regional levies (excluding payments-in-lieu), it was estimated that the Area Municipalities benefited from investment income of \$4.1 million for just the regional component of the tax bill.

Under this option consideration would also have to be given to the issue of the sharing of grants in lieu (GILs). This is largely an issue for the City of Ottawa. Current legislation requires the Area Municipalities, as the taxing agency, to share GIL revenues only with the Region. Significant mill rate restatements would be required if there was to be any change in the legislated requirement.

If the RMOC was to assume complete responsibility for property taxation, the corporation would also have to assume responsibility for financing any shortfalls in collections arising from delinquent or late payments. At the end of 1995 the total tax arrears outstanding totalled \$111 million. Annex D provides a breakdown by municipality.

*Approved by
J.C. LeBelle
Finance Commissioner*

Property Tax Breakdown by Municipality
(Including Payments in Lieu)

	<u>Regional</u>	<u>School Boards</u>	<u>Area Municipality</u>	<u>Total Property Taxes</u>
City of Gloucester	48,243,018	72,915,003	31,098,784	152,256,805
City of Kanata	19,311,720	35,113,857	10,375,905	64,801,482
City of Nepean	57,142,687	94,777,027	28,934,846	180,854,560
City of Ottawa	239,577,172	304,095,220	181,008,402	724,680,794
City of Vanier	7,997,863	10,621,515	4,303,325	22,922,703
Rockcliffe Park	2,353,040	3,112,570	1,562,191	7,027,801
Cumberland Township	12,731,584	25,240,796	9,467,762	47,440,142
Goulbourn Township	4,959,585	13,159,563	3,178,182	21,297,330
Osgoode Township	2,685,260	9,761,125	3,188,043	15,634,428
Rideau Township	3,284,809	9,539,361	2,488,497	15,312,667
West Carleton Township	3,971,859	11,813,340	3,345,534	19,130,733
TOTAL	402,258,597	590,149,377	278,951,471	1,271,359,445

Source: 1995 Area Municipalities Financial Information Return (FIR)

Mill Rate Breakdown by Municipality
(As at 31 Dec 95)

	Area Municipality		Regional		School Board	
	Mill Rate	%*	Mill Rate	%*	Mill Rate**	%*
City of Gloucester	65.06	15.4%	138.21	32.8%	217.90	51.7%
City of Kanata	58.75	14.6%	126.69	31.4%	217.90	54.0%
City of Nepean	53.82	13.3%	132.51	32.8%	217.90	53.9%
City of Ottawa	59.10	15.2%	131.63	33.7%	199.36	51.1%
City of Vanier	74.80	17.8%	147.19	34.9%	199.36	47.3%
Village of Rockcliffe Park	52.16	13.9%	124.19	33.1%	199.36	53.1%
Township of Cumberland	87.80	20.5%	121.84	28.5%	217.90	51.0%
Township of Goulbourn	47.17	13.4%	86.11	24.5%	217.90	62.0%
Township of Osgoode	72.70	20.3%	67.53	18.9%	217.90	60.8%
Township of Rideau	56.96	15.8%	86.00	23.8%	217.90	60.4%
Township of West Carleton	<u>60.76</u>	<u>16.9%</u>	<u>80.89</u>	<u>22.5%</u>	<u>217.90</u>	<u>60.6%</u>
Average	62.64	16.1%	112.98	28.8%	212.84	55.1%

NOTES:

* Expressed as a percentage of the total mill rate

** Based on average school board mill rate for each Municipality

Source: 1995 Area Municipalities Financial Information Return (FIR)

**Property Taxation Function
Current Staffing and Salary Breakdown by Municipality**

	<u>Number of FTEs</u>	<u>Salaries Costs (with benefits)</u>	<u>Average Salary</u>	<u>Other Expenses</u>
City of Gloucester*	8.4	347,446	41,363	25,403
City of Kanata**	6.6	271,274	40,855	9,825
City of Nepean	11.0	449,400	40,855	94,400
City of Ottawa	21.0	953,000	45,381	180,000
City of Vanier	5.0	200,000	40,000	8,000
Rockcliffe Park	0.2	9,000	45,000	1,500
Cumberland Township	4.6	190,000	41,037	9,825
Goulbourn Township	2.1	78,476	37,370	72,690
Osgoode Township	2.0	80,000	40,000	8,300
Rideau Township***	2.0	80,000	40,000	8,300
West Carleton Township	<u>1.9</u>	<u>71,175</u>	38,061	<u>23,700</u>
<i>TOTAL</i>	64.8	\$ 2,729,771	\$ 42,100	\$ 441,943
				<u>\$ 3,171,714</u>

Source: Provided by Area Municipalities except where as noted in Gloucester, Kanata, and Rideau

Notes:

* Estimate based on figures obtained from City of Gloucester 1996 Operating Budget submission

** Estimate based on figures obtained from City of Kanata 1996 Operating Budget submission and 'other' expenses estimated at Cumberland Township's actual

*** Estimate based on Osgoode Township's requirements

**Property Tax Receivables Breakdown by Municipality
(Realty and Business Tax)**

	<u>Tax Arrears Outstanding</u>	<u>Realty Accounts</u>	<u>Business Accounts</u>
City of Gloucester*	16,351,008	34,000	3,613
City of Kanata*	3,496,154	16,900	668
City of Nepean	18,595,178	34,000	3,613
City of Ottawa	55,415,170	78,000	12,000
City of Vanier	1,879,411	4,000	400
Rockcliffe Park	377,794	730	0
Cumberland Township	4,483,756	15,982	668
Goulbourn Township	3,151,742	7,837	335
Osgoode Township	2,374,367	7,000	150
Rideau Township*	2,121,026	7,000	150
West Carleton Township	<u>3,039,963</u>	<u>8,600</u>	<u>13</u>
TOTAL	\$111,285,569	214,049	21,947

Notes:

- * Realty and business tax accounts were provided by the Area Municipalities, with the exception of Gloucester, Kanata and Rideau
- Gloucester's figures are estimated based on the City of Nepean's figures
- Kanata's realty tax figures are estimated based on the 1996 operating budget and business tax counts are estimated based on Cumberland Township's figures
- Rideau's figures are estimated based on Osgoode Township's figures

Source : 1995 Area Municipalities Financial Information Return (FIR), unless stated otherwise

Extract of Draft Minute
Corporate Services and
Economic Development Committee
03 December 1996

**RATIONALIZING RESPONSIBILITY FOR PROPERTY TAX
BILLING AND COLLECTION ADMINISTRATION
(“PROPERTY TAXATION”) IN OTTAWA-CARLETON**

- Finance Commissioner’s report dated 3 Dec 96

In review, J. LeBelle, Finance Commissioner, stated that on 10 Jul 96, staff were directed by Council to review the potential benefits of transferring the responsibility for property tax billing, collection and administration from the area municipalities to the Region. Mr. LeBelle reported that a sub-committee of the Area Treasurers was formed to review the issue, but noted in recent weeks the sub-committee experienced difficulties in functioning and one representative was removed. As a result, staff decided to complete the research and table the report with Committee for future discussion.

Mr. LeBelle confirmed \$1.3 billion worth of taxation was collected by the area municipalities on behalf of themselves, the Region and the school boards. He noted that staff believed there were a certain number of diseconomies of scale that existed in the current model that were apparent in running eleven separate but similar organizations which conducted similar functions.

Mr. LeBelle reviewed the comparative information and analysis collected using the property taxation function of the Cities of Winnipeg, Calgary, and Mississauga and the Regional Water Customer Accounts operations. In closing, Mr. LeBelle explained the analysis showed there were substantial savings to be had with consolidation of eleven different billing administrations into one.

In response to a question from Councillor Hunter regarding the cost per account, Mr. LeBelle explained it was typically a higher cost on a per account basis the smaller the operation. He believed one reason for the higher cost was the costs could not be spread over as many accounts.

Councillor Hunter referenced other duties that were carried out within the area municipal tax departments. Mr. LeBelle acknowledged that as a practical matter in any transition that took place, there would be some components of full time positions that would not be part of the transition and remain at the local municipality. He confirmed this would be part of discussions that would occur during the creation of a transition plan, and confirmed there would not be the need for the transfer of 65 employees. Mr. LeBelle acknowledged that some of the anticipated efficiencies may be lost by leaving some of the non-tax function capacity with the area municipalities.

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Councillor Hunter referenced the collection periods and noted it had a significant positive cash flow for the area municipalities which produced revenue from investment and interest. The Councillor inquired if staff had considered this change. Mr. LeBelle explained it would depend upon the decision taken by Council and was an issue of the transition plan that would have to be developed with the area municipalities. Mr. LeBelle referenced the \$344 million collected in Regional levies and reported that the area municipalities benefited from investment income of \$4.1 million from the regional component of the tax bill. Mr. LeBelle explained it was staff's desire to keep the interest/investment income question out of the review as it was not about revenue, but trying to gain efficiencies in an administration system. Mr. LeBelle reiterated that if the service did move to the Region, discussions would have to be held with the area municipalities as to an appropriate timing for transferring their levies; decisions which would be made as part of the transition plan.

Councillor Hunter referenced the number of duties still required to be carried out by the area municipality and suggested the efficiency gained at the Region may be lost at the local level. Mr. LeBelle stated the information provided by the area municipalities initially indicated it was in fact totally with respect to property taxes. However, he added that in subsequent discussions, it was indicated that in a couple of the smaller municipalities, there were shared responsibilities and a minimal number of positions may have to be retained in those municipalities.

In response to a question from Councillor Hume, Mr. LeBelle explained this transfer should not be a revenue windfall to the receiving municipality, but that appropriate adjustments would be made to the mill rates. He reiterated this would be accommodated in the transition plan.

Councillor Hume referenced the \$4.1 million earned by the area municipalities through interest and the Region's requirement to borrow to accommodate its cash flow needs. Mr. LeBelle stated the fundamental principle was that you are not able to invest money at the same rate you borrow it.

Councillor Hume inquired if it was possible that the Region request the shift of taxes collected by the area municipalities on the Region's behalf earlier, should the service not be transferred. Mr. LeBelle referenced a past report prepared on this issue and agreed to supply the Councillor with a copy.

Extract of Draft Minute
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On a related matter, Mr. LeBelle referenced the possible transfer of assessment from the Province to the Regional level and the potential move to some form of value based assessment. He noted these changes would require substantial re-writes of tax systems in the Province, and it would be an advantage to only have to re-write the system once.

Councillor van den Ham inquired what the time frame would be if the transfer was approved. Mr. LeBelle stated the realignment of service would probably have to occur through a request to the Province to deem property taxation as a prescribed service under *The Savings and Restructuring Act, 1996*, or to amend existing legislation. Mr. LeBelle pointed out the Government may then wish to review the effect it would have across the entire Province and consider it as an opportunity that may exist in all other large urban centres/Regions. Mr. LeBelle explained he could not offer a time frame due to the uncertainties.

Councillor Hill referenced the substantial amount of interest the municipalities would lose. Mr. LeBelle explained that there was no reason to assume at the outset that the area municipalities would have to lose all the interest. He reiterated that if the Region were the billing agent, they would have to negotiate with the area municipalities on an appropriate time to pay the municipal levies to them. He suggested this may be done more quickly than the present time lines the Region is paid under. Mr. LeBelle emphasized the goal was to minimize any effect on the tax payer, including the area municipalities.

Mr. LeBelle confirmed the report was just released and had not yet been circulated to the area municipalities. He stated it was being tabled with Committee for consultation and for response / comment from the area municipalities. Mr. LeBelle stated he recently had a session to which all Area Treasurers were invited and received a briefing on the report, however, pointed out only eight of the eleven municipalities were represented.

Councillor Loney stated the issue of investment income was a significant component of the subject matter. He noted the figure was much higher than the outlined \$4.1 million taking into consideration taxes collected for school boards and the interest earned on arrears. The Councillor emphasized it was necessary to ensure it was a revenue neutral situation and co-operation was necessary. He agreed there were savings in efficiencies, however, accented the need to minimize the effect on the taxpayer and area municipalities.

Chair Clark suggested the efficiencies may allow for a reduction in the interest penalty to reflect the present economy. He believed there were other issues that the taxpayer may benefit from through the relief on the administration.

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The Committee then turned their attention to the staff recommendation.

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- 1. That the RMOC assume full responsibility for property taxation;**
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- 3. That, (if necessary), the Province be requested to amend existing legislation to allow for the transfer of this responsibility;**
- 4. That staff, in co-operation with the Area Municipalities, develop a transition plan to ensure an effective transfer of responsibility.**

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