



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	February 6, 2019
SUBJECT/REPORT NO:	Special Capital Reinvestment Levy - Reallocation Options (FCS19006) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Gloria Rojas (905) 546 2424 Ext. 6247
SUBMITTED BY:	Brian McMullen Acting General Manager Finance and Corporate Services Corporate Services Department
SIGNATURE:	

RECOMMENDATIONS

- (a) That the Area Rating Special Capital Reinvestment Reserve Fund balances as at December 31, 2018 be reallocated to the new Wards within the former City of Hamilton based on percentage of assessment in each Ward;
- (b) That the Special Capital Reinvestment Levy continue to be levied only to, and for the benefit of, the properties within the boundary of the former City of Hamilton;
- (c) That Area Rating Special Capital Reinvestment Reserves be established for each of Wards 9, 10 and 14.

EXECUTIVE SUMMARY

In December 2017, the Ontario Municipal Board (OMB) approved the new boundaries for the City of Hamilton in which the alignment of Wards 1 to 8 and the former City of Hamilton (pre 2001) no longer exists. Effective January 1, 2018, Wards 1, 2, 3, 4, 7 and 8 include only properties from the former City of Hamilton. Wards 5, 6, 9, 10 and 14 include properties from the former City of Hamilton and some other former municipalities while Wards 11, 12, 13 and 15 do not include any properties from former City of Hamilton.

As a result, an equal distribution of the Area Rating Special Capital Reinvestment Levy approved by Council in 2011 is no longer reasonable and the existing reserve balances need to be redistributed.

Staff is recommending that the reserve balances for former Wards 1 to 8 (total of \$4,141,448 as at December 31, 2018 - unaudited) be redistributed and where a former Ward had properties that are now part of a different Ward, the funds will be distributed to each new Ward based on the percentage of assessment that now lies within each Ward.

Regarding the distribution of the Special Capital Reinvestment Levy in 2019 and going forward, staff is recommending that the funds continue to be levied in the former City of Hamilton only and that each Ward receives the funds based on the amount levied within their Ward. A budget for this levy of \$13,428,870 has been included in the 2019 Preliminary Tax Supported Operating Budget and, if the recommendations in FCS19006, “Special Capital Reinvestment Levy – Reallocation Options” are approved, will be included in the 2019 Tax Policy report scheduled for April of 2019.

In both cases, staff continues to support previous Council approval that the funds be re-invested in the former City of Hamilton in order to address its infrastructure needs. Wards that include properties from other former municipalities will only be able to spend their funds in the former City of Hamilton portion of their Ward.

Appendix “A” to Report FCS19006, Special Capital Reinvestment Levy - Reallocation Options and the Analysis and Rationale section of this Report provide additional details on the recommended options.

Alternatives for Consideration – See Page 6

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: N/A

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

Council, at its meeting on April 14, 2011, approved amendments to the previous Area Rating methodology, constituting an “Urban / Rural” model of Area Rating, through Report FCS11042, as follows:

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- (a) That the following proposed amendments to the current method of Area Rating, constituting an “Urban / Rural” model be approved:
 - (i) Elimination of Culture from Area Rating;
 - (ii) Area Rating of Recreation based on urban / rural model;
 - (iii) Continuation of Area Rating of Parkland purchases by former area municipality;
 - (iv) Area Rating of Fire services based on an urban / rural model to align to the Fire primary response area;
 - (v) Continuation of Area Rating Sidewalk Snow Clearing within the transit area of Ward 12;
 - (vi) Area rating of Sidewalks and Street Lighting based on an urban / rural model to align to the service area;
- (b) That the proposed urban / rural method of Area Rating, as identified in Recommendation (a), be phased-in over four years;
- (c) That changes to the Area Rating of Transit be deferred until completion of an approved implementation plan for Transit service improvements in response to the recently completed IBI Study; and,
- (d) That the tax shift variance be phased-in and re-invested into former City of Hamilton to address its infrastructure needs.

A \$13.4 M reduction in former City of Hamilton occurred from the tax shifts (recommendation (d)) resulting from the implementation of the “Urban / Rural” area rating model which was then phased-in starting in 2011.

In February 2012, Council approved the Area Rating Special Capital Reinvestment Policy and related reserves for former Wards 1 to 8 through Report FCS12024.

Until the fall of 2018, this levy has been distributed equally amongst Wards 1 to 8 (\$1,678,609 annually for each Ward) as the boundaries of these Wards aligned with the boundaries of the former City of Hamilton.

In December 2017, the Ontario Municipal Board (OMB) approved the new boundaries for the City of Hamilton in which the alignment of Wards 1 to 8 and the former City of Hamilton (pre 2001) no longer exists. Effective January 1, 2018, Wards 1, 2, 3, 4, 7 and 8 include only properties from the former City of Hamilton. Wards 5, 6, 9, 10 and 14 include properties from the former City of Hamilton and some other former municipalities while Wards 11, 12, 13 and 15 do not include any properties from the former City of Hamilton.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Area rating is an annual decision implemented through the annual tax levy by-law.

The recommended allocation of the Special Capital Reinvestment Levy and distribution of the existing reserve funds will not modify the existing area rating methodology approved by Council on April 27, 2011 (Report FCS09087(a) Area Rating Options – Update).

RELEVANT CONSULTATION

N/A

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

Reallocation of Existing Area Rating Special Capital Reinvestment Reserve Fund Balances

The new Ward boundaries approved by the Ontario Municipal Board (OMB) in December 2017 resulted in properties that were previously in former City of Hamilton (previous Wards 1-8) now being part of another Ward, either within the boundaries of the former City of Hamilton (for example, moving from Ward 6 to Ward 7), within the boundaries of the new Ward 14 or within the boundaries of Wards 9 or 10, which previously did not cross into the boundaries of the former City of Hamilton.

Staff is recommending that the existing Area Rating Special Capital Reinvestment Reserve Fund balances as at December 31, 2018 (unaudited) be reallocated to Wards 1 to 8, 9, 10 and 14 based on the percentage of assessment. In the case that a former Ward had properties that are now part of a different Ward, the funds will be distributed to each new Ward based on the percentage of assessment that now lies within each Ward. For example, some properties of former Ward 2 are now part of the new Ward 1, some are part of the new Ward 2 and some of the new Ward 3. Under this methodology, the existing reserve funds of former Ward 2 will be reallocated to Wards 1, 2 and 3 based on the assessment that is now in each of those Wards. Staff continues to support previous Council approval that the funds be re-invested in the former City of Hamilton in order to address its infrastructure needs. Appendix “A” to Report FCS19006, Special Capital Reinvestment Levy - Reallocation Options, indicates the redistribution of these funds among Wards.

Staff is also recommending that new reserves be established for Wards 9, 10 and 14.

Table 1 shows the existing reserve fund balances and the resulting reallocation of funds to each Ward based on the recommended methodology.

Table 1

**2018 RE-ALLOCATION OF EXISTING
AREA RATING SPECIAL CAPITAL REINVESTMENT FUNDS**

	RESERVE BALANCE DEC. 31, 2018 (unaudited)	2018 ALLOCATION
Ward 1	\$ 432,197	\$ 443,066
Ward 2	\$ 1,586,783	\$ 1,473,794
Ward 3	\$ 65,481	\$ 167,600
Ward 4	\$ 157,333	\$ 167,529
Ward 5 - Hamilton	\$ 121,170	\$ 110,102
Ward 6 - Hamilton	\$ 666,904	\$ 644,758
Ward 7	\$ 1,094,896	\$ 824,665
Ward 8	\$ 16,684	\$ 291,027
Ward 9 - Hamilton	\$ -	\$ 8,252
Ward 10 - Hamilton	\$ -	\$ 872
Ward 14 - Hamilton	\$ -	\$ 9,782
TOTAL	\$ 4,141,448	\$ 4,141,448

Anomalies due to rounding

(*) Wards 1-4, 7 and 8 are fully contained within the former City of Hamilton

Allocation of the Special Capital Reinvestment Levy for 2019 and Beyond

For 2019 and beyond, staff is recommending that the Special Capital Reinvestment Levy continue to be raised from the properties of the former City of Hamilton regardless of the Ward in which they are located. However, because the new Wards do not align with the former City of Hamilton, equal distribution is no longer reasonable. Therefore, staff is proposing that each Ward will receive the funds based on the amount levied within their Ward. Wards with boundaries that include City of Hamilton and other former municipalities will only be able to spend their funds in the former City of Hamilton portion of their Ward.

Table 2 shows the amount that would be levied and distributed to each Ward with properties within the former City of Hamilton, based on 2018 assessment information.

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Table 2

**ALLOCATION OF SPECIAL CAPITAL REINVESTMENT LEVY
2019 AND BEYOND**

	PROPOSED 2019 ALLOCATION
Ward 1	\$ 1,550,418
Ward 2	\$ 1,527,662
Ward 3	\$ 1,282,435
Ward 4	\$ 1,605,961
Ward 5 - Hamilton	\$ 1,468,747
Ward 6 - Hamilton	\$ 1,497,612
Ward 7	\$ 1,892,095
Ward 8	\$ 1,445,638
Ward 9 - Hamilton	\$ 19,415
Ward 10 - Hamilton	\$ 11,639
Ward 14 - Hamilton	\$ 1,127,247
TOTAL	\$ 13,428,870

Anomalies due to rounding

The final allocation for 2019 will be determined based on the updated assessment information provided by Municipal Property Assessment Corporation (MPAC). For future years, the allocation will be calculated in annual tax levy by-law.

Since this option does not change the methodology by which the levy is raised, it does not have a tax impact on any property in the City. There are also no significant changes in the administration of the levy.

ALTERNATIVES FOR CONSIDERATION

Alternatives to Reallocate Existing Reserve Fund Balances

An alternative to the recommended reallocation of the existing reserve balances is to discontinue the allocation by Ward and to create a “Former Hamilton Capital Reserve” where funds would be assigned for specific projects within the former City of Hamilton regardless of the Ward. A policy for the use of these reserve funds would have to be developed. This alternative would consolidate funds which may allow for a larger project that might not occur if the remaining funds are allocated by Ward as recommended. This option is not consistent with distributing the funds among Wards as has been the case since the levy was originally approved. Staff continues to recommend allocating funds to each Ward to be used for their specific needs.

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Alternatives for the Special Capital Reinvestment Levy for 2019 and Beyond

Alternative 1: Expand the Special Capital Reinvestment Levy to all Urban Areas

Under this scenario, the Special Capital Reinvestment Levy would be expanded to all urban areas in the City while maintaining the levy currently raised by the properties in former City of Hamilton, which would be levied and distributed as recommended by staff in Recommendation (b).

In order to facilitate the implementation of the additional levy, properties in the urban areas of the other former municipalities would be charged the same tax rate currently paid by the properties within the former City of Hamilton.

This would result in an additional levy of \$11.9 M to be phased-in equally over a four-year term (\$2.98 M each year) to be levied and distributed by Ward based on percentage of assessment. Table 3 shows the levy that would be allocated to each Ward, as well as the average residential tax impact resulting from the additional levy for the first year of the phase-in period, based on 2018 assessment information. The final allocation for 2019 will be determined based on the updated assessment information provided by MPAC.

**Table 3
EXPAND THE SPECIAL CAPITAL REINVESTMENT LEVY
AVERAGE RESIDENTIAL TAX IMPACTS - URBAN AREAS
YEAR 1 OF 4 YEAR PHASE-IN**

	Special Reinvestment Levy	2018 Average Residential Assessment	Average Impact (%)	Average Impact (\$)
Ward 5 - Stoney Creek	\$ 100,237	\$ 318,400	0.8%	\$ 31
Ward 9 - Stoney Creek	\$ 255,528	\$ 361,200	0.8%	\$ 35
Ward 9 - Glanbrook	\$ 63,655	\$ 380,400	0.8%	\$ 37
Ward 10 - Stoney Creek	\$ 500,297	\$ 370,300	0.8%	\$ 36
Ward 11 - Glanbrook	\$ 129,375	\$ 282,500	0.8%	\$ 36
Ward 12 - Ancaster	\$ 599,790	\$ 489,800	0.8%	\$ 48
Ward 13 - Dundas	\$ 355,316	\$ 418,300	0.8%	\$ 41
Ward 14 - Ancaster	\$ 28,311	\$ 615,900	0.8%	\$ 60
Ward 14 - Glanbrook	\$ 506	\$ 397,500	0.8%	\$ 39
Ward 15 - Flamborough	\$ 307,714	\$ 466,900	0.8%	\$ 46

Under this option, there would be no tax impact for the properties within the boundaries of the former City of Hamilton (refer to Table 2). For all the other properties, the average tax impact in the first year would range from \$31 to \$60 (approximately 0.8% tax impact). Similar impacts would occur in each year of the four-year phase-in.

These funds can only be spent in the urban areas of their respective Wards. Rural areas would not be levied and therefore, would not be eligible for use of the funds.

Expanding the Special Capital Reinvestment Levy to all urban areas of the City would facilitate the funding of specific infrastructure projects in each Ward. However, the tax impacts would be significant in each year of the phase-in period as shown in Table 3. Moreover, additional FTE's will be needed in Corporate Services and Public Works for the administration and execution of the projects. Also, new reserves would have to be established for these funds.

Alternative 2: Eliminate the Special Capital Reinvestment Levy

Under this alternative, properties within the boundaries of the former City of Hamilton would no longer be taxed for the Special Capital Reinvestment Levy, effectively reducing the tax impact. Table 4 shows the savings for the average residential property if the levy was eliminated, based on 2018 assessment information.

Table 4

**ELIMINATION OF THE SPECIAL CAPITAL REINVESTMENT LEVY
AVERAGE RESIDENTIAL TAX IMPACTS**

	2018 Average Residential Assessment	Average Impact (%)	Average Impact (\$)
Ward 1	\$ 357,200	-2.4%	\$ (109)
Ward 2	\$ 241,700	-2.4%	\$ (74)
Ward 3	\$ 191,400	-2.4%	\$ (58)
Ward 4	\$ 205,400	-2.4%	\$ (63)
Ward 5 - Hamilton	\$ 270,500	-2.4%	\$ (83)
Ward 6 - Hamilton	\$ 298,000	-2.4%	\$ (91)
Ward 7	\$ 299,800	-2.4%	\$ (91)
Ward 8	\$ 323,900	-2.4%	\$ (99)
Ward 9 - Hamilton	\$ 509,100	-2.4%	\$ (155)
Ward 10 - Hamilton	\$ 606,600	-2.4%	\$ (185)
Ward 14 - Hamilton	\$ 349,200	-2.4%	\$ (107)

Although the savings (2.4%) are significant, ranging from \$63 to \$185, the elimination of the Special Capital Reinvestment Levy will have an impact on the City's ability to build, replace or improve infrastructure in the former City of Hamilton. To date, the levy has been used in a number infrastructure projects such as road and sidewalk work, traffic signs and signals, recreation centre improvements, city parks and trail development, beautification projects, bus shelters and City library improvements.

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Alternative 3: Add the Special Capital Reinvestment Levy to the General Levy

The \$13.4 M on the Special Capital Reinvestment Levy could be redirected from the area rating levy to the general levy and be assigned to a specific purpose reserve that would benefit all of the City or used as a source of general capital financing. This option results in significant tax shifts across Wards, benefiting the Wards or portion of the Wards within the former City of Hamilton and passing the increase onto the rest of the City. Average savings for properties in the former City of Hamilton could be as high as \$87 (approximately -1.1% tax decrease) and average tax increases could be as high as \$99 (approximately 1.4% tax impact) for properties in the urban areas of the other former municipalities. Average tax impacts in rural areas could be as high as \$79 (approximately 1.5% tax impact). Table 5 shows the average residential tax impacts should this option be implemented.

Table 5
SPECIAL CAPITAL REINVESTMENT LEVY IN GENERAL LEVY
AVG. RESIDENTIAL TAX IMPACTS

	2018 Average Residential Assessment	URBAN AREAS		RURAL AREAS	
		Average Impact (%)	Average Impact (\$)	Average Impact (%)	Total Average 2018 Impact (\$)
Ward 1	\$ 357,200	-1.1%	\$ (51)	N/A	N/A
Ward 2	\$ 241,700	-1.1%	\$ (35)	N/A	N/A
Ward 3	\$ 191,400	-1.1%	\$ (27)	N/A	N/A
Ward 4	\$ 205,400	-1.1%	\$ (29)	N/A	N/A
Ward 5 - Hamilton	\$ 270,500	-1.1%	\$ (39)	N/A	N/A
Ward 5 - Stoney Creek	\$ 318,400	1.4%	\$ 51	N/A	N/A
Ward 6 - Hamilton	\$ 298,000	-1.1%	\$ (43)	N/A	N/A
Ward 7	\$ 299,800	-1.1%	\$ (43)	N/A	N/A
Ward 8	\$ 323,900	-1.1%	\$ (46)	N/A	N/A
Ward 9 - Hamilton	\$ 509,100	-1.1%	\$ (73)	N/A	N/A
Ward 9 - Stoney Creek	\$ 361,200	1.4%	\$ 58	1.5%	\$ 58
Ward 9 - Glanbrook	\$ 380,400	1.4%	\$ 61	1.5%	\$ 62
Ward 10 - Hamilton	\$ 606,600	-1.1%	\$ (87)	N/A	N/A
Ward 10 - Stoney Creek	\$ 370,300	1.4%	\$ 60	N/A	N/A
Ward 11 - Glanbrook	\$ 282,500	1.4%	\$ 59	1.5%	\$ 59
Ward 11 - Stoney Creek	\$ 363,100	N/A	N/A	1.5%	\$ 46
Ward 12 - Ancaster	\$ 489,800	1.4%	\$ 79	1.5%	\$ 79
Ward 12 - Flamborough	\$ 400,400	N/A	N/A	1.5%	\$ 65
Ward 13 - Dundas	\$ 418,300	1.4%	\$ 68	1.5%	\$ 68
Ward 13 - Flamborough	\$ 470,600	N/A	N/A	1.5%	\$ 76
Ward 14 - Hamilton	\$ 349,200	-1.1%	\$ (50)	N/A	N/A
Ward 14 - Ancaster	\$ 615,900	1.4%	\$ 99	N/A	N/A
Ward 14 - Glanbrook	\$ 397,500	1.4%	\$ 64	N/A	N/A
Ward 15	\$ 466,900	1.4%	\$ 75	1.5%	\$ 76

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Under this option, the funds could be allocated to larger projects that may not occur if the funds are allocated by Ward. However, the tax impacts for the properties that are not currently levied are significant. This option could be phased-in.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

Built Environment and Infrastructure

Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” – Redistribution of Existing Area Rating Special Capital Reinvestment Reserves Across Wards – Balances as at December 31, 2018 (unaudited)

GR/dt