



Hamilton

INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	January 14, 2022
SUBJECT/REPORT NO:	Review of Area Rating Methodologies (FCS21078(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
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COUNCIL DIRECTION

N/A

INFORMATION

In September of 2021, through report “Review of Area Rating Methodologies” (Report FCS21078), staff informed Council of the upcoming review of methodology of the following area rated levies:

- Sidewalk snow removal
- Recreation
- Parkland purchases
- Fire

The purpose of Report FCS21078(a) is to provide additional information on the rationale for the review of the mentioned area rated services and will also include Sidewalk and Streetlighting in the analysis. Report FCS21078(a) also provides information to Council on the general direction that the analysis is pointing towards in terms of upcoming staff recommendations. Any feedback or direction received from Council will help inform the recommendation report planned for February 2022.

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Changes to area rating are revenue neutral. However, there will be a re-distribution of taxes based on the changes. Preliminary tax impacts of the possible changes are included in Appendix “A” to Report FCS21078(a).

Area rating is a municipal property taxation policy tool intended to account for either significant differences in service levels or differences in the cost of providing services across different parts of the City (*Municipal Act, 2001, Section 326*).

The result of area rating is that tax rates for certain services vary depending on where the property is located and the level of service offered by the City. All areas within the City have area rated services. Depending on the levels of service, the tax rate varies.

Report FCS09087 “Area Rating Options” identified four general principles to area rating:

1. Revenue Neutral: Assumes the same tax levy regardless of the area rating option. Area rating does not generate additional taxes for the City as a whole.
2. Service Delivery Drives Taxes: How a service is delivered can impact how it is appropriately taxed, not vice-versa.
3. It is not pay-for-use: Every property owner will utilize City services differently. Some services are never utilized but support a greater common good. Not all properties within each boundary will have exactly the same access or utilization to the service.
4. Area rating is an evolutionary process as growth may lead to changes in rural / urban boundaries over time.

History of Area Rating in Hamilton

Prior to amalgamation, the former Region of Hamilton-Wentworth area rated Transit, Waste Management, Libraries and Storm Sewers. Services such as Fire, Parks, Recreation and Garbage Collection were provided exclusively at the local area municipal level and, therefore, not part of Regional Government.

When the Province decided to amalgamate the City of Hamilton, Special Advisor David O’Brien’s report to the Minister of Municipal Affairs and Housing (Local Government Reform for Hamilton-Wentworth, November 1999) recommended that the new City of Hamilton area rate only transit and fire.

However, in 2001, City Council approved the area rating of Transit, Fire, Culture and Recreation, Storm Sewers, Senior’s Tax Credit, Slot Revenues and Financial Adjustments based on former municipal boundaries (Report FCS01015, “Final 2001 CVA Reassessment, Amalgamation and Phase-in Tax Impacts”). The Report also stated that “...as service levels, service delivery, costs and user fees are equalized, area rating of certain programs may not be appropriate in the long run”.

In 2011, the City implemented a new area rating methodology largely based on an urban and rural model that aligns to the transit service area and recognizes that area rating based on former municipal boundaries does not necessarily acknowledge how services are delivered or the cost to deliver these services. Under this model, properties within the transit service area are considered urban, while properties outside the transit service area are considered rural.

The following services are currently area rated based on the urban / rural model:

- Recreation
- Streetlights / Sidewalks
- Fire (the boundaries of this service align to the Fire response areas and are different to the boundaries that align to the transit service)

The following services are area rated based on the former municipality boundaries:

- Transit
- Sidewalk Snow Clearing (Ancaster properties only)
- Parkland Purchases
- Infrastructure Levy (Former Hamilton properties only)

An urban / rural area rating methodology reflects more closely how services are provided and is consistent with the area rating methodology used by other municipalities in Ontario.

Municipal Scan

A scan was conducted of single-tier and two-tier municipalities in Ontario with respect to services that they area rate. Appendix “B” to Report FCS21078(a) lists the area rated services levied by each municipality.

Overall, of the 13 municipalities that have area rated services, transit, fire and waste collection are the most common area rated levies. There is no municipality or region with more than three area rated levies. In contrast, the City of Hamilton has eight area rated levies.

Sidewalk Snow Removal

Snow removal is a legislated service as per Ontario Regulation 239/02, Minimum Maintenance Standards for Municipal Highways, under the *Municipal Act, 2001*. The City currently provides partial snow clearing for sidewalks. The 2021 budgeted cost of this service is included in the general levy for approximately \$2.1 M. Ancaster property owners pay an additional levy area rated to urban properties, since all the sidewalks in the former municipality are cleared (\$156,000 in 2021).

In April of 2021, Council approved an enhancement to the level of service for winter sidewalk snow clearing as follows:

Sidewalk Snow Clearing Update (Report PW19022(c)) (City Wide) (Item 8.1)

“That the level of service for winter sidewalk snow removal be enhanced as defined as Scenario 2A – Priority 1 and 2A Roadways – Maintaining sidewalks in the existing level of service plus the addition of an estimated 783 km of sidewalk along transit routes, at an estimated cost of \$4.44 million.... “

The enhanced level of service is an extension of the existing service currently included in the general levy and was developed under an Equity, Diversion and Inclusion lens, not based on location.

Under the new level of service, Ancaster has only 9% of the total number of kilometers cleared compared to 20% under the previous level of service. In contrast, former Hamilton has 66% compared to 46% under the previous level of service. Therefore, under the new level of service, Ancaster does not have a differential service.

Sidewalk Snow Removal has other associated costs such as slip and fall claims. Over the last 10 years (2010 to 2019) Risk Management Services has averaged 45 sidewalk slip and fall claims per year. The average yearly total claims expense over the same period for sidewalk slip and fall claims (settlements, investigation, legal) is \$616,000. These costs are also included in the general levy and do not qualify as a differential service. It would not be appropriate to area rate one part of the service but not area rate its associated costs.

Based on the previous analysis, there does not appear to be a strong rationale for the Sidewalk Snow Removal program to be area rated, including the area rated levy currently paid in Ancaster starting in 2022. The average tax impact of including all sidewalk snow removal costs in the general tax levy would be a decrease of (0.1%) or \$8 for the urban properties in Ancaster and an increase of 0% or \$1 for the rest of the properties in the City.

Detailed tax impacts by ward for Sidewalk Snow removal are included in Table 1 of Appendix “A” to Report FCS21078(a).

Sidewalks and Streetlights

Sidewalks and Streetlights are area rated based on the urban / rural methodology that follows the transit boundary. Prior to 2011, Sidewalks and Streetlights were not area rated but were included in the new methodology on the basis that rural areas have minimal sidewalks and streetlighting and that a number of municipalities area rated these services at the time.

While sidewalks are predominately in the urban area, there are pockets within the urban area which do not have sidewalks and still have to pay for the service which may be seen as an inequity in how the service is taxed. In addition, the distribution of sidewalks in the urban and rural areas, measured in kilometres, is taken from the Pavement Measurement System which may not follow the transit boundary.

Sidewalks is not a service that is widely area rated by municipalities in Ontario and several municipalities that used to area rate streetlighting such as Niagara Falls, Niagara-on-the-Lake, Barrie and Milton now include this service in the general levy.

As the City grows, the number of sidewalks and streetlights in the rural areas and its share of the cost is also increasing. Since 2011, the proportion of rural sidewalks has increased by 60% (versus a reduction of 1% in the urban areas) and the proportion of costs allocated to the rural areas has increased by 126% (versus 41% in urban areas). Similarly, the proportion of streetlights has increased by 12% in the rural areas (versus a decrease of 1% in the urban areas) and the proportion of costs allocated to the rural areas has increased by 10% (versus a decrease of 2.3% in the urban areas).

Staff has performed an analysis of the tax impacts of eliminating Sidewalks and Streetlights from area rating being phase-out in a four-year period starting 2022. The average annual tax impact of this change will be a decrease of (\$1) or 0.0% in the urban areas of the City and an increase of approximately \$4 to \$6 or 0.1% in the rural areas of the City.

Detailed tax impacts by ward for Sidewalks and Streetlights are included in Table 2 of Appendix “A” to Report FCS21078(a).

Recreation

Currently, Recreation services are area rated by former municipality based on where the facility is located.

Recreation facilities and programs are available to all City of Hamilton residents regardless of where in the municipality they reside. User fees for Recreation services have been harmonized throughout the City and the catchment area for these facilities and programs extends beyond former area municipal boundaries. For example, 80% of the registered program participants in the Ancaster Rotary Centre come to this facility from an 8 km radius as seen in the Figure 1 map (2018 Environics Analytics using registered program data). Similar data is available for 32 recreation facilities in which is shown that registered users regularly travel up to 13 km to a recreation facility.

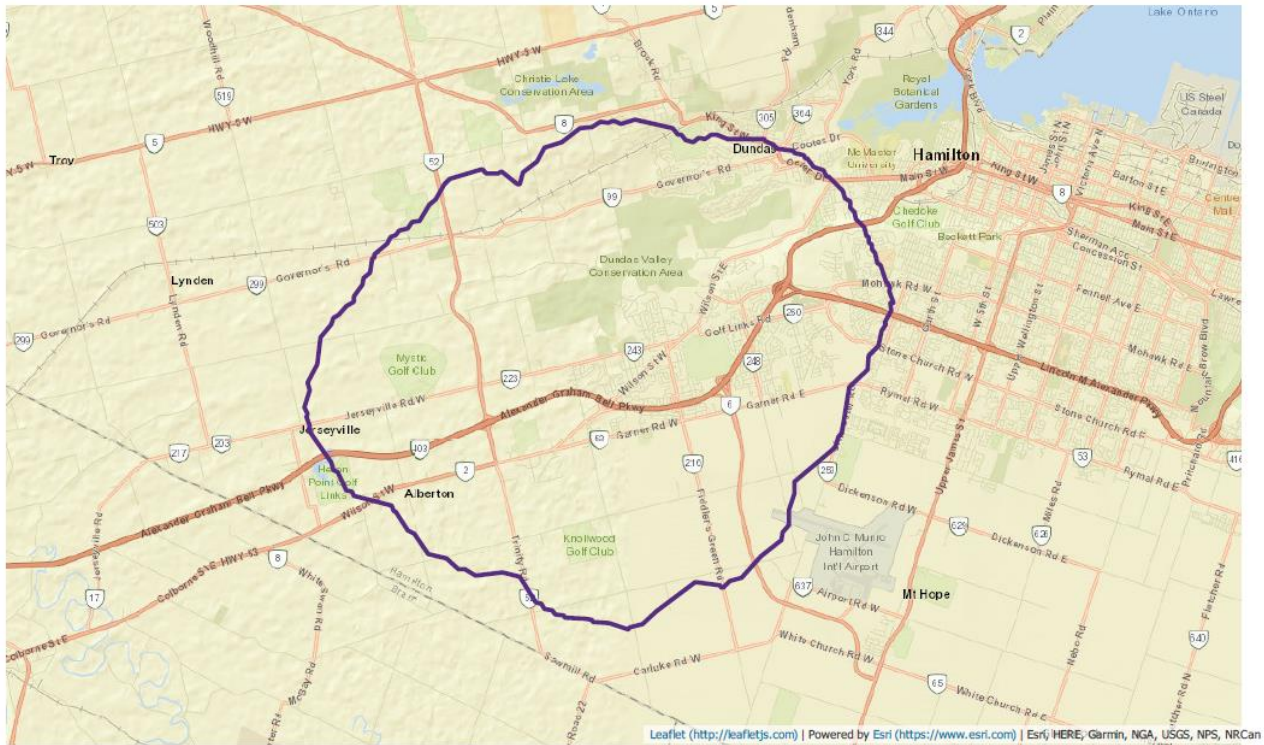
**Figure 1
Ancaster Rotary Centre – Trade Area Map**

Demographics | Trade Area Map

ENVIRONICS
ANALYTICS

Trade Area: Ancaster Rotary Centre 80% - 8 km Drive Distance

Population: 75,338 | Households: 27,656



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The 10-year capital forecast identifies the following planned new facilities, some of which will be located in rural areas of the City:

- Winona Recreation Centre
- Waterdown Recreation Centre
- Binbrook Recreation Centre
- Elfrida Recreation Centre
- Saltfleet Recreation Complex
- Mount Hope Recreation Facility

Reports CM08022, “Area Rating Policy Update”, and Report FCS09087, “Area Rating Options”, have stated that Recreation does not meet the legislative criteria to qualify as an area rated service. In addition, none of the municipalities included in the municipal scan area rates Recreation services.

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Staff continues to support the previous conclusion that Recreation services do not meet the criteria as an area rated service and has performed an analysis of the tax impacts of eliminating Recreation from area rating, being phase-out in a four-year period starting 2022. The average tax impact of this change will be a decrease of (\$1) or 0.0% in the urban areas of the City and an increase of approximately \$10 to \$13 or 0.2% in the rural areas of the City.

Detailed tax impacts by ward from Recreation Services are included in Table 3 of Appendix “A” to Report FCS21078(a).

Parkland Purchases

The City has over 3,480 acres of municipally-owned parkland at 394 locations and 50 shared School Board parks. Hamilton’s parks include a wide array of features and amenities including outdoor sport fields, tennis courts, skateboard parks, playgrounds, spray pads, picnic areas, etc. These facilities are located all across the City and are accessible for all residents regardless of where their property is located.

Currently, Parkland Purchases are driven by the 2013 Parkland Acquisition Strategy and are financed mostly through the Parkland Dedication Funds (i.e. cash-in-lieu) according to Sections 42, 51.1 and 53 of the *Planning Act, 1990*, or by the Parkland Purchase Reserve. Parkland Purchases in excess of the legislated standards are funded by area rated levies.

Parkland Purchases are area rated by former municipality and as of 2021, only the former city of Hamilton, Dundas and Ancaster have area rated levies for Parkland Purchases.

However, as identified in the 2013 Parkland Acquisition Strategy, by 2031, all the areas of the City, except Flamborough, will have park deficiencies. The City does not have a consistent or dedicated fund to completely address this shortfall. The Parkland Dedication funds (i.e., cash-in-lieu) and the Parkland Dedication Reserve will not be able to keep pace with these demands and, therefore, funding from other sources will need to be identified to address the parkland deficiency.

A recommendation to eliminate Parkland Purchases from being area rated was presented to Council in 2009 (Report FCS09087 “Area Rating Options”) and none of the municipalities included in the municipal scan area rates parkland purchases.

In consideration of the funding challenges, the fact that new acquisitions will occur across the City and that Parkland Purchases are not a differential service, an option under consideration is that existing area rated Parkland Purchases could be grandfathered and continue to be area rated, but new purchases would not be area rated. This option does not have an immediate tax impact.

Fire

Currently, Fire Services are taxed using an area rated system based on an urban / rural model. Fire Service is delivered using three different levels of service: career, volunteer and composite.

Changes in the level of service from volunteer to composite service in four areas of the City resulted in around 5,800 properties in Wards 10 and 11 to be reclassified from “Rural Fire” to “Urban Fire” in 2021. The tax impact in the rural areas of the City was an increase of approximately 2.6%, which was phased-in over a two-year period. All rural (Fire) properties will have a tax impact of approximately 1.3% for 2022, exclusive of budget increases and any other area rating decisions.

The significant tax shifts that occurred in 2021 led to a review of how the service is taxed. One major point is how the City is taxing the areas that receive composite service.

**Figure 2
Properties Receiving Fire Composite Service**

	Residential Properties	Total Properties
Urban	29,498	30,823
Rural	1,417	1,630
Total	30,915	32,453

Total Assessment: \$16 B
Rural Assessment: \$851 M

As shown in Figure 2, there are approximately 32,453 properties that receive composite service in the City (30,915 residential). Of those, 30,823 pay the urban rate while 1,630 pay the rural rate. This inconsistency dates back to 2011 when the existing area rating methodology was approved.

In order to address this inconsistency, staff has prepared two different options:

1. Eliminate Fire Services from Area Rating

Under this option, all the properties in the City would pay the same rate for Fire services. Properties that are currently urban for Fire would have an average benefit of (0.3%) or \$13, while properties that are currently rural for Fire would see an average tax increase in 2022 of 2.8% in addition of the 1.3% phased-in from 2021 for a total 2022 tax impact of 4.1% or \$165 on average.

Detailed tax impacts by ward are included in Table 4 of Appendix “A” to Report FCS21078(a).

2. Harmonize all Properties Receiving Composite Service as Urban

Under this option, the 1,630 properties that are classified as rural but are receiving composite service would be reclassified as urban to be consistent with the other 30,823 properties. In addition, the distribution of costs for area rating purposes between urban and rural areas would be aligned to better reflect this model. This would result in three different tax impacts:

- Properties that remain urban would have an average decrease of (0.1%) or \$3
- Properties that are reclassified from rural to urban would have an average increase of 4.5% or \$175
- Properties that remain rural would have an average tax decrease of (0.1%) or \$6, including the 1.3% phase-in from 2022.

Detailed tax impacts by ward are included in Table 5 of Appendix “A” to Report FCS21078(a).

Summary

A combined summary of tax impacts by ward are included in Table 6 of Appendix “A” to Report FCS21078(a).

Staff will bring back formal recommendations on each of these area rated services in another report for Council’s consideration.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS21078(a) – Tax Impacts by Ward
Appendix “B” to Report FCS21078(a) – Area Rating - Municipal Scan

GR/dt