



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

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	February 21, 2023
SUBJECT/REPORT NO:	Area Rating Review (FCS21078(d)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Gloria Rojas (905) 546-2424 Ext. 6247
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That the area rating of the Fire Service be updated to a “Full Time / Composite / Volunteer” model in the 2023 tax year to align with the existing boundaries of the Fire Response Type as shown in Appendix “A” to Report FCS21078(d);
- (b) That the tax impact to the properties remaining in the Fire Service full-time level of service be phased in on a two-year period starting in the 2023 tax year.

EXECUTIVE SUMMARY

Area rating is a municipal property taxation policy, Section 329 of the *Municipal Act, 2001* intended to account for either significant differences in service levels or differences in the cost of providing services across different parts of the municipality. The City of Hamilton provided eight area rated services until changes were approved by Council in 2022 following a series of reports and presentations.

On March 30, 2022, Council approved the elimination of the area rating of Sidewalk Snow Removal, Recreation, Sidewalk Maintenance and Streetlighting and Parkland Purchases and directed staff to prepare a public consultation on the impacts of modifying the existing methodology for the area rating of the Fire Service and report back for the 2023 tax year. Council also deferred Information Report FCS21078(c), “Area Rating Review”, which contained information on the impacts of phasing out area rating over four, six, eight and 10-year scenarios to the 2022 to 2026 Council and the 2023 Tax Supported operating budget.

Report FCS21078(d) recommends updating the area rating of the Fire Service to a “Full Time / Composite / Volunteer” model.

It is important to reiterate that changes to area rating are revenue neutral. However, there will be a redistribution of costs to property owners based on the changes. The analysis presented below is based on 2022 data excluding growth, tax policies, budget and education impacts.

Following Council direction, staff conducted public engagement on three possible tax policy options for the area rating of the Fire Service. These three tax policy options reflected the following for consideration: three different tax rates based on the three levels of service; no change; and one equal tax rate across the City. Overall, the majority of respondents agreed with the option to have three different rates to align with the three levels of service provided by the Fire Department.

For the area rating of fire services, staff is recommending a model in which there would be three different tax rates that would reflect the level of service delivery. The three proposed fire area rating boundaries are shown in the map contained in Appendix “A” to Report FCS21078(d) – “City of Hamilton – Fire Response Type”.

Under this model, there will be a redistribution of the budgeted Fire net levy. Properties that receive full-time service will see an average tax increase of 1.8% (\$80). Properties that receive volunteer service will see an average reduction of 2.0% (\$80). Properties that were paying for full-time service but are located in an area serviced by composite stations will see an average reduction of 3.8% (\$164) and the properties that were paying for volunteer service but are located in an area serviced by composite stations will see an average increase of 0.7% (\$25). The recommendation includes a two-year phased-in approach in order to assist with the tax impact to the properties receiving full time service. Details of the tax impact in each year of the phase-in periods are included later in Report FCS21078(d).

Transit staff will be bringing forward a report to the April 3, 2023 Public Works Committee presenting the (Re)envision transit network redesign. It is anticipated that a period of public consultation will follow. Once an updated Transit Growth Strategy is adopted by Council, there will be an opportunity to review the Transit area rating policy.

Staff is not recommending any changes to the Special Infrastructure Levy.

Alternatives for Consideration – See Page 10

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Changes to area rating are revenue neutral. However, there will be a redistribution of taxes based on the changes. The Analysis and Rationale section of Report FCS21078(d) includes the shift in taxes resulting from the recommended changes in area rating.

Staffing: N/A

Legal: Area rating is a municipal property taxation policy under Section 326 of the *Municipal Act, 2001*. Annual area rating services are approved in the tax policy report and implemented through an annual by-law.

HISTORICAL BACKGROUND

Prior to amalgamation, the former Regional Municipality 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 the Regional government.

When the City amalgamated in 2001, City Council approved the area rating of the following services: Transit, Fire, Culture and Recreation, Storm Sewers, Senior's Tax Credit, Slot Revenues and Financial Adjustments (Report FCS01015(d), "Final 2001 CVA Reassessment, Amalgamation and Phase-in Tax Impacts").

After extensive review and consultation with the community 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. Under this model, properties within the transit service area are considered urban, while properties outside the transit service area are considered rural (Reports FCS09087 "Area Rating Options" and FCS09087(a) "Area Rating Options – Update").

Transit, Recreation, Streetlights / Sidewalks and Fire were area rated based on the urban / rural model. However, the boundaries of the fire service were different from the boundaries that align to the transit service. Sidewalk Snow Removal (Ancaster only), Parkland Purchases and Special Infrastructure Levy (former Hamilton only) were rated based on the former municipality boundaries.

In 2021, staff undertook a review of the methodology applied to the area rated levies in order to ensure that these services met the criteria for area rating and that the existing methodologies were aligned with the projected growth and related service delivery strategies in the City. Additional information can be found in Reports FCS21078 and FCS21078(a), "Review of Area Rating Methodologies".

On March 30, 2022, Council approved the following recommendations contained in Report FCS21078(b), "Area Rating Review":

- (a) That the area rating of Sidewalk Snow Removal be eliminated in the 2023 tax year;
- (b) That the area rating of Sidewalks and Streetlighting be eliminated in a four-year, phase-out period starting in the 2022 tax year;

- (c) That the area rating of Recreation be eliminated in a four-year, phase-out period starting in the 2022 tax year;
- (d) That the area rating of Parkland Purchases be eliminated once the existing internal debt has been paid off;
- (e) That staff be directed to report back with analysis, as well as, a public consultation plan on the impacts of adjusting the area rating of the Fire Service from the existing urban / rural model to one that aligns with the three levels of service (full time / volunteer / composite) for possible implementation in the 2023 tax year;
- (f) That a transfer from the Tax Stabilization Reserve in the amount of \$1,400,000 be applied to reduce the rural fire levy in 2022.

On the same date, Council deferred Information Report FCS21078(c) which contained information on the impacts of phasing-out all area rating over four, six, eight and 10-year scenarios to the 2022 to 2026 Council and the 2023 Tax Supported operating budget. In consideration of the previous approval and upon completion of the phase-out periods, the only remaining area rated levies are Fire Service, Transit and the Special Infrastructure Levy.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Provincial legislation allows the area rating of an identifiable special service, which is a service or activity that is not being provided or undertaken generally throughout the municipality or being provided or undertaken at different levels or in a different manner in different parts of the municipality. As per Ontario Regulation 585/06, the only services that cannot be identified as a “special service” are health programs and services.

Area rating is intended to account for either significant differentials in service levels or costs of providing services between different parts of the City. The cost of an area rated service could include all operating costs, capital financing charges and, if applicable, all related user fees / revenues and appropriate charges for indirect program costs (i.e. administration / overhead). Generally, in the absence of area rating, similarly assessed properties would pay the same level of property taxes city-wide. Conversely, in the presence of area rating, similarly assessed properties pay different levels of property taxes depending on the level of services provided in their specific area. 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.

It should be noted that area rating is an annual decision through the tax policy reports and implemented through the annual tax levy by-law.

RELEVANT CONSULTATION

Following Council direction, staff conducted a public engagement on the possible changes to the area rating of the Fire Service. The “Fire Service Area Rating Review” survey was open in Engage Hamilton from October 9, 2022 to November 6, 2022 and had 53 engaged participants. The survey provided information and the tax impacts on three options for the area rating of the Fire Service:

- Option 1: Three different rates based on the three levels of service
- Option 2: No change
- Option 3: One equal rate across the City

The following are some of the findings of the engagement:

- 43.4% of participants live in the fire urban area, 26.4% in the fire rural area and 30.2% don't know what level of service they receive
- 48.1% of participants agree with Option 1
- 44.2% of participants agree with Option 2
- 23.5% of participants agree with Option 3

Of the three options, the option to have three different tax rates based on the level of service had marginally more support than the other options and it is the option recommended by staff in Report FCS21078(d).

Details of the public engagement are included in Appendix “B” to Report FCS21078(d) “Public Engagement Fire Service Area Rating Review”.

In addition to the public engagement, Finance staff have consulted with the Fire Department and the Transit Division on the recommended changes.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

Following Council's approval of the elimination of the area rating of Recreation, Sidewalk Snow Removal, Sidewalk Maintenance, Streetlights and Parkland Purchases and direction on a consultation plan on the impacts of adjusting the area rating of the Fire Service from the existing urban / rural model to one that aligns with the three levels of service (full time / volunteer / composite) for possible implementation in the 2023 tax year, staff is recommending changes to the area rating methodology of the Fire Service.

It is important to reiterate that changes to area rating are revenue neutral. However, there will be a redistribution of costs to property owners based on the changes. Detailed tax shifts by ward for each of the recommended changes are included below. The following analysis is based on 2022 data excluding growth, tax policies, budget and education impacts.

Fire

The Hamilton Fire Department delivers fire protection and rescue services throughout the City using three different service delivery models:

- full-time resources only
- volunteer resources (the majority if not all resources are volunteer, dependent on response type, time of day / day of the week, etc.)
- composite resources (a combination of both full-time and volunteer resources)

However, the City's current area rating tax policy is based on two models for the delivery of fire services: an urban model for areas serviced by full-time resources and a rural model for areas serviced by volunteer resources.

Under the current area rating model, areas mainly serviced by a composite response are included in the urban model (if the identified geographic areas fall within the urban areas in the City's official plan) or are included in the rural model (if the identified geographic areas fall within the rural areas in the City's official plan).

For the area-rating of fire services, staff is recommending a model in which there would be three different tax rates that would reflect the level of service delivery. The three proposed fire area rating boundaries are shown in the map contained in Appendix "A" to Report FCS21078(d) – "City of Hamilton – Fire Response Type".

For the 2022 taxation year, Hamilton had 177,925 residential properties of which 160,508 were paying the urban tax rate and 17,417 were paying the rural tax rate. Under the recommended model, 122,877 will pay the full-time tax rate, 15,881 will pay the volunteer tax rate and 39,167 will pay the composite tax rate.

Changes in area rating are revenue neutral, but the redistribution of properties and the consequent redistribution of the costs among the three areas will result in tax shifts. The redistribution of the costs will ensure that each area pays taxes at a rate based on the type of service that they receive. It is important to reiterate that this change is not due to changes in service levels but rather to align taxation policy with the existing level of service in each area.

For the 2021 tax year, through an amending motion dated May 12, 2021 and for the 2022 tax year, through Report FCS21078(b), Council approved a transfer from the Tax Stabilization Reserve in the amount of \$1.4 M to be applied to the rural fire levy in order to mitigate the tax impact resulting from 5,800 properties that were reclassified from rural fire to urban fire due to a change in the level of service. Additional details on this change can be found in Report FCS21028, “2021 Tax Policies and Area Rating”. The transfer from reserve will no longer apply in the 2023 tax year and, therefore, the levy allocated to the volunteer area (formerly “rural area”) will increase by \$1.4 M. This 2023 budget pressure has been included within the 2023 Tax Operating Budget documents through Report FCS23007.

In order to mitigate the tax impact to the properties that remain in the full-time area, staff is recommending a two-year, phase-in approach. The tax impacts resulting from the redistribution of properties and costs among the three areas, plus the tax impact of the \$1.4 M applied to the volunteer area are shown in Table 1.

**Table 1
Fire Service Area Rating – Estimated Tax Impacts**

		REMAIN FULL TIME	REMAIN VOLUNTEER	FULL TIME TO COMPOSITE	VOLUNTEER TO COMPOSITE
	Number of Properties	122,877	15,881	37,631	1,536
Year 1	Average Tax Impact (\$)	\$ 42	\$ (80)	\$ (67)	\$ 122
	Average Tax Impact (%)	1.0%	-2.0%	-1.5%	3.1%
Year 2	Average Tax Impact (\$)	\$ 38	\$ -	\$ (97)	\$ (97)
	Average Tax Impact (%)	0.9%	0.0%	-2.3%	-2.4%
Total Tax Impact	Average Tax Impact (\$)	\$ 80	\$ (80)	\$ (164)	\$ 25
	Average Tax Impact (%)	1.8%	-2.0%	-3.8%	0.7%

Differences due to rounding

At the end of the two-year, phase-in period, the properties that receive full-time service will see an average tax increase of 1.8% (\$80). The properties that were paying for full-time service but are located in an area serviced by composite stations will see an average reduction of 3.8% (\$164). The properties that were paying for volunteer service but are located in an area serviced by composite stations will see an average increase of 0.7% (\$25). Staff is not recommending a phase-in approach to the tax impact to properties that volunteer service in recognition that the volunteer costs are significantly lower than those of the full time and composite areas and, therefore, these properties will see an immediate decrease of 2.0% (\$80).

Estimated tax impacts by ward are shown in Table 2.

**Table 2
Fire Service Area Rating - Estimated Tax Impacts by Ward**

YEAR 1

	REMAIN FULL TIME			REMAIN VOLUNTEER			FULL TIME TO COMPOSITE			VOLUNTEER TO COMPOSITE		
	# PROPERTIES	\$	%	# PROPERTIES	\$	%	# PROPERTIES	\$	%	# PROPERTIES	\$	%
Ward 1	10,068	\$ 45	1.0%									
Ward 2	7,963	\$ 31	1.0%									
Ward 3	12,624	\$ 25	1.0%									
Ward 4	13,781	\$ 26	1.0%									
Ward 5	11,473	\$ 34	1.0%									
Ward 6	11,769	\$ 37	1.0%									
Ward 7	13,544	\$ 37	1.0%									
Ward 8	10,916	\$ 40	1.0%				-					
Ward 9	148	\$ 45	1.0%	691	\$ (86)	-2.0%	10,664	\$ (72)	-1.5%	239	\$ 132	3.1%
Ward 10	2,500	\$ 46	1.0%				12,001	\$ (73)	-1.5%			
Ward 11	2,590	\$ 44	1.0%	7,001	\$ (84)	-2.0%	730	\$ (70)	-1.5%	140	\$ 127	3.1%
Ward 12	7,635	\$ 60	1.0%	2,216	\$ (115)	-2.0%	5,839	\$ (96)	-1.5%	488	\$ 174	3.1%
Ward 13	7,957	\$ 54	1.0%	3,519	\$ (103)	-2.0%	44	\$ (86)	-1.5%	233	\$ 156	3.1%
Ward 14	9,909	\$ 45	1.0%									
Ward 15				2,454	\$ (109)	-2.0%	8,353	\$ (91)	-1.5%	436	\$ 166	3.1%

YEAR 2

	REMAIN FULL TIME			REMAIN VOLUNTEER			FULL TIME TO COMPOSITE			VOLUNTEER TO COMPOSITE		
	# PROPERTIES	\$	%	# PROPERTIES	\$	%	# PROPERTIES	\$	%	# PROPERTIES	\$	%
Ward 1	10,068	\$ 41	0.9%	-			-			-		
Ward 2	7,963	\$ 28	0.9%	-			-			-		
Ward 3	12,624	\$ 22	0.9%	-			-			-		
Ward 4	13,781	\$ 23	0.9%	-			-			-		
Ward 5	11,473	\$ 31	0.9%	-			-			-		
Ward 6	11,769	\$ 33	0.9%	-			-			-		
Ward 7	13,544	\$ 34	0.9%	-			-			-		
Ward 8	10,916	\$ 37	0.9%	-			-			-		
Ward 9	148	\$ 41	0.9%	691	\$ -	0.0%	10,664	\$ (104)	-2.3%	239	\$ (104)	-2.4%
Ward 10	2,500	\$ 41	0.9%				12,001	\$ (105)	-2.3%	-		
Ward 11	2,590	\$ 39	0.9%	7,001	\$ -	0.0%	730	\$ (101)	-2.3%	140	\$ (101)	-2.4%
Ward 12	7,635	\$ 54	0.9%	2,216	\$ -	0.0%	5,839	\$ (138)	-2.3%	488	\$ (138)	-2.4%
Ward 13	7,957	\$ 48	0.9%	3,519	\$ -	0.0%	44	\$ (124)	-2.3%	233	\$ (124)	-2.4%
Ward 14	9,909	\$ 40	0.9%									
Ward 15				2,454	\$ -	0.0%	8,353	\$ (132)	-2.3%	436	\$ (132)	-2.4%

Minor variances from the above stated tax impacts may occur.

Transit

The existing methodology for area rating of transit dates back from amalgamation (2001) and follows the transit service area which is the area of the City that receives transit and is known as “urban”. Properties outside the transit service area do not receive transit service. This area is known as “rural”.

The total levy for Transit area rating excludes the budgets for the DARTS Contract and Taxi Scrip and includes the Capital Financing portion allocated to Transit. This levy is allocated to the urban areas of each former area municipality based on their respective share of the total transit service mileage which results in six different tax rates for transit. Properties in the rural area do not receive transit and, therefore, are not charged for the service.

As part of the 10-Year Transit Strategy in 2018, the Transit Department launched (Re)envision with the objective of reconfiguring the transit network and improve the customer experience. The recommendations were expected to be presented to Council in the spring of 2020.

In March 2019, Council established the Transit Area Rating Review Sub-Committee with the purpose of evaluating and recommending alternatives to the existing area rating methodology for transit on time for the 2020 budget process. However, announcements related to the Light Rail Transit (LRT), the outstanding completion of the Memorandum of Understanding and the challenges resulting from the COVID-19 pandemic, required further changes to the work previously prepared which delayed the process of completing a network for proposal to Council.

Transit staff will be bringing forward a report to the April 3, 2023 Public Works Committee presenting the (Re)envision transit network redesign. It is anticipated that a period of public consultation will follow. Once an updated Transit Growth Strategy is adopted by Council, there will be an opportunity to review the current Transit area rating policy.

Special Infrastructure Levy

The Special Infrastructure Levy was approved by Council in 2011 in which the tax shifts resulting from the approved area rating methodology are reinvested into the former City of Hamilton to address its infrastructure deficit.

In consideration that this service falls under the definition of special service, staff is not recommending any changes to the area rating of this service.

ALTERNATIVES FOR CONSIDERATION

Council could consider the elimination of the area rating for the Fire Service and include these costs as part of the general levy. This means that there would be a full redistribution and every property in the City, including rural areas, would pay the same rate for this service. There are no staff, legal or financial implications to these alternatives.

Table 3 shows the tax impacts that would result from eliminating the area rating of the Fire Service, based on a four-year phase-out approach.

**Table 3
Eliminating Fire Service Area Rating
Estimated Tax Impacts Year 1 of 4**

	URBAN		RURAL	
	Tax Impact (%)	Tax Impact (\$)	Tax Impact (%)	Tax Impact (\$)
Ward 1	-0.1%	\$ (5)	N/A	N/A
Ward 2	-0.1%	\$ (4)	N/A	N/A
Ward 3	-0.1%	\$ (3)	N/A	N/A
Ward 4	-0.1%	\$ (3)	N/A	N/A
Ward 5	-0.1%	\$ (4)	N/A	N/A
Ward 6	-0.1%	\$ (4)	N/A	N/A
Ward 7	-0.1%	\$ (4)	N/A	N/A
Ward 8	-0.1%	\$ (5)	N/A	N/A
Ward 9	-0.1%	\$ (5)	1.1%	\$ 46
Ward 10	-0.1%	\$ (5)	N/A	N/A
Ward 11	-0.1%	\$ (5)	1.1%	\$ 44
Ward 12	-0.1%	\$ (0)	1.1%	\$ 61
Ward 13	-0.1%	\$ (6)	1.1%	\$ 54
Ward 14	-0.1%	\$ (5)	N/A	N/A
Ward 15	-0.1%	\$ (7)	1.1%	\$ 58

By eliminating the area rating of the Fire Service, all properties in the City would contribute equally for this service regardless of the level of service received. Properties that currently pay the rural rate for fire will have a tax increase of 1.1% (\$44 - \$61) during the four-year, phase-out period, while properties currently paying the urban rate will see a tax benefit of -0.1% (\$0 - \$7).

Council also could consider any of the other alternatives presented in Report FCS21078(c) which are the phasing-out of the remaining area rating over four, six, eight and 10-year periods.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement and Participation

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community

Economic Prosperity and Growth

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

Healthy and Safe Communities

Hamilton is a safe and supportive City where people are active, healthy, and have a high quality of life.

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” to Report FCS21078(d) – City of Hamilton – Fire Response Type

Appendix “B” to Report FCS21078(d) – Public Engagement Fire Service Area Rating Review

GR/dt