



Hamilton

INFORMATION REPORT

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: December 4, 2013	
SUBJECT/REPORT NO: Financial Obligations – Provincially Shared Programs (FCS13092) (City Wide) (Outstanding Business List Item)	
SUBMITTED BY: Mike Zegarac Acting General Manager Finance & Corporate Services	PREPARED BY: T. Hewitson (905) 546-2424 ext 4159 M. Di Santo (905) 546-2424 ext 6247
SIGNATURE:	

Council Direction:

During the 2013 Budget deliberations, the following motion was passed by Council (February 28th, 2013 GIC);

“That staff be directed to bring a report back to the General Issues Committee which deals with the City’s financial obligations as a result of downloading, reassessment, Heads & Beds and PILS to provide an understanding of how and why the budget starts in a deficit situation each and every year.”

Information:

Provincially Shared Programs

Based on the 2013 approved budget, the City’s financial obligation as a result of provincially shared programs is approximately \$126M. Despite the fact that the Province has begun to upload a number of previously downloaded costs, this continues to be a significant financial obligation because the Province has also fully clawed-back the OMPF and Special Provincial Funding previously received by the City.

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The following table provides a summary of the 2013 net budget for provincially shared programs. The costs identified are the total net cost of the program (not just the downloading) and include components which are fully funded by the City (both mandated and not mandated).

Summary of Provincially Shared Programs (2013 Approved Budget)	
Provincially Shared Programs:	
ODSP/ODB (fully uploaded)	\$ -
OW basic financial assistance (<i>to be fully uploaded by 2018</i>)	\$14.4M
OW Administration	\$12.5M
Social Housing	\$45.7M
Homelessness	\$ 4.7M
Child Care	\$ 6.9M
Special Supports / Discretionary Benefits	\$ 2.0M
Lodges	\$10.6M
Community Services – Other	\$ 2.5M
Court Security (<i>to be fully uploaded by 2018</i>)	\$ 3.4M
Paramedic Services	\$17.2M
Public Health	<u>\$10.5M</u>
Provincially Shared Programs – subtotal	\$130.4M
Offsets to Provincially Shared Programs:	
OMPF (fully clawed-back by 2011)	\$ -
Special Provincial Funding (eliminated in 2011)	\$ -
Provincial Offenses Act (POA)	<u>(\$4.4M)</u>
Offsets – subtotal	(\$4.4M)
2013 Net Budget for Provincially Shared Programs	\$126.0M

This financial obligation of \$126M is equivalent to approximately 17% of the total net municipal levy. Assuming no change to the upload commitment announced by the Province in 2008, OW basic financial assistance (2013=\$14.4M) and Court Security (2013=\$3.4M) should be fully uploaded by 2018. However, the City of Hamilton will continue to have a significant financial obligation for other provincially shared programs. As identified in the table above, these include Social Housing (\$45.7M), Paramedic Services (\$17.2M), OW Administration (\$12.5M), Lodges (\$10.6M), Public Health (\$10.5M), Child Care (\$6.9M), and Homelessness (\$4.7M). To date, there has been no commitment by the Province to reduce or eliminate this financial responsibility on municipalities.

The following table highlights the share of the average municipal Residential tax bill attributed to these Provincially Shared Programs.

	2013 Average Municipal Taxes	Share of Average Municipal Tax Bill
City Departments	\$ 1,331	45%
Provincially Shared Programs	\$ 518	17%
Boards & Agencies	\$ 755	25%
Capital Financing	\$ 369	12%
Total Average Municipal Taxes	\$ 2,973	100%

As identified above, \$518 (or 17%) of the average 2013 municipal Residential tax bill goes to fund these provincially shared programs. If education taxes, which are also dictated by the Province, are taken into account, then the average Residential taxpayer pays just under \$1,100 for these provincially shared programs, which is equivalent to 31% of the average 2013 total Residential tax bill.

Property Taxation Issues

Reassessment:

Overall, reassessments do not raise additional taxes. It is simply a redistribution of taxes, resulting in tax shifts between properties, property classes and wards/former area municipalities. The Province does provide municipalities with the option to offset the reassessment-related tax shifts between property classes by establishing revenue-neutral transition ratios. These transition ratios are determined in adherence to a provincially prescribed formula (Ontario Regulation 385/98, as amended). This option was not exercised by the City of Hamilton in 2013 due to the fact that the calculated transition ratios did not provide relief to the Farm property class, resulted in the added levy restriction on the Commercial property class and further increased the already high Industrial tax ratios.

Of significant concern with respect to reassessments is that, generally speaking, they tend to generate appeals. Staff have observed a spike in the number of properties appealed during a reassessment year, with the number of appeals challenging MPAC's assessments increasing. Many appeals are being settled, resulting in reductions in assessment. This not only leads to significant write-offs for a municipality (2013 budget of \$10M), but it also reduces assessment growth. The 2012 year-end variance report (FCS13036) identified a deficit in the non-program revenues mainly due to high write-offs from unfavourable assessment decisions and allowances that prompted the City to set up a number of allowances at the end of 2012 in anticipation of some major appeals being processed in 2013.

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Also, as identified in staff report FCS13021 “2012 Assessment Growth”, assessment decreases (primarily due to successful assessment appeals) drove down the assessment growth by -0.4%, which represented a reduction in municipal taxes of approximately \$3.1 million. In follow-up to Council direction, staff report “Assessment Appeals Restricting Assessment Growth (FCS13080)” (November 26th Operating Budget Workshop GIC) identified measures that can be taken to address these assessment appeal concerns.

Heads & Beds:

The City of Hamilton, along with many other Ontario municipalities, have long requested that the Province correct the inequity of the “heads and beds” levy paid in lieu of property taxes by colleges, universities, correctional facilities and hospitals. The current \$75 per “head” for colleges/universities and “bed” for hospitals/correctional facilities, has not only been frozen since 1987, but it grossly understates the escalating costs of providing municipal services.

Based on the prescribed \$75 per head/bed, the City of Hamilton’s 2012 payment-in-lieu of taxes for these institutions was \$2.9 million. As shown below, this is significantly less than if the legislated per head/bed amount had been indexed for inflation or if these institutions were liable for a payment-in-lieu of taxes (PIL) based on their current value assessment and the respective municipal tax rates (as is the case with other provincial properties).

Payment-in-Lieu Taxes Generated from Hospitals, Universities, Colleges & Correctional Facilities (based on 2012 figures)		Additional Funding to Support Levy
Current \$75 per “head/bed”	\$2.9 million	
Indexed for inflation = \$130 per “head/bed”	\$5.1 million	\$2.2 million
Municipal taxes based on Residential tax rate ¹	\$13.9 million	\$11.0 million
Municipal taxes based on Commercial tax rate ¹	\$27.5 million	\$24.6 million
Municipal taxes based on Industrial tax rate ¹	\$45.1 million	\$42.2 million

¹Based on the 2012 exempt assessment. Presumably these properties would be considered either residential or commercial (resulting in municipal taxes likely between \$13.9M and \$27.5M), however, the Municipal Property Assessment Corporation (MPAC) would ultimately need to determine which property class each of these properties would fall into.

As shown above, had the prescribed amount been indexed for inflation, this would generate an additional \$2.2M. Had these institutions been liable for payment-in-lieu of taxes (PIL) based on their current value assessment, this would result in an additional \$11.0M to \$42.2M in municipal property taxes. There has been no commitment by the Province to rectify this inequity.