PORT HOPE

OVERVIEW
Proposed Changes to Municipal Taxation

History of Municipal Taxation in Port Hope

Each year, the Municipal tax levy is set to determine how much will be collected from ratepayers. During amalgamation, Councils for Hope Township and the Town of Port Hope noted the potential for shifts in tax allocation between the two Wards, and the Councils for each community agreed to the principle that no one group of ratepayers would realize any significant benefit from amalgamation.

In 2001, amalgamation was a fairly new concept. The new Municipality of Port Hope had no past practice, or experience to draw from and limited examples existed on taxation approaches for newly blended communities. An Area Rating approach to taxation was put in place which used a specific formula to calculate the tax rates for Ward 1 and Ward 2 based on both weighted assessment and pre-amalgamation operating expenses. The formula (area rate) calculated separate tax rates for Ward 1 and Ward 2 using weighted assessment and pre-amalgamation operating expenses for the Town of Port Hope and the Township of Hope prior to amalgamation to establish the ratio (Ward 1 at 85.8% and Ward 2 at 14.2%), as well as incorporating the current year weighted assessment by Ward in order to determine the respective percentage of the municipal tax levy to be attributed to each Ward for that year.

The Area Rating approach was based on the following principles:

- The Municipality operates as one with a single budget and accounting system, and is continually working towards improvements to services and their delivery as common services.
- Weighted assessment, defined by a provincial standard and calculated by provincial ratios, is the basis for calculating rates for property taxation in Ontario and recognized as a measurable benchmark of a community by all levels of government.
- Area Rating is applied to the net levy (excluding costs for sewer and water services) to determine the levy allocation per ward. The levy allocation per Ward is then individually reduced by the interest from the LLRW hosting fee, as deemed appropriate by Council as per the principles of the Low Level Radioactive Waste Agreement(s) and the Municipal Investment Policy.
- The levy allocation per Ward less the LLRW interest is defined as the ñNet Levyò per Ward, and allocated for the purpose of taxation as per provincial guidelines.

Since that time, concerns around the Area Rating policy have been identified:

- The Area Rating Policy put in place at amalgamation was approved by the new Council on the understanding that it was to be reviewed within 5 years. It was intended to cover transactions during the transition period, not as a long term or permanent approach.

- In the 12 years since implementation of the Area Rating Policy there have been a number of changes in services, costs and legislation, and the policy put in place at the time of amalgamation is no longer meeting the original goals of Area Rating.

- The Municipal taxation approach needs to be compliant with guidelines for taxation set out in the Ontario Municipal Act (see Municipal Act, 2001 ï Taxation Guidelines below).

Considering the known concerns listed above, Council identified that an adjustment to the methodology was required and the Area Rating Policy was to be reviewed to ensure there is a fair, equitable and compliant allocation of tax levy in the long term. In 2012, Council implemented an interim ôbase-plus-ward-specificô approach for Municipal taxation and appointed an Area Rating Citizens Working Group to provide input, guidance, and assistance in reviewing potential options for a taxation approach to be used for 2013 and beyond.

Area Rating Citizens Working Group

The Area Rating Citizens Working Group was established by Council in May 2012. Members included Mayor Linda Thompson; Deputy Mayor Jeff Gilmer; Chair of General Government & Finance Rick Austin; Ward 1 community representatives Gord Walter and John Quantrill; and Ward 2 community representatives Ian Angus, Rick Norman, and Bill Bickle.

The Working Group met a total of 22 times between June 2012 and July 2013 with the mandate to:

- Review all relevant background information
- Identify and review options for a revised approach to Municipal taxation
- Develop pertinent support information for the consultation process
- Assist in framing final recommendations relevant to a taxation approach for the long term (2013 and beyond)

Working Group Review and Analysis

The Working Group conducted an extensive review of all existing documentation related to taxation and the Area Rating policy including the Transition Board Order, the PHAI Legal Agreement and the *Municipal Act, 2001*. Initially, the group considered two possible options for setting tax rates:

- Single Tax Rate - the same tax rate would be applied to all properties across the Municipality
- Common Plus Special Services Tax Rate - one rate would encompass all services common to all properties and a separate rate would be applied for special services available only in a certain area

Members of the Working Group discussed several key elements and there were varying degrees of support for:

- A single tax rate for the entire Municipality would not be an appropriate approach
- A common plus special services tax rate would be the most suitable approach for our community
- Application of a new taxation method should include a phased approach so that the resulting increase to the Ward 2 tax rate would be applied gradually over time.
- A phased approach could involve the use of some LLRW fund interest, but should not rely on the full amount of annual interest earned on those funds and principal funds
- Identification of ñcommonò elements that could be included in a potential common services rate (see Common Services below)
- Notwithstanding the annual Taxation By-law, the Municipal Taxation policy is to be reviewed in detail every 5 years to ensure the principles are still being served.
- At Councilôs discretion, LLRW interest may be used, directly or from a capital reserve, for ward-specific local improvements identified by Council and/or residents as a priority, and/or LLRW Interest may be transferred to a capital reserve for use on common services/projects.

There was substantive discussion amongst the Working Group on how to allocate the common tax rate.

The Municipal Act, 2001 - Taxation Guidelines

The Ontario Municipal Act, 2001 sets out specific guidelines for municipal taxation as noted in:

- Section 307 (re: taxes being levied equally for equal service) which states ó*All taxes shall, unless expressly provided otherwise, be levied upon the whole of the assessment for real property or other assessments made under the Assessment Act according to the amounts assessed and not upon one or more kinds of property or assessment or in different proportions.'*

- Section 326 (re: special services) which states that, *'A Municipality may by by-law, identify a special service… meaning a service or activity of a municipality or a local board of the municipality that is,*

    (a) not being provided or undertaken generally throughout the municipality, or

    (b) being provided or undertaken at different levels or in a different manner in different parts of the municipality.'

Therefore, all Municipal services are deemed common to all ratepayers unless it can be proven that a particular service is only offered within a specific area or at a different service level in that area. This has been confirmed in consultation with legal counsel, other municipalities with similar composition, and the Ministry of Municipal Affairs and Housing.

Current Value Assessment

The Municipal portion of property taxes is calculated based on the Current Value Assessment (CVA) of a property. In accordance with the Municipal Act, the Municipal Property Assessment Corporation (MPAC) determines the CVA of all properties in Ontario based on five major factors (generally accounting for 85% of the assessed value):

- location (and available services associated with the location)
- lot dimensions

- living area
- age of the structure(s) (adjusted for any major renovations or additions)
- quality of construction

Other features that may affect residential property value include: number of bathrooms, fireplaces, finished basements, garages, and pools. Site features such as traffic patterns; corner lots, and proximity to a golf course, hydro corridor, railway or green space can also increase or decrease the assessed value of a property.

Tax Ratio and Weighted Assessment

In accordance with the Municipal Act, the County of Northumberland sets the tax ratios each year for each property class (primarily residential, multi-residential, farm, commercial, industrial). Tax ratios distribute the tax burden between classes relative to the residential class tax ratio, which is equal to 1. The tax ratio for farms, for example, reduces the weighted assessment while commercial and industrial classes raise the weighted assessment.

Primary Tax Ratios	
Farmlands	.250000
Residential	1.00000
Commercial	1.51520
Industrial	2.63000

The CVA is multiplied by the tax ratio to determine the weighted assessment for each property.

Calculation of Tax Allocation

Municipal Staff and Legal Counsel agree that weighted assessment is the only valid methodology to allocate the tax levy for common services. Any other formula, i.e. assigning common services in different proportions for different areas, would not be compliant with legislation.

Common vs. Special Services

In accordance with the Municipal Act, all Municipal services that are accessible to and available to all ratepayers are considered common and must be levied upon all ratepayers.

As per Section 326, only those services with a distinct service or level of service provided to the ratepayer that is different from others within the Municipality and/or not available to others within the Municipality, would qualify as a "special service". The key element in determining common services is whether that service is available and accessible at the same level to all ratepayers.

In accordance with Section 326, the designation of a special service within a municipality is reliant upon those benefitting from that service, or different level of service, in a definable benefitting area. It is not contingent upon geographic or political boundaries such as wards.

Proximity is not a consideration of whether any service should be considered a special service. Distance to facilities is one of the factors taken into account in an MPAC property evaluation and reflected in the assessment of that property. Frequency of use is also not a consideration for designation as a special service. From a taxation perspective, where Municipal facilities or services are available to all (e.g. library, sports complex, recreation centre), it is not relevant whether a ratepayer or group of ratepayers chooses to use those facilities. If they all have equal access, they are all equally responsible for the related costs.

At the request of members of the Working Group, Staff reviewed all Municipal Services to determine which services would be designated as common and which would be eligible as special services (see Special Services Evaluation Document). To comply with the Municipal Act, all services provided by the Municipality can be considered common with the exception of Bulk Waste/Christmas Tree Pickup, Sidewalks, Streetlights, Transit, Police, and Parking Authority.

Potential Approaches to Municipal Taxation

The Working Group agreed that the most fair and equitable method of Municipal taxation would be a Common-Plus-Special Services approach. All expenses and services considered common would be included in a common rate applied to all properties and any expenses/special services that are specific to one area or group of taxpayers would be applied in only in that area.

Each year, the Municipality determines the amount of levy that must be collected from the ratepayers to meet its annual budget and the total Municipal Levy is divided by the Total Weighted Assessment to determine the common tax rate. In 2012 and 2013, a Base-Plus-Ward-Specific approach was used with the "base" rate allocated by percentage to each Ward.

The Municipal Act stipulates that taxation must be allocated by weighted assessment, i.e. the common services tax levy would be divided by the weighted assessment to determine the common services tax rate to be applied to each property's weighted assessment.

The special services tax levy would be divided by the weighted assessment of the specific area to determine special services tax rate to be applied to each property's weighted assessment in the specified area.

The common services tax and special services tax rates are added together to determine the total Municipal* Tax Rate to be applied to a property's weighted assessment value.

Calculation of Municipal Tax Rates* Common-Plus-Special Services Approach

Total Common Services Municipal Levy	÷	Total Weighted Assessment	=	Municipal Common Services Tax Rate
				+
Total Special Services Municipal Levy for benefitting area	÷	Weighted Assessment for benefitting area	=	Municipal Special Services Tax Rate
				=
				Total Municipal Tax Rate*

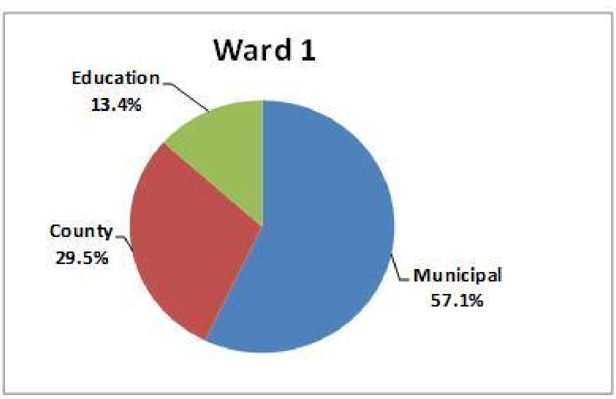
** County and Education Tax Rates are set by the County of Northumberland and Government of Ontario and are the same for all properties across the entire County*

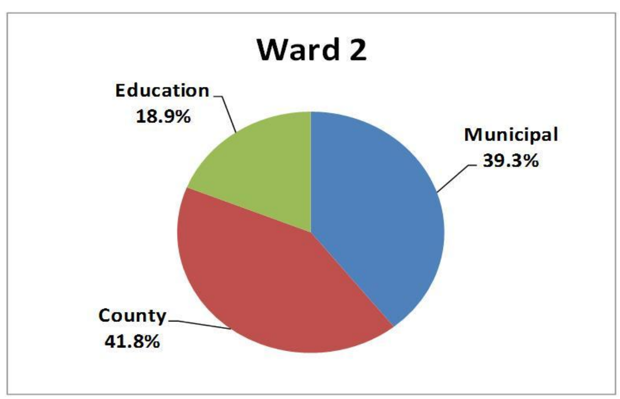
Property Tax Allocation

Property tax is comprised of three components: Municipal, education and County taxes. While property tax is collected by the Municipality, a portion of that amount is forwarded to the Province of Ontario for education and the County of Northumberland for the services they provide. Education and County rates are the same in Ward 1 and Ward 2.

- 2013 County component is $468 per $100,00 of weighted assessment
- 2013 Education component is $212 per $100,000 of weighted assessment.

The Municipal portion of the total property tax bill is currently 57% for Ward 1 properties and 39% for Ward 2 properties. *(based on 2013 tax rates – for illustration purposes only)*





LLRW Community Fund Interest

Through the Port Hope Area Initiative Legal Agreement, the Town of Port Hope and the Township of Hope each received an LLRW Hosting Fee of $10 million. The money has been invested and earns interest each year. The Legal Agreement specified that interest should be used to benefit tax payers in each Ward until the license to construct the waste management facility was granted.

The 2003 Area Rating By-law states that the hosting fee interest can be used to reduce the tax levy in each respective Ward, as deemed appropriate by Council and historically this has been the case. The Municipality then transfers any remaining interest from the Community Fund into building and equipment reserves to fund capital items such as fire equipment, snow plows, building repairs/upgrades, and park repairs. By using the interest for these capital items, Council has reduced the amount of tax levy required for capital items, thus keeping the tax levy down.

Once the license was granted for the LLRW facility in 2009 and as subsequently confirmed by legal counsel, all hold points and stipulations as defined in the agreements regarding the hosting fee funds became null and void allowing the Municipality of Port Hope to use the Community Fund as deemed appropriate by Council. In February 2013, Council adopted the Strategic Financial Plan which recommends that reliance on the Community Fund interest to reduce the tax levy be phased out and the interest redirected to capital reserves to fund future capital works.

Phasing in Area Rating

There is no provision within the Municipal Act that allows for non-compliant phasing in area rating. In order to be compliant, the target tax rate for Ward 1 should be implemented immediately.

However, the Municipal Act does not restrict the use of a compliant phased approach to reduce the immediate impact of an increase on the ratepayers in Ward 2 and members of the Working Group agreed that the increase on the Ward 2 tax rate should be phased in using interest from the Community Fund.

Implementation Options

Municipal Staff developed four compliant common plus special services options based on weighted assessment to be considered. It is also important to note that the option calculations reflect future impacts based on 2013 levy and weighted assessment values. Actual results will vary based on such factors as levy increases and changes to the assessment base. Ultimately the tax allocation methodology (e.g. number of years to phase, community investment income used, etc.) will form the basis upon which other changes will be incorporated.

Compliant Common Plus Special Services Options

OPTION 1 – One-Year Implementation Approach Ward 1 taxes are decreased to target level and corresponding increase in Ward 2 taxes is implemented immediately.	
PROS	CONS
• Immediately compliant with Municipal Act • Does not use any community fund interest • Most efficient to implement	• Highest year one increase for Ward 2 taxpayers

OPTION 2 – Five-Year Non-Leveling Approach In year one, $600,000 of community fund interest would be used to offset tax increase and in each subsequent year, interest usage decreases by $150,000.	
PROS	CONS
• phases the tax increase impact over 5 years • immediately compliant with Municipal Act • implements tax decrease impact immediately	• requires $1,500,000 of community fund interest • implementation is a 5 year process • more difficult to understand and implement • tax payer increase higher in first year and lower increases in 4 following years

Option 3 – Four-Year Non-Leveling Approach Year one uses $750,000 community fund interest to offset tax increase and each following year interest usage decreases by $250,000	
PROS	CONS
• phases the tax increase impact over 4 years • immediately compliant with Municipal Act • implements tax decrease impact immediately	• requires $1,500,000 of community fund interest • implementation is a 4 year process • more difficult to understand and implement • tax payer increase higher in first year and lower increases in 3 following years

Option 4 – Five-Year Leveling Approach Community fund interest is used each year to create an equal distribution of the tax increase over 5 years	
PROS	CONS
• phases the tax increase impact over 5 years • immediately compliant with Municipal Act • implements tax decrease impact immediately • lowest year one increase impact for tax payers	• requires $2,087,445 of community fund interest • implementation is a five year process • more difficult to understand and implement

Non-Compliant Common Plus Special Services Options (based on weighted assessment)

Staff and Working Group including Council member representatives reviewed many potential scenarios inclusive of longer term phasing options for area rating, however if the term of the phasing is extended, more Community Fund interest is required meaning those funds are not available to be used for capital purposes per the Strategic Financial Plan.

This will ultimately result in the need to increase the levy to fund capital requirements or reduce capital investment. There is also the risk that interest rates may decrease therefore making less interest available to subsidize the levy, or could require use of principal which is contrary to the practice of Council.

At the request of the Working Group Council member representatives, an additional 2 options which are not compliant with legislation are included for discussion purposes. As these options are not compliant staff cannot recommend the following:

Option 5 – Five-Year Hybrid Approach Tax decreases are phased in over 5 years while the tax increases are phased in over 5 years	
PROS	CONS
• phases the tax increase impact over 5 years • less community reserve interest required than other phased options • lowest year one increase impact for tax payer	• requires $500,000 of community fund interest • implementation is a 5 year process • most difficult to understand and implement • implements tax decrease impact over 5 years • not compliant with Municipal Act so could be challenged publicly and legally

Option 6 – Four- Year Hybrid Approach Tax decreases are phased in over 3 years while the tax increases are phased in over 4 years	
PROS	CONS
• phases the tax increase impact over 4 years • second lowest year one increase impact for tax payer	• requires $500,000 of community fund interest • implementation is a 4 year process • difficult to understand and implement • implements tax decrease impact over 3 years • not compliant with Municipal Act so could be challenged publicly and legally

Next Steps

Information will be made available as of Friday, October 11th on the Municipal website and all Municipal facilities. An Open House will be held on Monday, October 21st from 7:00 ï 9:00pm at the Town Park Recreation Centre. An overview presentation will take place at 7:30 pm and Council members and Staff will be in attendance to provide information and answer questions.

All comments received by November 15, 2013 will be considered in the development of report to Committee of the Whole on November 26, 2013 outlining a Municipal taxation approach for 2014 and beyond. Details on Municipal taxation are available at all Municipal facilities and at www.porthope.ca. For more information contact David Baxter, Director of Finance at 905.885.4544 or dbaxter@porthope.ca.