

## **TAX LEVY ALLOCATION REVIEW BACKGROUND INFORMATION**

### **BACKGROUND**

Area Rating was put in place in 2001 to create a fair and equitable distribution of the tax levy between the wards of the recently-amalgamated Municipality of Port Hope (formerly the Town of Port Hope and the Township of Hope). The original formula used pre-amalgamation (year 2000) weighted assessment and tax levies to establish a base rate. The original approach has not kept pace with numerous changes in legislation, regulations, service levels, assessment methodology, and assessment shifts across property classes and the original design is no longer applicable. A comprehensive review was initiated by Council in May 2012.

After a two-year comprehensive review, the Council of the Municipality of Port Hope, at their April 22, 2014 Council meeting, implemented a new Common and Special Services taxation approach for the 2014 tax year and future years, in addition to adopting tax rates for 2014.

The Common-and-Special-Services By-law 28/2014 establishes those services that are to be charged to all of the ratepayers as common services, and those special services to be charged only to the ratepayers in a benefiting area.

See more online, including numerous downloadable documents, at this link:

<http://www.porthope.ca/municipal-taxation-review-2012-2017>

### **INTRODUCTION**

The Municipality of Port Hope (MPH) collects property taxes through a tax levy that is billed to the ratepayers, to cover some of the costs of providing municipal services in the municipality.

### **MUNICIPAL ACT**

The Municipal Act in Ontario, particularly Sections 326(1) and 326(2) (excerpt at end of this document), permits a municipal council to define areas within the municipality that receive, and will be charged for, some municipal services classified as "special", e.g., provided at a different level or in a different manner than other areas.

Link to the Act: <https://www.ontario.ca/laws/statute/01m25>

### **TAX LEVY ALLOCATION WORKING GROUP**

In January 2016, Council established a Tax Levy Allocation Working Group ('Working Group', or 'WG') to review the Common-and-Special-Services By-Law 28/2014 and the related processes that are identified in the Municipal Act for defining special services.

The Working Group is to engage in a dialogue with ratepayers and to prepare a summary report with suggestions and recommendations to go to Council. The WG consists of the Mayor Bob Sanderson, Councillors Les Andrews and Robert Polutnik, ratepayers Gord Walter (urban ward) and Rick Norman (rural ward), as well as Director of Finance David Baxter.

## WORKING GROUP ACTIVITY TO THE END OF APRIL 2016

The Open House in March 2016 included selected excerpts from the Municipal Act and a chart outlining 28 service areas within the municipality. A video of the introduction to the Open House is available online at this link:

<http://www.porthope.ca/municipal-taxation-review-2012-2017>

Comments were requested from ratepayers by the end of March. The due date for comments was extended to the end of April. All of the comment sheets are also available for viewing online at the link noted above.

## COUNCIL ACTIVITY IN APRIL 2016

The tax-rating By-Law 29/2016 was passed, using the same common-and-special-services classifications that were defined in By-Law 28/2014. The term of the WG was extended.

## WORKING GROUP ACTIVITY IN MAY AND JUNE OF 2016

All of the comments to the end of April were reviewed and notes were made to summarize the issues and concerns that had been raised by ratepayers and WG members.

With the assistance of the Finance Department team, the municipal-services chart that had been presented at the Open House was extended to include financial information for each department. With reference to tax-rating By-Law 29/2016, a new row has been added to the municipal-services chart, for "HBIA" as a special service where costs are charged to HBIA-specific properties.

An early draft of an informational slide show was prepared for use in a subsequent public session to address the most-frequently-raised points.

## THE WORKING GROUP RESUMES IN 2017

At the end of June 2016, the meetings of the WG were postponed until March 2017. The WG is continuing its review of By-Law 28/2014 and is preparing a presentation that will be made to the Finance Committee and to the community, plus a summary report to go to Finance Committee and Council.

One of the goals of the WG is to encourage consistency in the way common-and-special are reviewed for each service area, and to recommend a fair and equitable approach that may be used by Council in future years when reviewing By-Law 28/2014 and its replacement.

## COUNCIL IN 2017

Council's role is to consider the report that will be submitted by the WG, with the possibility of revising the Common-and-Special-Services By-Law 28/2014. Councillors are the decision-makers in this process (not the WG) and any change is recommended to not be effective until 2018.

## TWO WARDS IN MPH

The Municipality of Port Hope has two wards, the urban (former town) ward and the rural (former township) ward, that were amalgamated by the Province in 2001.

## TAX LEVY DEFINED

When Council sets the budget for the taxation year, it reviews the plans and needs of all of the departments, considers and adds up all of the necessary expenses for that year, subtracts all of the anticipated revenues (e.g., provincial grants, user fees), adds in the necessary contributions to/from reserves, and calculates the balance that is to be charged to ratepayers on their municipal property-tax bills -- this balance is the "tax levy" for the municipality and it was about \$17.2 million in 2016.

This set of notes and the examples use 2016 numbers. The numbers for tax year 2017 will roll out later in the spring, when the tax-rating by-law is passed.

## WATER AND SEWER

Note: water and sewer costs are recovered by user fees that are charged to the ratepayers who receive these services, based on volume. Water and sewer costs are not part of the municipal tax levy.

## PROPERTY TAXES FOR COUNTY AND EDUCATION

Your tax bill has three parts: a municipal portion, a county portion, and a provincial education portion. This set of notes relates to common and special services within the municipality. All of the services provided by the county, and all of the education services related to your tax bill, are excluded from the municipal levy. The county and provincial education services are deemed to be common services (i.e., not special or area-rated) and are billed at the same rates to all of the ratepayers in the county/province.

## PROPERTY ASSESSMENT

The Municipal Property Assessment Corporation (MPAC), a provincial agency, determines the assessed value of each property in the province, referred to as "current value assessment" (CVA).

MPAC provides a "tax roll" to each municipality, and the municipality uses the information in their tax roll to calculate and generate the property-tax bill(s) for each ratepayer.

For more information about MPAC and how they assess properties in Ontario, visit their website at this link: [www.mpac.ca](http://www.mpac.ca)

## WEIGHTED ASSESSMENT FOR A PROPERTY

To determine the weighted assessment for a property, the CVA from the tax roll is multiplied by the applicable property-class ratio. Ratios are set by the County and can be found in the MPH tax-rating By-Law 29/2016.

For a residential property, the weighted assessment is the same as the CVA number that

is supplied by MPAC – there is no weighting for this property class.

Certain types or classes of properties, e.g. industrial or commercial, have a property class ratio that is higher than residential, and the weighted assessment for each property is the CVA number from MPAC multiplied by the applicable ratio from County.

Some other types of property, e.g. managed forest or farmland, have a property class ratio that is lower than residential, and the weighted assessment for each property is the CVA number from MPAC multiplied by the applicable ratio from County.

### TOTAL WEIGHTED ASSESSMENT

When the municipality calculates tax rates each year, the total weighted assessment for the entire municipality, or for each ward, is used in the calculation.

Total weighted assessment is derived from the tax rolls, formed by the sum of the weighted assessment for each property in the area (e.g., within the whole municipality or within a ward).

In MPH, the total weighted assessment used in the 2016-tax-year calculations was \$2.093 billion. The urban ward contained \$1.527 billion or approximately 73% of the municipality's total weighted assessment value, and the rural ward contained \$565.5 million or approx. 27%.

### SERVICES DEEMED TO BE COMMON

Where a service is deemed by Council to be "common" across the entire municipality, the cost of that service is apportioned to every ratepayer in the municipality on the basis of each property's weighted assessment value.

In MPH, for any municipal service that is deemed to be common, all of the ratepayers in the urban ward would jointly bear approximately 73% of the cost of the service, and all of the ratepayers in the rural ward would jointly bear approximately 27%. (2016 numbers)

### SPECIAL SERVICES ACCORDING TO BY-LAW 28/2014

The following eleven service areas are listed as special services in By-Law 28/2014:

Police Services	Police Service Board
Parking	Christmas Tree and Yard Waste Pickup*
Transit	Crossing Guards
Streetlights	Sidewalks
Parks (physical)	Parks, Recreation and Culture Programs (selected)
Community Policing Committee	(no longer active; not referenced in WG presentations)

\*Note Yard Waste Pickup service is now delivered by the County with the cost being recovered through the County levy, so there is now no cost included in the Municipal levy portion of property taxes to either ward.

In general, for each special service, the ratepayers in each ward are responsible for the cost of providing that service in their ward. For more information, please refer to By-Law 28/2014, at this link: <https://porthope.civicweb.net/filepro/documents/?preview=98647>

For some historical context predating By-Law 28/2014, including some notes about the activities of an earlier Area Rating Citizens Working Group (June 2012 through July 2013), a *Municipal Taxation Review Fact Sheet* dated October 29, 2013 is available at this link:

<http://www.porthope.ca/file-download/id/jar-ppWktonFKaZaDWH3iQ>

### SPECIAL SERVICES IN OTHER MUNICIPALITIES

Several municipalities in Ontario have established special services such as policing, streetlights, and transit. In less-common situations, the cost of parks was established as a special service with a surcharge for the area(s) receiving a higher level of service.

### ALLOCATION OF TAX LEVY BY WARD IN 2016

This section indicates the tax levy allocation for the 2016 tax year, as an example.

From the 2016 budget documents dated March 1, 2016, we find the total 2016 tax levy was \$17,193,238, with the tax levy allocation at \$13.50 million for the urban ward and at \$3.69 million for the rural ward.

These numbers reflect the common and special services that are prescribed in By-Law 28/2014, and the numbers are calculated:

- (a) before the phase-in adjustment (also part of By-Law 28/2014, noted below), and
- (b) before the application of any interest from the LLRW funds (also noted below).

On this basis, the share of the 2016 tax levy allocated to the urban ward was 78.5% and the share allocated to the rural ward was 21.5%.

### TAX LEVY BY-LAW 29/2016

The tax levy rates are established annually by Council in a by-law. By-Law 29/2016 was passed by Council to set the tax rates for 2016, using the prescription in the Common-and-Special-Services By-Law 28/2014.

Link to By-Law 29/2016: <https://porthope.civicweb.net/filepro/documents/?preview=137745>

The amounts in the by-law are after phase-in adjustment and use of LLRW funds, described below. For levy allocation review purposes the focus is on reviewing the base amounts without either of these adjustments.

## PHASE-IN ADJUSTMENT IN BY-LAW 28/2014

By-law 28/2014 has a dual role: one part is to specify the common and special services that determine the allocation of the tax levy; and the other part is to phase in a particular shift of tax levy that was made by Council in 2014. Phasing is not part of the mandate of the Working Group, but it is noted here for information purposes.

The phase-in adjustment mentioned above is part of the Common-and-Special-Services By-Law 28/2014, intended to spread out a particular 2014 shift of tax levy over ten years. In 2014, the amount of levy shifted from the urban ward (Ward 1 in the by-law) to the rural ward (Ward 2 in the by-law) was \$975,000. The amount of the phase-in adjustment is reduced from year to year, until the ten-year phase-in period has ended.

In the 2016 Tax-Rating By-Law 29/2016, the effect of the phase-in adjustment is included in the two lines in the by-law that refer to the total cost of special services for each ward. The phase-in adjustment was \$780,000 in 2016, and this was used in the tax-rating calculations to effectively increase the tax levy in the urban ward and to reduce the levy in the rural ward.

Although phasing affects each ward's tax levy, the phasing calculation comes after the tax levy has been allocated, and phasing is not part of the WG mandate.

## USE OF INTEREST FROM LLRW FUNDS

The use of interest earned from the LLRW Funds is not part of the mandate of the Working Group, but it is noted here for information purposes.

Note that the use of interest (if any) to reduce each ward's tax levy takes place after the MPH tax levy has been allocated to each ward. For information about the use of LLRW interest for each ward, please refer to the current tax-rating by-law. In By-Law 29/2016, \$234,413 of Urban LLRW Fund interest was used for the urban ward, and \$230,263 Rural LLRW Fund interest was used for the rural ward.

Although LLRW interest can affect each ward's tax levy, the application of interest comes after the tax levy has been allocated, and LLRW interest is not part of the WG mandate.

## LOOKING AT SOME HYPOTHETICAL OPTIONS

The 2016 tax year was used as an example (above), and the tax levy allocation (before phasing and before any application of LLRW interest) was split at \$13.50 million (78.5%) for the urban ward and at \$3.69 million for the rural ward (21.5%).

Now it's time to consider the impact of a couple of hypothetical cases where a different tax levy allocation might have been used, again using 2016 numbers.

## HYPOTHETICAL TAX LEVY BY WARD, IF ALL SERVICES ARE COMMON

Hypothetically, if MPH Council were to decide that all of the municipal services are deemed to be common, then, using 2016 budget figures where the total tax levy was \$17.2 million, the ratepayers in the urban ward would have been responsible for 73.0% or \$12.55 million and the ratepayers in the rural ward would have been responsible for 27.0% or \$4.65 million.

It is important to note that the WG did not consider this “all-common” scenario, because the nature of some service areas causes them to be prime candidates as special services -- policing and transit come to mind – and not all services should be deemed to be common.

### HYPOTHETICAL TAX LEVY BY WARD, IF ONLY POLICING IS SPECIAL

Hypothetically, if MPH Council were to decide that all of the municipal services except policing are deemed to be common, and that policing is the only special service, with costs to be determined on the basis of the contract with the associated provider (PHPS at \$4.26M in the urban ward, and OPP at \$0.66M in the rural ward, again using 2016 budget figures), then the ratepayers in the urban ward would have been responsible for \$13.23 million (or 76.9%) and the ratepayers in the rural ward would have been responsible for \$3.97 million (or 23.1%).

### CALCULATING A RESIDENTIAL TAX RATE

To calculate a residential tax rate, for an area, for a service: (a) take the cost of providing the service in the area, then (b) divide by the total weighted assessment of the properties in the area (all classes). As a hypothetical example, the tax rate associated with policing in the urban ward, using 2016 numbers, would be \$4.26 million divided by \$1.527 billion – this works out to 0.002790 (approximately). Sometimes a residential tax rate is described on the basis of “\$100,000 of assessed value”, by multiplying the tax rate by \$100,000 -- in this hypothetical case the cost can be expressed as \$279.00 per \$100,000 of assessed value.

### WORKING GROUP ACTIVITY IN MARCH & APRIL 2017

The timeline for the community consultation was established, the documents to be used were finalized and a ‘dry run’ of the open house was conducted.

The Working Group updated Finance Committee on progress and received support to proceed with the planned Community Consultation including an open house type public meeting and presentation. Comments from the public will be reviewed by the WG, and then provided to Council for consideration in their decision.

## EXCERPT FROM MUNICIPAL ACT Re: SPECIAL SERVICES

### MUNICIPAL ACT SECTIONS 326(1) and 326(2)

The Municipal Act is long, available at this link: <https://www.ontario.ca/laws/statute/01m25>  
Two sections are specifically relevant to municipal by-laws that relate to special services:  
Sections 326(1) and 326(2), clipped below.

#### **By-laws re special services** (quoting from the Act, Section 326)

(1) A municipality may by by-law,

- (a) identify a special service;
- (b) determine which of the costs, including capital costs, debenture charges, charges for depreciation or a reserve fund, of the municipality are related to that special service;
- (c) designate the area of the municipality in which the residents and property owners receive or will receive an additional benefit from the special service that is not received or will not be received in other areas of the municipality;
- (d) determine the portion and set out the method of determining the portion of the costs determined in clause (b) which represent the additional costs to the municipality of providing the additional benefit in the area designated in clause (c);
- (e) determine whether all or a specified portion of the additional costs determined in clause (d) shall be raised under subsection (4). 2001, c. 25, s. 326 (1); 2006, c. 32, Sched. A, s. 136 (1).

#### **Definitions** (quoting from the Act, Section 326)

(2) In this section,

“benefit” means a direct or indirect benefit that is currently available or will be available in the future; (“*avantage*”, a cross-reference to a comparable French term)

“special service” means 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. (“*service spécial*”) 2001, c.25, s.326 (2).