

CITY OF HAMILTON

**CITY MANAGER'S OFFICE
Administration**

Report to: Mayor and Members Committee of the Whole	Submitted by: Joseph L. Rinaldo Acting City Manager
Date: July 22, 2008	Prepared by: T. Hewitson ext. 4159 M. Di Santo ext. 6247

SUBJECT: Area Rating Policy Update (CM08022) (City Wide)

RECOMMENDATION:

That report CM08022 "Area Rating Policy Update" be received for information.

Joseph L. Rinaldo, Acting City Manager

EXECUTIVE SUMMARY:

In response to Council's direction to report back on area rating prior to the 2009 budget, staff have reviewed how the current area rating policy relates to the way services are currently being provided. Area rating should reflect, not determine, how services are delivered. In meeting with staff from the three services that are currently area rated (Culture and Recreation, Fire and Transit), it has become evident that the current method of area rating needs to be reviewed to ensure it accurately reflects how the service is delivered and/or the cost of providing these services.

Options for area rating are discussed in the "Alternatives for Consideration" section of this report. Preliminary review indicates that area rating based on former municipal boundaries (as is currently done), may not best reflect how the services are delivered or the cost to deliver these services. Staff will be investigating the option of moving away from area rating based on the former area municipal boundaries and establish new boundaries based on current service levels and costs.

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The following is a summary of the three services currently being area rated. Since amalgamation, these three services have been area rated based on former area municipal boundaries.

Culture & Recreation – Current service levels and fees have been harmonized across the City with very few exceptions; all taxpayers have access to all Culture and Recreation facilities and programs. Staff will further investigate whether these services continue to meet the legislative criteria to qualify as an area rated service. Should the service no longer meet the criteria, then a recommendation to eliminate it as an area rated service will be submitted to Council with an analysis of the impacts. This analysis will include possible phase-out plans. Staff would also like to investigate the treatment of possible isolated areas within the City that may have very limited access to Culture and Recreation facilities and programs.

Fire – Current service levels and costs can be broken down into three tiers (zones) based on station staffing:

- 1) full-time (career) fire fighters 24 hours a day, 7 days a week;
- 2) a composite workforce (career and volunteer fire fighters); and
- 3) volunteer fire fighters.

Having both career and volunteer fire fighters has facilitated the delivery of Fire Services across the City (1,200 square kilometres – urban and rural) and resulted in its' efficient and cost-effective service delivery. The zones do not necessarily reflect former municipal boundaries. A further consideration is that, depending on circumstances, full-time response may occur in areas within a volunteer station response zone. Staff are currently reviewing the response zones and will report back on the suitability of area rating of Fire Services based on the service area model.

Conventional Transit (HSR) – Differences exist in current service levels and cost of providing the service across the City. Properties outside the current defined Urban Transit Service Area do not receive Transit Service and are not taxed for conventional transit, while areas within this Urban Transit Service Area receive varying levels of service. The current level of service recognizes the different service needs across the City and should therefore be reflected in its' area rating. Staff are currently investigating area rating Transit based on either a two or three-tier model. A two-tier area rating model simply establishes one transit rate within the Transit Service Area and continues not to charge properties outside the Transit Service Area (basically, all properties within the Transit boundary would pay the same for transit). A three-tier model would simply further breakdown the Transit Service Area between Core/Enhanced Service (primarily the former City of Hamilton) and Standard Service (remaining Transit Service Area). This review will include an analysis of the current Transit Service Area. Note: this review is with respect to Conventional Transit (HSR) only, as Specialized Transit (ATS/DARTS) is not area rated.

BACKGROUND:

Area rating is used as a means to mitigate differences in services provided and service levels, cost to deliver the service and user fees for the same service. In 2001, Council approved the area rating of the following services: Transit, Fire, Culture & Recreation, Storm, Senior's Tax Credit, Slot Revenues and Financial Adjustments. Area rating is reviewed annually. Over the years, Council has eliminated some of these services from area rating. In 2008, the services that remain area rated are: Transit, Fire and Culture & Recreation (and a minimal amount for Sidewalk Snow Removal in Ancaster).

Based on the 2008 approved area rated tax rates, the following Table identifies what a residential property pays for each of the area rated services both based on the city-wide average residential assessment and the community-specific average residential assessment.

	City-wide Average Assessment	Fire	Transit	Culture & Recreation
Stoney Creek	206,900	191	56	66
Glanbrook	206,900	62	66	34
Ancaster	206,900	212	36	85
Hamilton	206,900	341	189	165
Dundas	206,900	224	45	85
Flamborough	206,900	177	32	51

	Community Average Assessment	Fire	Transit	Culture & Recreation
Stoney Creek	227,300	209	61	72
Glanbrook	215,400	64	69	35
Ancaster	315,500	324	55	129
Hamilton	173,000	285	158	138
Dundas	253,000	273	55	104
Flamborough	293,000	251	45	73

As shown above, there are six different tax rates for each of the area rated services. These different tax rates simply align to the former area municipal boundaries.

ANALYSIS/RATIONALE:

Currently, services are area rated based on former area municipality. Service levels and costs of providing these services are not specific to each former area municipality, and, as such, these former municipal boundaries no longer accurately reflect how services are actually being delivered.

Culture & Recreation

With respect to Culture and Recreation, the current method of area rating allocates costs between former area municipality, primarily based on where actual facilities / programs are located. For example, the cost of operating an arena in Ancaster is borne by the residents of Ancaster. However, the programs available at that facility are available to all City residents and potentially non-residents. In Culture, the examples are similar - all residents and visitors to the City have access to Dundurn Castle, which is currently area rated only to the former City of Hamilton.

All City residents have access to all Culture and Recreation facilities and programs, regardless of former municipal boundary. The vast majority of fees have been harmonized throughout the City (in 2001, every municipality had different rates for programs). Unlike in 2001, when this service was selected for area rating, it does not appear to now fit the definition as prescribed by the Province. Subject to final review of

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the suitability of area rating this service, staff will conduct an analysis with respect to the elimination/phase-out of the area rating of this service.

Fire

In the City of Hamilton, Fire Service is delivered through a composite workforce – meaning both career (full-time) and volunteer fire fighters (part-time). This service delivery model recognizes the unique urban and rural areas within the City. Some fire stations in the City have only career fire fighters, others have a combined career and volunteer workforce, while others are manned by only volunteers. Although staffing (career, composite, volunteer) may defer depending on where the fire station is located, depending on the emergency, personnel and equipment is commonly shifted between fire stations in order to maintain a desired level of service across the entire City.

Continuing to area rate Fire Services based on former area municipal boundaries may not accurately reflect the level or cost of providing Fire Services across the City, as the “Primary Response Areas” for the fire stations are not necessarily aligned to these former boundaries. The Primary Response Areas for fire stations manned exclusively by full-time (career) fire fighters extend beyond the former City of Hamilton boundary and into Dundas and areas of Ancaster, Glanbrook and Stoney Creek. This should be taken into account when developing an area rating model for Fire.

Fire has retained a consultant to review mapping these “Primary Response Areas”. These areas were established at amalgamation and do not accurately reflect how service is currently being provided. Once the consultant has concluded this review, staff would like to pursue an area rating model which more accurately aligns costs, and ultimately taxes, to these updated Primary Response Areas. This area rating model would more accurately reflect service levels and costs along a two or three-tier system.

Conventional Transit (HSR)

The Conventional Transit Service area rating formula was amended in 2001. Allocation to the various service areas is wholly determined by transit service mileage within the service area. This allocation is calculated by dividing the Transit net levy by the mileage in the given service area. Prior to 2001, the cost allocation formula was based on 50% mileage and 50% assessment. Other funding formulas may also be considered.

In 2001, Council redefined the Urban Transit boundaries in recognition that properties, primarily in the rural areas of the City that do not receive Transit Service, should not pay for Transit. This Transit Service Area was developed using the urban boundary with some exceptions - excludes urban areas that do not receive transit, includes rural areas which receive transit. The Transit Service Area has not been amended since, hence it is imperative to first fully review and update this boundary before pursuing any changes to the area rating model.

Staff are currently investigating area rating Transit based on either a two or three-tier model. A two-tier area rating model simply establishes one transit rate within the Transit Service Area and continues not to charge properties outside the Transit Service Area (basically, all properties within the Transit boundary would pay the same for transit). Proponents of this model argue that access to any route provides access to the whole of the system.

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A three-tier model would simply further breakdown the Transit Service Area between Core/Enhanced Service (primarily the former City of Hamilton) and Standard Service (remaining Transit Service Area). The current service level differences are predominately the result of the former area municipalities having responsibility for determining their desired level of service which was then provided on a fee-for-service basis by the former Regional Government.

Generally, service levels in the former area municipalities (with the exception of the former City of Hamilton) are similar and do not justify differences in transit tax rates. Currently, a home in Glanbrook pays more than double for transit than a similarly assessed home in Flamborough and 20% to 80% more than a similarly assessed home in Stoney Creek, Dundas or Ancaster. Under this three-tier model, the transit rate in the former City of Hamilton would remain relatively unchanged and there would be one tax rate for the suburban transit area.

ALTERNATIVES FOR CONSIDERATION:

This report provides alternatives for the area rating of existing area rated services only (Culture and Recreation, Fire and Transit). It does not attempt to identify other services that may be introduced to area rating (e.g. sidewalk maintenance and street lighting).

Status Quo

Maintaining the existing area rating policy has no tax impact to the taxpayer. Taxpayers in the former area municipalities would continue to pay differently for Culture and Recreation, Fire and Transit Services. Any future enhancements in any of the area rated services would continue to result in the respective former area municipality absorbing any tax impact as a result of the enhancement, regardless of the fact that the benefits of the enhancement may extend beyond that former area municipal boundary.

Urban/Rural

This method of area rating recognizes that there is a clear difference in service levels and cost of providing services between urban and rural properties. Specific services would still have to be identified and costing analysed to apportion different tax rates. For example, properties inside the urban area could pay for a higher level of Fire and Transit Service, while properties in the rural area could pay for a lower level of Fire Service and not pay for Transit Service. Other services could be examined as well.

Full Elimination

There are significant implications of fully eliminating area rating. In general, fully eliminating area rating would result in significant tax shifts from the former City of Hamilton onto the remaining former municipalities. In addition, removal of area rating may increase service costs if Council wishes to harmonize services (increase Transit and Fire services in areas with limited or no service).

Fully eliminating area rating would result in all residential taxpayers paying the same tax rate in all former area municipalities. Similar to other City services which are not area rated (i.e. Police, Ambulance, Libraries, etc.) this would spread the cost across the entire

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City, in the understanding that all taxpayers benefit, to some extent, of these City services.

An argument for fully eliminating area rating is that, although taxpayers may not necessarily use every City service, the community, as a whole, benefits from these services. For example, Public Transit – although some taxpayers do not use Public Transit, “*all residents of Hamilton benefit, to some extent, from the environmental, social and economic impacts of transit and should therefore share the costs of Transit Services*”¹. With respect to Fire Services, although service is being provided by a composite workforce and response times may vary, Fire Services responds to all areas of the City. In order to maintain a certain level of service, Fire personnel and equipment/vehicles are moved throughout the City whenever required.

Whichever option is ultimately approved, Council has the authority to phase-in any property tax impact as a result of changes/elimination of area rating. The type and level of a phase-in plan will depend on what Council feels is an appropriate annual impact and should be determined in conjunction with the 2009 budget and reassessment tax impacts.

Other Services

Area rating legislation is now fairly unrestrictive in which services can be area rated. Staff could be directed to review other services where significant cost or service levels exist. For example, in some municipalities, an urban/rural area rate is calculated to adjust for the absence of some services such as street lighting and sidewalks.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Area rating does not result in more revenue to the City. It is simply a method of allocating the cost of specific services to the taxpayer. A change to the method of area rating simply redistributes who ultimately is paying for the service. There are, however, financial implications if area rating is fully eliminated and Council chooses to harmonize services. This financial impact depends on the desired level of harmonization.

POLICIES AFFECTING PROPOSAL:

Future policies related to taxation and area rating will be driven by the approved method/level of area rating.

RELEVANT CONSULTATION:

Staff have consulted with City Departments whose services are currently area rated (Culture & Recreation, Fire and Transit).

At Council's discretion, public consultation may be provided to get the public's input prior to any changes to area rating. In further exploring area rating options, staff will also be consulting other municipalities to survey and review the services being area rated by other municipalities.

¹ City of Hamilton, TRANSIT RIDERSHIP GROWTH, Final Report May, 2006; IBI Group

CITY STRATEGIC COMMITMENT:

By evaluating the “**Triple Bottom Line**”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. **Yes** **No**

Environmental Well-Being is enhanced. **Yes** **No**

Economic Well-Being is enhanced. **Yes** **No**

Does the option you are recommending create value across all three bottom lines?

Yes **No**

Do the options you are recommending make Hamilton a City of choice for high performance public servants?

Yes **No**