

The Corporation of the City of Kawartha Lakes

Committee of the Whole Report

Report Number CORP2020-002

Meeting Date: **March 10, 2020**

Title: **Special Rate Area (SRA) Tax Levy Review**

Ward Number: **All**

Author and Title: **Linda J. Liotti, Manager, Revenue and Taxation**

Recommendation(s):

That Report CORP2020-002, Special Rate Area (SRA) Tax Levy Review, be received.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

At the Special Council Meeting of December 3, 2019, Council adopted the following resolution:

CR2019-698

That Staff conduct a review of the area rated tax levies and report back to Council in Q1 of 2020 with recommendations for enhancement and/or consolidation.

This report responds to Council's direction by providing an overview of the current SRA tax levies and providing estimated tax impacts of their respective elimination.

Rationale:

The basic approach to the review of SRA reflects the following two underlying principles:

1. Overall Revenue Neutral position – assumes the total taxes generated will remain the same regardless of the SRA 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. None of the area rating options presented require change in service delivery.

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.

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 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.

It is accepted that no tax system can be made to create a perfect one to one relationship between services used and a homeowner's taxes, nor is that a

realistic goal because taxes are the means by which society funds services that have a wide public benefit.

Kawartha Lakes, as a restructured municipality, has two sources of legislation for area rating – the *Municipal Act* and the *City of Kawartha Lakes Act, 2000*.

Provincial legislation allows the area rating of an identifiable “special service”. A “special service” is defined in the *Municipal Act* (Section 326) as:

“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.”

Previously, the Province dictated which services could be identified as a “special service”. This list of eligible special services was revoked with the introduction of Ontario Regulation 585/06 which now states the services that cannot be identified as a “special service”. To date, the only service identified in this regulation is health programs and services. All other services, as long as they meet the definition of a special service, can now be area rated.

History of Special Rate Areas in Kawartha Lakes

SRAs were in existence prior to amalgamation, however, only for a minority of properties as services were more consistent within the former township and community boundary areas.

In 2001, Kawartha Lakes was created by the amalgamation of the former Townships in the County of Victoria (Bexley, Carden, Dalton, Eldon, Emily, Fenelon, Laxton-Digby-Longford, Manvers, Mariposa, Ops, Somerville and Verulam) and Incorporated communities (Lindsay, Bobcaygeon, Fenelon Falls, Omemee, Sturgeon Point and Woodville) which sparked a more wide-spread use of SRAs.

In the last 5 years, annual analysis of the SRAs has resulted in the elimination of some such previously levied such as sidewalks, hospital levy, waste management, infrastructure renewal, etc.

It is important to note that earlier this year, the Ministry of Municipal Affairs and Housing, advised Kawartha Lakes that they are undertaking an examination of the *City of Kawartha Lakes Act, 2000*, with the intention to repeal the area rating provisions. This added further validity to our internal review of the SRAs.

Any changes/elimination of the SRAs would be implemented through an annual tax levy by-law generally passed in April or May, similar to the process in prior years.

For the 2019 tax year, as per By-Law 2019-084 - A By-law to Establish Tax Rates in the City of Kawartha Lakes, there were six (6) broad SRAs as follows:

1. Police

Community	Special Rate Area	
	Police	
	Kawartha Lakes	OPP
Emily		√
Omeme		√
Ops	√	
Manvers		√
Lindsay	√	
Verulam		√
Bobcaygeon		√
Carden		√
Dalton		√
Mariposa		√
Woodville		√
Eldon		√
Fenelon Twp		√
Sturgeon Point		√
Fenelon Falls		√
Somerville		√
Bexley		√
Laxton, Digby & Longford		√

2. Fire

Community	Special Rate Area	
	Fire	
	Area A	Area C
Emily		√
Omeme		√
Ops	√	√
Manvers	√	√
Lindsay	√	
Verulam		√
Bobcaygeon		√
Carden		√
Dalton		√
Mariposa	√	√
Woodville		√
Eldon		√
Fenelon Twp		√
Sturgeon Point		√
Fenelon Falls	√	√
Somerville		√
Bexley		√
Laxton, Digby & Longford		√

3. All Others

Community	Special Rate Area			
	Transit	Parks	Streetlights	BIA
Emily				
Omeme			√	
Ops				
Manvers				
Lindsay	√	√	√	select downtown properties
Verulam				
Bobcaygeon			√	
Carden				
Dalton				
Mariposa				
Woodville			√	
Eldon				
Fenelon Twp				
Sturgeon Point			√	
Fenelon Falls			√	
Somerville				
Bexley				
Laxton, Digby & Longford				

The total SRA tax levied in the 2019 tax year was \$22.75 million, which represents 20.25% of the total taxes levied.

Below is an example (using 2019 approved tax rates) of a residential property located in Lindsay and the applicable SRAs:

Property's Residential Assessed Value (CVA)		Residential Tax Rate			Property Taxes
		Municipal : General			
\$ 300,000	X		0.7093%		\$ 2,127.90
		+			
		Municipal: Area-Rated			
		Kawartha Lakes Police Service	0.2624%		\$ 787.20
		Full Time Fire Protection (A)	0.0624%		\$ 187.20
		Street Lights	0.0167%		\$ 50.10
		Transit Levy	0.0238%	=	\$ 71.40
		Prior Year Deficit -Transit	0.0010%		\$ 3.00
		Prior Year Deficit - Parks	0.0015%		\$ 4.50
		Parks	0.0112%		\$ 33.60
		+			
		Provincial Education	0.1610%		\$ 483.00
		TOTAL	1.2493%		\$ 3,747.75

It is important to note that while special area rates attempt to adjust taxes to account for differences in service levels and/or costs, it is not based on a user pay principle. Every property owner utilizes City services differently. Some services may never be utilized, however, support a greater common good.

Also, inherent in the levying of these SRA's, is the fact that it continues to be an ever-changing process for the City and, unless area rating is completely eliminated, will continue as such. As an example, as growth occurs in the City, it may require additional services (i.e. Transit, Fire, etc.) leading to changes in SRA boundaries.

SRAs add complexity to the understanding of property taxes as it is not a well understood concept by property owners. This outcome does not align with the City's vision of transparency, further, it can be administratively tasking, creating cost inefficiencies, for both levying of the SRA tax levies and/or any associated adjustments.

It is the opinion of Staff that to continue the SRA tax levies based pre-amalgamation boundaries (as is currently done), may not be the best model to reflect how services are actually delivered or the cost to deliver these services as there are shared costs included in the general rate.

Consideration should be given to the model used to derive the City's water rates. The City operates 21 municipal water systems in 13 communities. If the City were to adopt area-specific water consumptive rates to allow for the full recovery of costs in each community, as what is done for special rate area tax levies, the rates would range from \$1.40 to \$62.49 per m³ of consumption. To avoid such a disparity, the water rates are blended to recover costs of all 21 systems across all users of this utility.

The table below provides the tax impact of eliminating each special rate area tax levy. For illustrative purposes, the table below assumes a residential property with a current assessed value of \$300,000 and is based on the 2019 tax rates.

Special Rate Area - Tax Impacts				
Special Rate Area	Communities Included (current)	Current SRA Levy*	Impact of Eliminating Special Rate Area (rdd)	
			for Current SRA	All Others
Streetlights	Lindsay Omeme Bobcaygeon Woodville Sturgeon Point Fenelon Falls	\$50.10	(\$35)	\$15
Parks (including deficit)	Lindsay	\$38.10	(\$30)	\$8
Transit (including deficit)	Lindsay	\$74.40	(\$51)	\$24
Kawartha Lakes (Lindsay)	Lindsay	\$787.20	(\$391)	
Kawartha Lakes (OPS)	OPS	\$482.97	(\$87)	
OPP	All else	\$277.50	\$119	
Fire A (Full-time)	Lindsay and portions of: OPS, Manvers, Mariposa and Fenelon Twp	\$187.20	(\$76)	
Fire C (Volunteer) (including deficit)	Emily, Omeme Veralum, Bobcaygeon Carden, Dalton Woodville, Eldon Sturgeon Point, Fenelon Falls Somerville, Bexley Laxton-Digby-Longford and portions of Ops, Manvers, Mariposa and Fenelon Twp	\$83.70	\$28	

*All examples are based on \$300,000 Current Value Assessment

For clarity on the table above:

- Special Rate Area refers to the category of service which is being assigned a separate tax levy
- Communities included identifies the communities that are being assessed the special area rate
- Current Special Rate Area Levy illustrates what a residential home with a current value assessment of \$300,000 would be billed for that SRA using 2019 tax rates

The final two columns in the chart above highlight the impact on the tax bill if the SRA was to be eliminated and generally rated. The Special Area Rate column indicates the impact to those currently being assessed the SRA, and the All Others column indicates the impact to those who are not currently being assessed the SRA.

As an example, property owners in Lindsay are currently being assessed and SRA for Parks. A home with a current value assessment of \$300,000 in Lindsay would be assessed \$38.10 on their tax bill for Park purposes. If the SRA was eliminated, that same property would see a decrease of \$30 on their tax bill. Those who are not currently paying the SRA (every property outside of Lindsay) will pay \$8 more on their tax bill.

It should also be noted that the above table is for illustrative purposes only. The actual impact to a property would differ depending on the current assessed value of the property.

The data presented in the table highlights that regardless of which SRA is eliminated, it results in a tax impact. The degree, whether positive or negative, to which the property is affected is dependent on what SRAs are currently applied to the property.

Full elimination of the SRAs (save & except BIA) has a significant tax impact, as it results in all Residential taxpayers paying the same tax rate, regardless of where they reside in the City. This would spread the cost of municipal tax-based services evenly across the entire City, under the assumption that all taxpayers benefit, to some extent, from these City services.

It should be noted that our research has shown that a significant number of Ontario municipalities do not area rate any services.

Ultimately, Council has the authority to phase-in any property tax impact as a result of changes and/or elimination of SRAs.

Other Alternatives Considered:

The 2020 taxation year represents the last tax year for the 2016 Assessment Update where current value assessments will be at their full value. Eliminating any of the SRAs will have an effect to shift the burden within each class disproportionately due to changes in the phased-in assessed values, which is not ideal.

Council may wish to defer any elimination of SRAs until the 2019 Assessment Update (2021 to 2024 taxation years). This will ensure any shift in the tax burden within each class would be shared proportionately over the 4-year period in the cycle.

A deferral would also allow Public Consultation/Information Sessions to be coordinated to ensure property owners are aware of the process change and any potential impact to their property taxes.

Financial/Operation Impacts:

SRAs do 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 application of the SRA simply redistributes who ultimately is paying for the service.

As shown in the table above, there are financial implications with any individual or all SRAs being eliminated. Should Council choose to harmonize any of these service, the financial impact would depend on the desired level of harmonization.

Relationship of Recommendation(s) To The 2016-2019 Strategic Plan:

Strategic Enabler – Responsible Fiscal Resource Management

Consultations:

Outreach to various municipalities in Ontario

Attachments:

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