

## Modification of Area Rating Model

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Recommended by:	General Manager of Corporate Services

## Report Summary

This report provides a recommendation regarding area rating and seeks direction prior to returning to the Finance and Administration Committee with property tax policy.

## Resolution

THAT the City of Greater Sudbury directs staff to include 'Alternative 2 – Phase in Impact to Composite Area' when preparing the 2021 Property Tax Policy Report as outlined in the report entitled 'Modification of Area Rating Model' from the General Manager of Corporate Services presented at the City Council meeting on April 27, 2021.

## Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

## Financial Implications

There are no direct financial implications of this report. The report requests direction from Council, and this direction will be incorporated into the 2021 Property Tax Policy report.

## Background

### *Area Rating Definition*

Area rating is a method of applying a different taxation rates to different areas on the basis of services received.

Area rating results in the allocation of the property tax levy based on assessment and the services provided to each property. The alternatives listed within this report do not have an impact on the 2021 net property tax levy passed by Council on April 6.

## *History of Area Rating*

The Greater Sudbury Act 1999 allowed for the area rating of only five specific services; Water, Sewage, Street Lighting, Fire Services and Transportation.

The decision by the City's Transition Board was to only area rate Fire and Transportation Services to recognize the differing service levels across the newly amalgamated municipality.

This recommendation was adopted by the first Council of the City of Greater Sudbury and these two services have been area rated since that time.

## *Fire Services*

An analysis of Fire Services revealed that the service levels were considerably different throughout the seven former area municipalities and the unorganized areas that were being annexed to the City. The service could not be harmonized throughout the City without significantly increasing the City's budget. It was also determined that a career service level was not required throughout the entire City as the former area municipalities considered their volunteer services as providing adequate service levels. The area rating of this service was adopted to recognize these different service levels while maintaining the same relative tax position.

The three service level areas followed former municipal boundaries. They are as follows:

1. Career - Former City of Sudbury which is predominately serviced by full time fire fighters.
2. Composite - Former City of Valley East which is serviced by a mix of full time fire fighters and volunteers.
3. Volunteer - All other areas of the City including the unorganized area which is serviced by volunteer fire fighters only.

There are two components utilized in the calculation of the area specific fire rate:

1. Base Costs - Includes the cost of administration, facilities and apparatus, public education and prevention.
2. Direct Suppression Costs - Salary and benefit costs specific to each service area (Career, Composite and Volunteer).

The base costs for fire services are allocated to each service area based on their weighted assessment compared to the total City weighted assessment. This amount coupled with the direct suppression costs associated with each area are divided by the weighted assessment for their area to determine the area rated tax rate for fire services.

Prior to 2014, Fire Services would respond to emergency incidents in volunteer areas of the municipality with only volunteer resources. Career resources only attended if requested by a Volunteer Captain, District Chief, or Platoon Chief. In 2014, Fire Services updated the response protocols in order to ensure that in addition to Volunteer resources, Career resources were deployed to critical emergency incidents in Volunteer areas of the municipality. The protocol update was prompted by increasing volunteer response times, lower volunteer turn out, and concern for response times and public safety.

## *Fire Arbitration Award*

A recent binding interest arbitration award ordered an increase in staffing at Station 16 in Val Therese from two-full time firefighters per shift to four. The financial implication of this award was \$1.075 million, which was approved within the 2021 Budget.

Under the current area rating model, this additional cost would be borne by the property owners in the composite area only.

## *Transit Services*

The second service that is area rated is GOVA Transit and its GOVA Zone and GOVA Plus public transit services. The service levels prior to amalgamation were considerably different throughout the seven former area municipalities, with no service to the formerly unorganized areas. To harmonize the service to one level would require significant budget increases. However, harmonizing service levels outside the core city could be accommodated.

As a result, two distinct service levels were developed for area rating and they are as follows:

- Commuter - Former area municipalities, except the former City of Sudbury, which provided service along main arteries with fewer daily trips.
- Urban - Former City of Sudbury, which provided more frequent service along both main arteries and some residential streets.

There is no area rate for the former unorganized areas as there is no transit service provided in these areas.

The transportation area rate is based on a combination of transit costs and transportation for the disabled costs. The transit cost for each area is allocated based on the number of service hours provided in each area. At inception, the transit cost split was 82%/18% between the urban and commuter areas. Over the past few years, additional service hours have been allocated to the commuter area, resulting in a revised calculation of 77%/23%. GOVA Plus service costs are allocated based on the historical actual costs in the Urban and Commuter areas respectively. The remaining Transit costs are allocated based on service hours in each area. The costs for each area divided by the weighted assessment for that area generates the transit area rate.

## **Potential Area Rating Changes**

For presentation purposes, the alternatives listed below have been presented in 2021 dollars and highlight the following:

- The year over year dollar change for total taxation
- The year over year percentage change for total taxation
- The dollar change as it relates specifically to the Fire Operating Budget
  - As stated in the background, the area rating calculation includes Base Costs, which includes capital expenditures, and Direct Suppression Costs. The amount presented for Council's information is the dollar change as a result of the interest arbitration award and other operating budget changes.

These figures are subject to change when returning to the Finance and Administration Committee with property tax policy. The actual dollar amounts presented are the comparable taxation levels for a typical detached home assessed at \$230,000.

## ***Area Rating Alternatives***

Staff have prepared six alternatives for Council's consideration due to the recent arbitration award and substantial change to the budget for Fire Services. A summary of financial changes have been included in **Appendix A** for Council's information.

1. Status Quo of Area Rating Model
2. Phase in the impact to the Composite Area over three years (recommended)
3. Allocate a portion of Composite and Career costs to the Volunteer Area based on call volumes
4. Phase in the impact to the Composite Area and allocate a portion of Composite and Career Costs to the Volunteer Area based on call volumes

5. Eliminate Fire Services from Area Rating
6. Eliminate Area Rating (for both Fire and Transit Services)

### ***Alternative 1 - Status Quo of Area Rating Model***

If the current way of calculating area rating remains unchanged, 100% of the additional costs due to the arbitration award will be added to the Composite Area which will result in a larger increase for property owners in Valley East.

This would result in the following impacts for 2021:

Table 1	2021 Impact			
	Career / Urban	Composite / Commuter	Volunteer / Commuter	Volunteer
	Taxation	Taxation	Taxation	Taxation
2020 Taxation	3,080	2,851	2,749	2,633
Alternative 1 - Status Quo of Area Rating Model	3,201	3,036	2,839	2,706
Dollar Change	121	185	90	73
Percentage Change	3.9%	6.5%	3.3%	2.8%
Dollar Change Specific to Fire Operating Budget (Alternative 1)	13	99	3	3

### ***Alternative 2 / Recommendation – Phase in the impact to the Composite over three years***

The second alternative for Council's consideration, which is also staff's recommendation, is to phase in the impact of \$1.075 million to the Composite area over three years.

This would result in the financial impact of the arbitration award to be phased in over three years, which results in the Career and Volunteer sharing two thirds of the impact in 2021, one third in 2022 and the Composite area realizing 100% of the costs by 2023.

The 2021 impact of this alternative is as follows:

Table 2	2021 Impact			
	Career / Urban	Composite / Commuter	Volunteer / Commuter	Volunteer
	Taxation	Taxation	Taxation	Taxation
2020 Taxation	3,080	2,851	2,749	2,633
Alternative 2 - Phase in Impact of Composite	3,210	2,974	2,845	2,712
Dollar Change	130	123	96	79
Percentage Change	4.2%	4.3%	3.5%	3.0%
Dollar Change Specific to Fire Operating Budget (Alternative 2)	22	38	10	10

Implementing this alternative would result in a consistent percentage increase in all four categories as the increase to Fire Services is gradually allocated to the Composite area.

Further presentation of the 2022 and 2023 impacts are included within **Appendix B**.

### ***Alternative 3 – Allocate a portion of Composite and Career Costs to the Volunteer Area based on call volumes***

This alternative reflects a review of how Fire Services are delivered to outlying areas. It is estimated that 6% of incidents in outlying areas receive a response by firefighters from either the Career or Composite areas. This alternative includes an allocation from the Career and Composite costs to Volunteer of approximately 6%.

If staff were directed to implement this alternative, it is recommended to phase in the impact over two years which would result 3% of direct Career and Composite costs be allocated to the Volunteer each year, for two years.

The 2021 impact of this alternative is as follows:

Table 3	2021 Impact			
	Career / Urban	Composite / Commuter	Volunteer / Commuter	Volunteer
	Taxation	Taxation	Taxation	Taxation
2020 Taxation	3,080	2,851	2,749	2,633
Alternative 3 - Allocate to Volunteer from Career/Composite (6%)	3,193	3,029	2,858	2,725
Dollar Change	113	178	109	92
Percentage Change	3.7%	6.2%	4.0%	3.5%
Dollar Change Specific to Fire Operating Budget (Alternative 3)	5	92	22	22

The greatest impact remains within the Composite/Commuter under this alternative. The apportionment of Career and Composite costs to Volunteer smooths the impact slightly, but not as much as the 2<sup>nd</sup> alternative / recommendation.

A presentation of the 2022 impact of this alternative is included within **Appendix C**.

### ***Alternative 4 – Phase in impact to Composite and allocate a portion of Composite and Career Costs to the Volunteer Area based on call volumes***

The fourth alternative is a hybrid model that combines Alternatives 2 and 3. This alternative includes phasing in the impact to the Composite area over three years while also including an allocation from Career and Composite areas (6%) to Volunteer phased on in over two years.

The 2021 impact of this alternative is as follows:

Table 4	2021 Impact			
	Career / Urban	Composite / Commuter	Volunteer / Commuter	Volunteer
	Taxation	Taxation	Taxation	Taxation
2020 Taxation	3,080	2,851	2,749	2,633
Alternative 4 - Phase in Impact of Composite & Allocate 6%	3,202	2,969	2,864	2,731
Dollar Change	122	118	115	98
Percentage Change	3.9%	4.1%	4.2%	3.7%
Dollar Change Specific to Fire Operating Budget (Alternative 4)	14	32	29	29

As this alternative is phased in over a number of years, staff have provided future year impacts which is included within **Appendix D**.

### ***Alternative 5 – Eliminate Fire Services from Area Rating***

The fifth alternative for Council's consideration is to exclude Fire Services from Area Rating. This would result in only Transit Services costs allocated and the Municipality would no longer require Career, Composite or Volunteer classifications. This alternative treats Fire Services like the rest of non-area rated services and the service is charged at the same rate across the entire City.

The 2021 impact of this alternative is as follows:

Table 5	2021 Impact			
	Career / Urban	Composite / Commuter	Volunteer / Commuter	Volunteer
	Taxation	Taxation	Taxation	Taxation
2020 Taxation	3,080	2,851	2,749	2,633
Alternative 5 - Eliminate Fire Services from Area Rating	3,131	2,995	2,995	2,862
Dollar Change	51	144	246	229
Percentage Change	1.7%	5.0%	8.9%	8.7%

The elimination of area rating for fire services reflects a substantial increase to the Volunteer/Commuter and Volunteer classifications. This alternative could be phased in over a number of years if Council were to direct staff to implement this alternative.

### ***Alternative 6 – Elimination of Area Rating***

The sixth alternative presented to Council is the elimination of area rating entirely for both Fire and Transit services. Implementation of this alternative would result in all property owners paying the same rate. The entirety of the property tax levy would be divided based on weighted assessment and not by the service levels that are provided to each property owner.

The 2021 impact of this alternative is as follows:

Table 6	2021 Impact			
	Career / Urban	Composite / Commuter	Volunteer / Commuter	Volunteer
	Taxation	Taxation	Taxation	Taxation
2020 Taxation	3,080	2,851	2,749	2,633
Alternative 6 - Eliminate Area Rating	3,076	3,076	3,076	3,076
Dollar Change	(4)	225	327	443
Percentage Change	-0.1%	7.9%	11.9%	16.8%

Similar to Alternative 5, the most substantial changes are to the Volunteer/Commuter and Volunteer classifications. This alternative could be phased in over a number of years if Council were to direct staff to implement this alternative.

## **Conclusion**

It is staff's recommendation to proceed with Alternative 2, which is to phase in the impact of the arbitration award to the Composite classification. Staff believe this is the best fit with the purpose of area rating and results in the service level enhancement and respective costs being allocated to the Composite area. This

alternative would smooth the impact of the arbitration award over three years and remains with the area rating methodology that ensures taxes are collected based on the services received.

## **Resources Cited**

Fire Protection Service Level Adjustment - <https://pub-greatersudbury.escribemeetings.com/filestream.ashx?documentid=37673>