

Comparative Municipal Tax Levy Changes

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Report Summary

This report provides information that outlines how other municipalities achieve tax levy changes lower than the rate of inflation.

Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report refers to operational matters and has no direct connection to the Community Energy & Emissions Plan.

Financial Implications

There are no financial implications associated with this report.

Background

During the June 22, 2021 Finance and Administration Committee meeting, staff were directed to present a report outlining how other municipalities have achieved property tax levy increases lower than the rate of inflation. This report presents information obtained by surveying other single tier municipalities and describes a number of factors that influence the organization's property tax levy. Staff focused on other single tier municipalities because they are the most similar with respect to services provided as well as similar local governance frameworks.

Analysis

Municipal Tax Change Calculation

A municipality's tax levy is its net revenue requirement for providing the service levels selected by City Council after accounting for all other funding sources and changes in property assessment values. The calculation of how municipal taxes change is as follows:

Property Tax Levy Change (%) – Assessment Growth (%) = Municipal Tax Change

When expressed as a percentage, the property tax levy change typically compares the current levy with the prior year levy. For example, a “3% tax levy increase” indicates the current period levy is 3% higher than last year’s tax levy.

Assessment growth is the sum of all changes, be it new construction and renovations offset by demolitions and property tax appeals. It is the net change in the organization’s tax base. A large amount of new construction and renovations will provide a larger positive change to the tax base and will ultimately lower the municipal tax increase required. As an example, if the cost to provide all city services and capital budgets increased by 2% (including any service level enhancements), while the municipality experienced 2% assessment growth, the municipality could achieve a property tax levy increase of 0%. It should be noted that assessment does not equate to valuation change. Assessment growth is an offset to the overall municipal tax change, however valuation change may alter how much of the property tax levy derives from each property tax class. These decisions are made when contemplating Property Tax Policy once the budget process is complete.

As highlighted in the BMA study, the City of Greater Sudbury remains the city with the 2nd lowest level of property taxation in the province when comparing the typical detached bungalow amongst municipalities with over 100,000 in population. This means that compared to cities that provide generally similar services, Sudbury is one of the lowest cost service providers.

Municipal Tax and Rate Changes in 2021

Municipalities, including Greater Sudbury, network extensively to share information, examples and ideas that help the entire sector demonstrate resilience and adaptability. Municipal staff, specifically the Executive Director of Finance, Assets & Fleet, is part of a working group that is made up of Ontario Regional & Single Tier Treasurers. This group, representing jurisdictions with over 90% of the province’s population, meets on a monthly basis to discuss current topics and issues of municipal interest. The group also receives presentations from external groups to inform their collective view on various matters including interest rate projections, economic forecasts and policy issues affecting municipalities that could involve senior orders of government.

During 2020/21, a budget survey was conducted that compared property taxes and utility rates (Water/Wastewater). The survey reported 2021 property tax changes ranging from 0% to 4.4%. Among the factors influencing the individual changes, the most significant insight from this information was the range of assessment growth that municipalities were experiencing. Annual assessment growth varied between 0.23% and 2.06%. Generally, where assessment growth was higher, overall property tax changes were lower.

The City of Greater Sudbury experienced assessment growth of 0.49%, which was included within the 2021 Budget. Of the 18 Municipalities that participated in the survey, Sudbury experienced the third lowest assessment growth.

The Role of Consumer Price Index Changes in Determining Municipal Property Taxes

The direction for this report called for staff to offer some insight into how other municipalities could have property tax changes “below the rate of inflation”. This typically refers to household price changes, as reported monthly by Statistics Canada. This figure has no relationship to municipal services or budgets.

The Consumer Price Index (CPI) represents the change in prices of a basket of goods from point in time to another. There are 8 major components that make up CPI, and they are: Food, shelter, household operations, furnishing and equipment; clothing and footwear; transportation; health and personal care; recreation; education and reading, and alcoholic beverages, tobacco products and recreational cannabis. Some of the organization’s expenditures include items tied to CPI, such as contract services and the annual increase noted within each contract and some that are not, such as benefit rates, insurance, the

organization's Service Partners, utility costs etc. The budget direction report presented each year highlights the pressures that the organization is facing from a finance and budgetary perspective.

In summation, CPI remains a comparative figure that can be used as a benchmark of what can be strived towards, however there is no direct relationship between the increases in municipal property taxes to CPI.

Other Influencing Factors

Varying factors outside of the organization's control could impact the City's ability to grow, from both a population and assessment perspective. These factors could include the general economic condition of the City, assessment mix (residential versus industrial and commercial), ability to collaborate with other municipalities and agencies (cost sharing) as well as the following:

- Geography
 - The City of Sudbury presents a unique environment from both a weather and terrain perspective. The organization's budget for Winter Control is substantial, but required in order to deliver the approved service levels of Council. Capital budgets may also be higher than comparators due to extensive blasting required for certain projects that other municipalities may not face during construction.
- Population Density
 - The population of the City of Greater Sudbury is spread over an area of 3,228 square kilometers. As per the latest BMA Study, the population density is ranked low with a population density of 53 people per square kilometer. It should be noted that the average for northern municipalities is a population of 158 per square kilometer.
 - Lower population density also creates a requirement for more facilities that service areas with low population. This results in lower utilization, therefore lower user fees and a higher level of subsidization.

Council controls a variety of policy choices that influence the property tax levy. For example, Council controls service levels and the property tax levy is the major source of financing. To support service level decisions, Council has access to benchmarking data in the budget document, annual report and various presentations that reflect Greater Sudbury's current service levels, efficiency and quality compared to the MBNCanada median. Further, Council also has the results of a core service review that it directed to be delivered in 2019, which shows where/how services could be adjusted to reduce net costs (or allow existing resources to be shifted to higher priority service areas). Other examples of changes Council can control, and which reflect variations in practice between municipalities, include the following:

- Policy Choices
 - User Fees
 - Municipalities decide the level of subsidy for user pay services, such as Arenas, Play Fields, Cemeteries etc. A higher level of subsidy requires a higher tax levy.
 - Some municipalities have a 100% user pay financing model in place for some of their services. For example, in Greater Sudbury water and wastewater services are completely funded by user rates and do not require any property tax subsidy, which is typical in most communities. Some other cities also use this financing approach for waste collection and storm water management, further reducing the requirement for tax subsidies.
 - The Core Service Review recommended analyzing and changing the City's user fee structure. Council approved a User Fee Framework, which helps define an appropriate level of tax subsidy by understanding the level of community benefit provided by a particular service. This will inform future user fee policy decisions and could reduce future property tax levy changes.
 - Development Charges

- Development charges are a source of capital funding for growth related capital projects. Depending on the amount of development charges collected or rates charged, this will impact how much can be spent on growth related projects using this source, rather than the tax levy. Sudbury's development charge rates are lower than the averages reflected in the 2020 BMA study.
 - Reserves and Reserve Funds
 - Reserves and reserve funds are amounts set aside for a specific purpose, such as to accumulate in order to replace assets, to ensure funds are set aside for unanticipated or unbudgeted expenditures. Ensuring that reserves and reserve funds have healthy balances are a key component of the City's Long-term Financial strategy.
 - Municipalities have the ability to offset expenditures with the utilization of reserves, however, best practice is to use one-time funding sources to fund one-time expenditures. Any use of one-time funding sources for on-going expenditures will reflect an impact on the tax levy once the funding source is removed or depleted.
 - Some municipalities have explicit strategies to increase their flexibility by budgeting funds to grow reserve balances. This long-term strategy increases flexibility and gives Council more choice when considering how to pay for one-time expenditures. It can be noted that municipalities may have projected additional funding from senior levels of government to support COVID-19 related pressures in 2021 and/or included the utilization of reserves to balance to a desired tax levy change target.
 - Budget Flexibility
 - The organization's budget consists of both operating and capital requirements. Municipalities decide the balance that is allocated to Capital, along with the requirement of funding service levels in operating.
 - Along the same lines, municipalities have the ability to be flexible in terms of how debt repayment is budgeted. Council may choose to increase the tax levy to fund debt repayments, or reduce the capital program to fund the same debt repayments. Using capital funds to fund debt reduces the amount ultimately on capital projects.
- Service Level Choices
- Number of Assets or Facilities
 - As discussed during the 2021 Budget, specifically facility rationalization, municipalities have the ability to decide the mix of assets to be used to deliver Council approved service levels. This includes the number of arenas, playing fields, municipally owned properties etc. Each facility includes both fixed and variable operating expenditures and opportunities exist to be more effective with respect to service delivery.
 - Scale of Services Available
 - The level of service provided by operating departments can be adjusted to reduce the impact on the tax levy. Council has the ability to reduce, eliminate, or enhance, levels of service and the financial costs associated. The Core Service Review prepared by KPMG includes a substantial amount of information on service levels, performance and financial implications of each service.
 - Service Delivery Methods
 - Municipalities have the ability to adjust the service delivery methods for outward facing services, as well as internal support services. This includes the mix of contractors versus City staff, utilization of volunteers instead of paid staff as well as offering services online versus in-person. Each of these choices may have positive, or negative financial implications and can impact the amount of tax levy required.
- Corporate Cultural Choices
- Risk Tolerance
 - Council and staff have finalized work on the Enterprise Risk Management Policy and have established Key Enterprise Risks that have been identified and analyzed. The

level of risk appetite which drives the requirement for mitigation strategies may require additional resources (financial, additional staff etc.) to implement.

- Innovation
 - Similar to the service level decisions highlighted above, Council has the ability to focus on sustaining current service levels or invest in innovation to change the way services are delivered. Investments, even though may impact the current year's tax levy, may result in long-term savings for the municipality.
 - The organization has taken strides with respect to innovation with GOVA, Customer Service Strategy (and its new CRM and the One-Stop Shop now under construction), the water meter upgrade program and Land Management Information System (LMIS), to name a few examples. These recent changes improve service levels and/or reduce net costs. In addition, Council approved the business case for COMPASS. This foundational change will regularly provide better information about productivity levels for all services.
- Development
 - As of September, 2020 the City engaged with the Greater Sudbury Development Corporation with a revised operating agreement that renews the mandate and role of the Corporation to focus on economic development, investment attraction by encouraging , facilitating and supporting community strategic planning, investment and job creation. This supports the City's interest in leveraging resources to support development and to ultimately grow the tax base. The GSDC is another opportunity for the City to engage business and development stakeholders in collaborative efforts in support of development. An excellent example of this collaboration is the Employment Lands Strategy, coordinated by City staff in both Planning Services and Economic Development and supported with a financial contribution from the GSDC.
 - The Employment Lands Strategy in support of the City's strategic plan 2019 - 2027 is designed to develop an employment lands strategy and community improvement plan that links infrastructure and economic development and ensures that the City has an adequate supply of serviced employment land and incentive framework in place to stimulate investment, development and job creation. The consultation process has included stakeholder engagement meetings with the Mayor and Council, community groups such as the GSDC board and the Chamber of Commerce, the Mining sector, Real Estate and Development sectors and input received from the City's Over to You website. It is anticipated that the final report to be completed in Q4 of 2021 by the lead consultant Cushman - Wakefield, aimed at enhancing Greater Sudbury's investment readiness. These may include servicing recommendations for existing industrial areas, amendments to the City's Zoning By - Laws and the creation of a jobs and investment CIP and incentive program. The implementation of any of these measures will require City Council approval as well as ongoing public engagement as these new policies and programs are developed.

Conclusion

Each municipality differs with respect to factors within or beyond of Council's control. Each municipality also differs on the levels of service that are provided to rate payers as well as the financing mix of what is funded by the tax levy, and what is funded by user fees, such as Stormwater and Solid Waste expenditures.

The topics highlighted in this report indicate a number of decision points that can be made which would impact the property tax levy, and potentially lower overall change to a rate less or equal to the rate of inflation. Some of the decision points highlighted within this report may include financing policy choices that are not recommended, but do indeed result in a lower overall tax levy change.

While each municipality has outside factors that influence the property tax level, decisions of Council through the budget deliberation process also influence the rate of taxation for any given year.

References

2021 Property Tax Policy - <https://pub-greatersudbury.escibemeetings.com/filestream.ashx?DocumentId=39949>

2020 BMA Study - <https://www.greatersudbury.ca/city-hall/budget-and-finance/performance-measurement/2020-bma-report/>

Core Service Review - <https://pub-greatersudbury.escibemeetings.com/filestream.ashx?documentid=1158>

Long-term Financial Plan Update 2021 - <https://pub-greatersudbury.escibemeetings.com/filestream.ashx?DocumentId=40230>

Enterprise Risk Management Update - <https://pub-greatersudbury.escibemeetings.com/filestream.ashx?DocumentId=40219>