

Report To: Committee of the Whole

Meeting Date: November 1, 2021

Subject: Sewer Levy Review

Recommendation(s)

1. That Report FIN 21-29, Sewer Levy Review, dated November 1, 2021, be received for information; and
2. That Council endorse for the 2022 Taxation Year Scenario 1: Modified Status Quo; and
3. That Council endorse for the 2023 Taxation Year Scenario 2: Hybrid Levy and Fee Model and that staff be directed to develop an implementation plan, which includes seeking public feedback on this approach through public engagement and final communications to residents.

Purpose

The purpose of this report is to provide Council with information regarding the Town's Sewer levy special area rate (SAR) and to explain options that Council can take going forward.

Background

On August 30th, Municipal Tax Equity (MTE) Consultants Inc. conducted a Council Education Workshop. Within this workshop, MTE provided a general overview of core municipal revenue options, and examined the Town's current Sewer SAR with a look at potential risks and weaknesses that had been identified. Appendix B provides more detail on how issues were framed and options identified.

Following the workshop, a survey was distributed to Council requesting feedback to help guide staff when preparing the detailed analysis and appropriate recommendations.

Topics of the survey included:

- General Nature of Wastewater/Sewer Services
- Equity in Fees
- Appetite for Impacts
- Administrative simplicity, efficiency and compliance
- General Comments

Staff received 3 completed surveys.

Analysis/Comments

The detailed analysis performed by Municipal Tax Equity (MTE) Consultants Inc. is attached as Appendix A. As outlined in the detailed report, there is a variety of valid options along a continuum from retaining a connection based SAR to moving to a full fee model to recover sewer costs. In order to guide the decision making process, the report provides three pro-forma models that staff felt were reasonable representations of the option:

1. **Modified Status Quo:** Maintain the Status Quo, specifically a Connection-Based Sewer Levy SAR with the exclusion of exempt properties and the maintenance of fixed annual roll ranges.
2. **Hybrid Levy and Fee Model:** Continue to raise a portion of the annual revenue requirement via the Connection Based Sewer Levy SAR, with the remainder to be raised through a sewer fee attached to water bills. The model splits the revenue 50/50 between these two mechanisms and the fee would be variable based on each user's water consumption.
3. **Eliminate Sewer Levy SAR and Rely on Fees Only:** Eliminate the Sewer Levy SAR in favor of a full fee-based approach. As with Scenario 2, the fees would be variable based on each user's water consumption.

As outlined in the detailed report, many options could be considered. Staff's recommendation for scenario 1 for 2022 are based on the following considerations:

1. Ensuring the approach taken by the Town is compliant with tax legislation and consistently applied. When using a SAR, the Town cannot apply it to exempt properties. The historical practice has been applied to some connected exempt properties and not others. The proposed modified status quo applies the taxation principles consistently and acknowledges that if we support a redistributive taxation framework via a sewer levy SAR, we also support the exemption principles embedded in tax legislation for those properties.
2. 10-12 months time is required to develop an implementation plan and properly execute any fundamental change to shift towards a fee-based system.

Staff's recommendation for 2023 and beyond are based on the following considerations:

1. The comprehensive review prepared shows that Grimsby is unique in their approach to using taxation instead of fees to support sewer programs. 2 of the 444 municipalities in Ontario exclusively use the sewer levy SAR approach.
2. Through the Council workshop and survey, Council articulated some support that sewer services are a private benefit to users but also identified the importance of managing impacts. Staff's recommendation balances these two considerations in trying to acknowledge the nature of the service and thereby moving some costs to a fee based service while also minimizing the impacts of a transition.
3. Moving to 50/50 hybrid model aligns with current sewer cost structures in that approximately 50% of the total sewer budget is used to support annual sewer operations (supported by a fee for usage) and the other 50% is used to support contributions to capital and paying the Region for their infrastructure/service (supported by a sewer levy SAR).
4. Managing the administrative burden of a transition by still keeping the approach simplistic enough by connecting the fee component directly to variable water consumption, which can be incorporated into our existing water billing process.
5. While transitioning models will have initial tax shift impacts, moving toward a fee based structure would minimize future volatility to taxpayers as it would rely more on water usage and less on property assessment, which can see shifts every 4 years when property reassessments occur.

Financial Impact

The financial impact of changing the approach to how the Town raises funds to support the sewer program is shifts in how the tax burden is distributed among property types and residents. The total amount of funds collected would remain the same and be driven by the Town's annual budget process.

Scenario 1

No significant change expected with only \$92,250 or 1.4% in sewer levy currently collected from 10 exempt properties shifting to other property types based on their current proportional share of the tax. Most properties would see a 1.5% increase.

Scenario 2

Table 1 below outlines the following total shifts between property types in Scenario 2.

Property Type	Status Quo		Scenario 2				Difference	
	Amount	Share	Levy (Tax)	Fees	Total	Share		
Vacant Land	\$35,160	0.56%	\$17,580	\$2,080	\$19,650	0.31%	-\$15,510	-0.25%
Farm	\$9,010	0.14%	\$4,560	\$36,700	\$41,260	0.66%	\$32,250	0.52%
Residential	\$5,129,670	82.21%	\$2,605,960	\$2,568,400	\$5,174,370	82.93%	\$44,700	0.72%
Commercial	\$560,990	8.99%	\$281,630	\$199,990	\$481,660	7.72%	-\$79,330	-1.27%
Industrial	\$362,250	5.81%	\$184,070	\$222,220	\$406,280	6.51%	\$44,030	0.70%
Gov./Institutional	\$50,340	0.81%	\$25,590	\$74,660	\$100,240	1.61%	\$49,900	0.80%
Exempt in SAR	\$92,250	1.48%	\$0	\$15,840	\$15,840	0.25%	-\$76,410	-1.23%
Overall	\$6,239,670	100%	\$3,119,390	\$3,119,890	\$6,239,300	100%	-\$370	0%

Of the shift of \$44,700 onto the residential group, the lower assessed value properties are expected to see an increase and the higher value properties can expect a decrease. Additionally, we can expect that those properties that use little to no water will see decrease and high volume users can expect to pay more.

While at an aggregate property type level the total dollar impacts may not appear overly dramatic, it is important to remember there would be inter-property shifts occurring within each group as well.

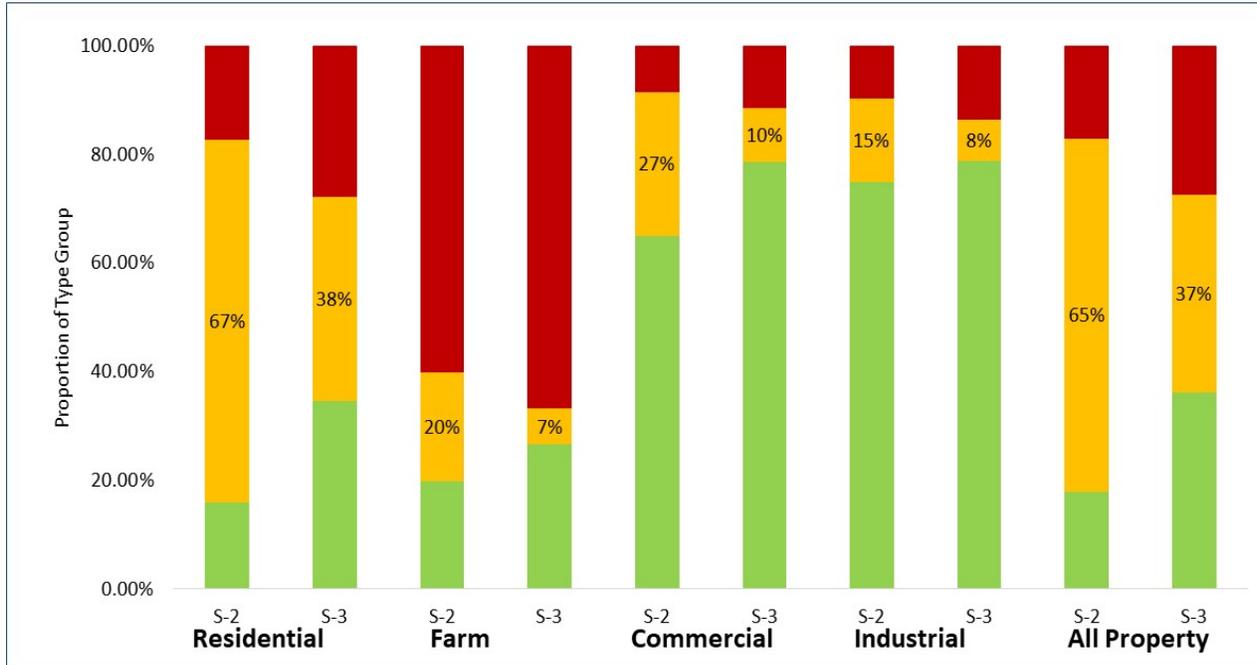
Scenario 3

Table 2 below outlines the following total shifts between property types in Scenario 3.

Property Type	Status Quo		Scenario 3		Difference	
	Amount	Share	Amount	Share		
Vacant Land	\$35,160	0.56%	\$4,170	0.07%	-\$30,990	-0.49%
Farm	\$9,010	0.14%	\$73,370	1.18%	\$64,360	1.04%
Residential	\$5,129,670	82.21%	\$5,136,190	82.32%	\$6,520	0.11%
Commercial	\$560,990	8.99%	\$400,080	6.41%	-\$160,910	-2.58%
Industrial	\$362,250	5.81%	\$444,440	7.12%	\$82,190	1.31%
Gov./Institutional	\$50,340	0.81%	\$149,330	2.39%	\$98,990	1.58%
Exempt in SAR	\$92,250	1.48%	\$31,660	0.51%	-\$60,590	-0.97%
Overall	\$6,239,670	100%	\$6,239,240	100%	-\$430	0%

Magnitude of Impacts

The chart below highlights the distribution of impacts within each property types between scenario 1 and 2. The green bar represent 25% or more reduction, red a 25% or more increase, and yellow between 25% increase and 25% decrease.



Cost of transition

In Scenario 1 we would expect to see only a small to nil change in the cost to administer this process. Current software and administrative procedures are already established.

In Scenario 2 or 3 we would expect to see some one-time transitional costs due to soliciting public feedback, software adjustments, administrative changes and ultimate communications. If these options are selected the cost to implement would be incorporated into the 2022 budget.

Respectfully prepared by,



Faye West
Manager of Revenue & Collections

Respectfully reviewed by,



Brandon Wartman
Director of Public Works

Respectfully submitted by,



Melanie Steele
Interim Director of Finance/Treasurer

Approved by,

Harry Schlange
Chief Administrative Officer

Attachments

- Appendix A - Town of Grimsby's Special Sewer Levy Discussion and Reform Overview
- Appendix B - Town of Grimsby's Sewer Levy Review Preliminary Discussion Framing Issues and Options