Council Report # 2018-11

Title: 2018 Property Tax Policy - Ratios

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Strategic Plan: Economic Innovation and Prosperity, Sustainable Infrastructure and Services, Thriving and Inclusive Communities, Organizational Excellence

Council Date: February 21, 2018

Recommendation

"Whereas Council of the County of Northumberland previously received Report No. 2017-65 Property Tax Policy Review;

And Whereas staff and member municipal Treasurers executed a tax policy study in consideration for 2018 tax policy recommendations;

And Whereas Council of the County of Northumberland received Report No. 2018-11 - 2018 Property Tax Policy - Ratios;

Now Therefore Be It Resolved That a by-law be prepared authorizing the 2018 Tax Ratios."

Purpose

The purpose of this report is to present the 2018 tax ratio bylaw for purposes of the 2018 tax policy.

Background

Staff initiated a formal tax policy review as authorized by Council under resolution 2017-03-15-61. Further to this, Council directed staff to report on findings of the policy review and options for tax policy changes under resolution 2017-10-11-222.

There were several factors that highlighted the need for a formal tax policy review. The County tax policies have remained fairly constant for several years. In 2017, the Ministry of Finance (MOF) made a number of changes to statutes within the property taxation legislative framework increasing flexibilities for municipal tax policy setting. Reassessment of properties by the Municipal Property Assessment Corporation (MPAC) resulted in a shift in the proportion of assessment and taxation burden across property classes commencing in 2017. Various individuals and organizations have contacted staff and Councilors requesting changes to tax policy as it applies to an applicable tax class of interest to them.

In light of this, and at the direction of Council, staff undertook a formal property tax policy review in advance of adopting the property taxation policies for 2018. This was to ensure that potential impacts to property owners in all tax classes as a result of any policy changes were fully understood. The findings were provided to Council under Report No. 2017-65 Property Tax Policy Review and are utilized in recommendations brought forward under this report.

Consultations

Staff acquired the services of Municipal Tax Equity (MTE) Consultants Inc. to complete the detailed review of the County's current tax policies. MTE works exclusively with Ontario municipalities in the areas of property assessment and taxation.

Member municipal Treasurers were engaged in the process of drafting the tax policy review and recommendations herein for 2018 tax policy as facilitated through the Northumberland County Treasurers working group.

Legislative Authority/Risk Considerations

Assessment Act, R.S.O. 1990, c. A.31.

Municipal Act, 2001 Sections 313, 364 and Ontario Regulation 325/01, amended to Ontario Regulation 210/05.

Discussion/Options

The proportionate share of property assessment between property tax classes within the County changed in 2017 as a result of MPAC reassessment. MPAC is responsible for assigning a current value assessment (CVA) for all properties. On a four year cycle MPAC reassesses all properties within Ontario. In 2016, MPAC provided reassessment valuations based on a valuation date of January 1, 2016. This represents an update from January 1, 2012 valuations. The CVA from the 2016 reassessment is utilized for property taxation calculations in the four year taxation cycle of 2017-2020. During this four year cycle, any properties experiencing an increase in CVA as a result of reassessment will have this phased-in by 25% in each of the four years. Properties that experience a decrease in CVA realized the change immediately in the first year of the reassessment cycle (2017). Changes in reassessment do not impact on municipal taxation revenues. Property taxation is collected based on approved annual budgetary levy requirements. Changes to CVA from reassessment result in shifts in the proportionate share of assessment between property tax classes from where taxation revenues are sourced and calculated.

Effective for 2017, the MOF made several changes to provincial legislation for property taxation. This included that a full levy and reassessment restriction for the multi-residential tax class be imposed on municipalities with a multi-residential tax ratio in excess of 2.0000. In addition to changes made to the existing multi-residential tax class, the MOF implemented a mandatory new multi-residential property class province-wide to ensure that municipalities tax new multi-residential buildings at a similar rate as other residential properties. Under the Fair Housing Plan, this initiative is meant to support and encourage the development of new rental housing as a step to improve housing affordability in the rental market place.

The Province implemented new flexibilities for municipalities to tailor vacant unit rebate and vacant/excess land tax subclasses programs based on local needs. Under Council resolution 2017-07-19-160, staff has been authorized to review policy options for the vacancy rebate program and engage stakeholders to assess potential impacts. Staff has compiled initial data and received notification from the MOF on requirements applicable to 2018 municipal requests for Provincial regulatory changes. Staff will be facilitating stakeholder engagement initiatives in March and will report findings and recommendations to Council.

In consideration of impacts from MPAC reassessment, stakeholder requests for changes to County tax policy and recent provincially legislated property tax changes, staff acquired Council's endorsement to facilitate a review of the County's current tax policies. Findings from the review have been utilized for recommendations to the 2018 tax policy. The tax policy study focused on historical taxation trends, assessment growth, current reassessment cycle projections, sensitivity analysis and comparator data.

CVA provides the basis for calculating tax rates. Each tax class, under municipal tax policy, is attributed a tax ratio. This ratio is applied to CVA in calculating the tax rates for each class. The residential tax class is the basis for calculation purposes of all other classes and is, therefore, set at a ratio of 1.0000 as prescribed under legislation. The tax ratios as derived under municipal tax policy will impact on the allocation of taxation burden across all tax classes.

In deriving tax policy, the principle objective should be to align policy decisions with the overall strategic goals of the municipality. It is also important to recognize the policies of neighbouring and comparator municipalities when considering competitiveness for retention and attraction of industrial and commercial enterprises. Balancing needs for the stimulus of economic growth with residential affordability are key considerations for setting tax policy. The County's infrastructure sustainability and service level requirements are addressed by establishing clearly defined financial objectives within a long term financial planning framework. Therefore, tax policy decisions should not be based on changes as a result of reassessment but rather aligned with the County's strategic goals as formally stated. Establishing tax ratios are derived based on this objective. The County's current tax ratios are displayed below in Table 1 relative to comparator municipalities:

Table 1
2017 Tax Ratio and Optional Class Survey by Ratio Setting Authority

Municipality	Farm	Managed Forest	Multi-Residential	New Multi-Residential	Commercial	Commercial Optional	Industrial Residual	Large Industrial[1]	Pipeline
Northumberland Co	0.2500	0.2500	2.2160	N/A	1.5152	*No commercial optional classes used within sample group*	2.6300	*2.6300*	1.1981
Haldimand County	0.2500	0.2500	2.0000	1.0000	1.6929		2.3274	*2.3274*	1.4894
Hastings	0.2500	0.2500	1.1535	N/A	1.1000		1.1292	*1.1292*	0.8219
Lanark Co	0.2500	0.2500	2.2873	1.0000	1.7714		2.5990	*2.5990*	2.0189
Leeds & Grenville Uco	0.2500	0.2500	1.0000	1.0000	1.3464		1.8114	2.8035	1.6551
Lennox & Addington Co	0.2300	0.2500	2.0000	1.0000	1.4175		2.1700	2.7300	1.2972
Peterborough Co	0.2500	0.2500	1.7802	1.0000	1.0986		1.5432	*1.5432*	0.9386
Prescott & Russell Uco	0.2500	0.2500	2.0000	N/A	1.4410		2.9907	4.0188	1.4158
Prince Edward County C	0.2500	0.2500	1.4402	N/A	1.1125		1.3895	*1.3895*	0.5394
Renfrew Co	0.2500	0.2500	1.9436	N/A	1.8147		2.8985	3.6160	1.3328
Wellington Co	0.2500	0.2500	1.9000	N/A	1.4910		2.4000	*2.4000*	2.2500
Average	**0.2480**	**0.2500**	**1.7928**	**1.0000**	**1.4365**		**2.1717**	**2.4715**	**1.3597**

*The optional commercial classes are shopping centre, office building and parking lot.
**New multi-residential rates shown are prior to the provincial mandate that all municipalities must adopt the new multi-residential class.

As displayed above, The County's tax ratios are aligned fairly closely with the comparators with the notable exceptions of the multi-residential and industrial classes at 2.2160 vs. an average of 1.7928 and 2.6300 vs. an average of 2.1717, respectively.

Many municipalities have moved their multi-residential tax ratio downwards. Some of these reductions can be attributed to new provincial regulations effective for the 2017 tax year, whereby any municipality that has a multi-residential tax rate that is greater than a provincial threshold of 2.0000 a full levy increase restriction will be required and reassessment related shifts onto the multi-residential class for existing properties will be prevented. Given the 2017 County tax ratio for multi-residential was 2.2160, this new regulation applied and was incorporated in the 2017 tax rate calculations as approved by Council on April 19, 2017. The result of reassessment was an overall reduction in CVA to multi-residential relative to other classes so this restriction did not apply; however, the levy increase restriction was applicable.

Given the County's current multi-residential ratio at 2.2160 exceeds the comparator average of 1.7928 and the provincial threshold of 2.0000 resulting in future levy increase restrictions, staff are recommending a reduction in this class for the 2018 tax policy down to 2.0000. Without a reduction in the ratio, 2018 and future years budgetary levy increases that would normally apply to this class will be allotted to all other tax classes. Further, the continuation of having to facilitate tax increase levy restrictions adds enhanced complexities for tax rate calculations. As a result of the County having a levy restriction on the class in 2017, the tax ratio for 2018 will need to move down to 2.156990 to reflect the ongoing levy restriction from the prior year regardless of tax policy decisions. At 2.156990 the continuation of levy restriction on the class will still be required resulting in the 2018 budgetary levy increase that would normally be allotted to the multi-residential class being disbursed amongst the other tax classes.

The County's current tax ratio for the industrial tax class at 2.6300 is high relative to the comparator average of 2.1717 as evidenced in Table 1. The industrial tax class proportionate share of total County CVA is small providing for 3.36% of the total 2017 County and lower-tier tax levies. The County's current Strategic Plan (2015-2019) identifies under the Economic Innovation and Prosperity pillar goals for enhancing strategies for attraction and retention of new industry and expansion of core businesses that exist within the County. In recognition of this, and in conjunction with this tax ratio being high relative to comparators, staff are recommending a strategy commencing with the 2018 tax policy to phase-in a reduction of the industrial tax ratio to be aligned with the comparator average. This equates to an annual reduction of 0.1500 in each of the years 2018, 2019 and 2020 resulting in a ratio of 2.1800 by the year 2020.

The farm and forest tax class ratio at the default 0.2500 is aligned with the comparator average of 0.2480. All comparator municipalities have a ratio of 0.2500 with the exception of Lennox and Addington who adopted a ratio of 0.2300 for the 2017 tax year with a commitment to phase-in increases back to 0.2500 over three years. Table 2 below highlights that very few Ontario municipalities have elected to reduce the farm tax ratio from its original default of 0.2500 when property tax reform was introduced in 1998.

Table 2
Municipalities With Farm Tax Ratio Less Than 0.25

Municipality	2017 Farm Ratio
Caledon	0.1668
Chatham-Kent	0.2200
Durham Region	0.2000
Halton Region	0.2000
Hamilton	0.1767
London	0.1860
Lennox & Addington	0.2300
Ottawa	0.2000
North Bay	0.1500

It should be noted that the larger more urban municipalities have a proportionately smaller amount of CVA in the farm tax class. This results in a lesser shift in taxation burden as a result of ratio reductions across a larger and broader assessment base.

Staff prepared a detailed report to Council dated March 15, 2017 recommending that the farm tax ratio remain at 0.2500 despite reassessment increases for the class. The report was issued at Council's request after the NFA and the OFA requested as a delegation to Council that the farmland tax ratio be reduced from 0.2500 to 0.2000, 0.1600, 0.1400 and 0.1300 in the years 2017, 2018, 2019 and 2020, respectively. The rationale for their proposed annual reductions was to off-set the increases in farmland reassessment such that the farmland proportion of the total tax burden would remain unchanged. The staff report highlighted that tax policy decisions for changing ratios results in taxation shifts across classes and that tax policy decisions should be rooted in overall strategic policy objectives of the municipality not shifts in assessment. Further to this, the framework for the assessment based system is based on the principle that the amount of property taxation paid is indicative of the valuation that properties are assessed relative to all others. This is very similar to what occurred at the prior reassessment cycle with significant increases in valuations of waterfront properties. There was no means to compensate waterfront property owners via tax policy changes and their proportion of taxation increased. This is the foundation of how the assessment based model is intended to function. Given the County's ratio is in line with the comparators and across the province, staff continue to recommend that this ratio stay at 0.2500.

The Eastern Ontario Wardens Caucus (EOWC) Treasurers provided for a position paper supporting to not reduce farm tax ratios as a result reassessment increases in the class (Attachment 2). The Northumberland Treasurers group comprised of the Treasurers from all County member municipalities unanimously supported not reducing the ratio. The Municipality of Trent Hills passed a resolution recommending that the farm tax ratio in Northumberland remain at 0.25 (Attachment 3).

In 2017, the MOF introduced a new Landfill tax class. The only operating landfill within Northumberland is County owned. As this property is a municipal Payment in Lieu (PIL) and CVA is minimal, staff recommend this ratio change from 1.4394 to the residential ratio of 1.0000. This would result in an approximate $700 reduction of PIL to the Municipality of Brighton.

As previously noted the residential tax class forms the base for setting tax ratios in all other classes and is legislated to be 1.0000.

To summarize, based on the findings of the tax policy review as presented and reported to Council on October 18, 2017, staff are recommending the following changes to tax policy in 2018:

1. Reduce the multi-residential tax ratio from 2.2160 to 2.0000. This will align with the provincial threshold of 2.0000 mandated in 2017 and eliminate the need for a full levy increase restriction on this class. This will also bring the County ratio closer to the comparator average of 1.7928.

2. Phase-in a reduction in the industrial class tax ratio from 2.6300 downwards towards the comparator average of 2.1717 over a three year period commencing in 2018. For the 2018 tax policy, this will result in a reduction of the tax ratio to 2.4800. This is also aligned with the County's Strategic Plan identifying need for attraction and retention of new industry and expansion of core businesses.

3. Reduce the landfill tax class ratio from 1.4394 to 1.0000 given there is only one property in this class which is County owned and represented by a municipal PIL.

The recommended changes to tax ratios will create a shift in taxation burden between the classes. To display the impacts, three scenarios are provided below in Table 3. The recommended change as identified above is represented by Scenario 1. To provide for sensitivity analysis and to isolate the impacts, Scenario 2 excludes the ratio reduction for the industrial class and Scenario 3 excludes the ratio reduction to multi-residential.

Table 3
Sensitivity Scenarios

Realty Tax Class	Status Quo / Revenue Neutral	Status Quo w Levy		Scenario 1		Scenario 2		Scenario 3	
		Parameter	Change	Parameter	Change	Parameter	Change	Parameter	Change
Residential	1.000000	1.000000	0.00%	1.000000	0.00%	1.000000	0.00%	1.000000	0.00%
Farm	0.250000	0.250000	0.00%	0.250000	0.00%	0.250000	0.00%	0.250000	0.00%
Managed Forest	0.250000	0.250000	0.00%	0.250000	0.00%	0.250000	0.00%	0.250000	0.00%
Multi-Residential	2.156990	2.156990	0.00%	2.000000	-7.28%	2.000000	-7.28%	2.156990	0.00%
Commercial	1.515200	1.515200	0.00%	1.515200	0.00%	1.515200	0.00%	1.515200	0.00%
Industrial	2.630000	2.630000	0.00%	2.480000	-5.70%	2.630000	0.00%	2.480000	-5.70%
Landfill	1.439357	1.439357	0.00%	1.000000	-30.52%	1.000000	-30.52%	1.000000	-30.52%
Pipeline	1.198100	1.198100	0.00%	1.198100	0.00%	1.198100	0.00%	1.198100	0.00%
Levy Target	**$52,999,517**	**$54,108,351**		**$54,108,351**		**$54,108,351**		**$54,108,351**	

The shifts in taxation burden for the County levy that would occur under each scenario as compared to the current tax policy (baseline) are presented below under Tables 4 – 6:

Table 4
Sensitivity Scenario 1
Reducing the multi-residential ratio to 2.0, industrial to 2.48 and landfill to 1.0

	2018 General Levy		Difference	
Realty Tax Class	**Baseline**	**Scenario 1**	**$**	**%**
Taxable				
Residential	$43,594,550	$43,749,535	$154,985	0.36%
Farm	$961,844	$965,265	$3,421	0.36%
Managed Forest	$34,193	$34,315	$122	0.36%
Multi-Residential	$1,759,000	$1,672,196	-$86,804	-4.93%
Commercial	$4,927,256	$4,944,772	$17,516	0.36%
Industrial	$1,677,839	$1,587,770	-$90,069	-5.37%
Pipeline	$482,514	$484,229	$1,715	0.36%
Sub-Total Taxable	**$53,437,196**	**$53,438,082**	**$886**	**0.00%**
Payment in Lieu				
Residential	$45,409	$45,571	$162	0.36%
Farm	$617	$619	$2	0.32%
Commercial	$577,405	$579,458	$2,053	0.36%
Industrial	$45,455	$43,015	-$2,440	-5.37%
Landfill	$2,257	$1,574	-$683	-30.26%
Sub-Total PIL	**$671,143**	**$670,237**	**-$906**	**-0.13%**
Total (Taxable + PIL)	**$54,108,339**	**$54,108,319**	**-$20**	**0.00%**

Table 5
Sensitivity Scenario 2
Reducing only the multi-residential and landfill ratios

Realty Tax Class	2018 General Levy Baseline	Scenario 2	Difference $	%
Taxable				
Residential	$43,594,550	$43,669,981	$75,431	0.17%
Farm	$961,844	$963,510	$1,666	0.17%
Managed Forest	$34,193	$34,252	$59	0.17%
Multi-Residential	$1,759,000	$1,669,155	-$89,845	-5.11%
Commercial	$4,927,256	$4,935,782	$8,526	0.17%
Industrial	$1,677,839	$1,680,743	$2,904	0.17%
Pipeline	$482,514	$483,349	$835	0.17%
Sub-Total Taxable	**$53,437,196**	**$53,436,772**	**-$424**	**0.00%**
Payment in Lieu				
Residential	$45,409	$45,488	$79	0.17%
Farm	$617	$618	$1	0.16%
Commercial	$577,405	$578,404	$999	0.17%
Industrial	$45,455	$45,533	$78	0.17%
Landfill	$2,257	$1,571	-$686	-30.39%
Sub-Total PIL	**$671,143**	**$671,614**	**$471**	**0.07%**
Total (Taxable + PIL)	**$54,108,339**	**$54,108,386**	**$47**	**0.00%**

Table 6
Sensitivity Scenario 3
Reducing only the industrial and landfill ratios

Realty Tax Class	2018 General Levy Baseline	Scenario 3	Difference $	%
Taxable				
Residential	$43,594,550	$43,674,472	$79,922	0.18%
Farm	$961,844	$963,615	$1,771	0.18%
Managed Forest	$34,193	$34,256	$63	0.18%
Multi-Residential	$1,759,000	$1,762,223	$3,223	0.18%
Commercial	$4,927,256	$4,936,288	$9,032	0.18%
Industrial	$1,677,839	$1,585,045	-$92,794	-5.53%
Pipeline	$482,514	$483,398	$884	0.18%
Sub-Total Taxable	**$53,437,196**	**$53,439,297**	**$2,101**	**0.00%**
Payment in Lieu				
Residential	$45,409	$45,492	$83	0.18%
Farm	$617	$618	$1	0.16%
Commercial	$577,405	$578,463	$1,058	0.18%
Industrial	$45,455	$42,941	-$2,514	-5.53%
Landfill	$2,257	$1,571	-$686	-30.39%
Sub-Total PIL	**$671,143**	**$669,085**	**-$2,058**	**-0.31%**
Total (Taxable + PIL)	**$54,108,339**	**$54,108,382**	**$43**	**0.00%**

The impact to the typical (average) property for the County portion of taxation under each scenario is presented below in Table 7:

Table 7
Sensitivity Typical Properties

Property Type	Phase-In Change %	2017 County Tax	Year-Over Year Change: Status Quo Base-Line		Scenario 1		Scenario 2		Scenario 3	
Single-Detached Res.	2.68%	$1,213	$19	1.55%	$23	1.90%	$21	1.73%	$21	1.73%
Other Residential	4.33%	$834	$26	3.09%	$29	3.48%	$27	3.24%	$27	3.24%
All Residential	3.19%	$1,063	$22	2.04%	$26	2.45%	$24	2.26%	$24	2.26%
Farm	23.34%	$205	$45	21.80%	$46	22.44%	$45	21.95%	$45	21.95%
Farm - All Portions	17.75%	$696	$79	11.35%	$82	11.78%	$80	11.50%	$80	11.50%
Improved Multi-Res.	3.16%	$13,444	-$24	-0.18%	-$686	-5.10%	-$709	-5.27%	$1	0.01%
Commercial Occupied	2.24%	$2,747	$29	1.07%	$39	1.42%	$34	1.24%	$35	1.27%
Industrial Occupied	1.20%	$5,921	$3	0.05%	-$315	-5.32%	$13	0.22%	-$325	-5.49%

Based on existing tax policy the 2018 increase to the average single-detached home would be approximately $19. Under recommended Scenario 1 the incremental increase to the average single detached home would be approximately $4, or 0.36%, for a total of $23. The increase to residential is offset primarily by the reductions that would occur in multi-residential and industrial. Scenarios 2 and 3 are marginally less at a total increase for single-detached residential of approximately $21. The estimated impacts to each of the member municipalities under recommend Scenario 1 for both the upper and lower-tier portions of taxation are provided in the addenda Attachment 1 Tax Sensitivity Analysis Member Municipalities.

Financial Impact

A change to tax policy relative to tax ratios will not impact the amount of taxes levied by the County or member municipalities but will shift the tax burden between property classes. The approved tax levy and property taxation to collect remains constant. The tax ratios are simply determining the proportion of taxation each property class is required to pay.

Member Municipality Impacts

Changes made to tax policy relative to tax ratios can result in a re-distribution of taxes between member municipalities due to the varying compositions of property classes within the assessment base of each municipality. The impacts to each municipality for the lower and upper tier portions of taxation are contained in the addenda Attachment 1 Tax Sensitivity Analysis Member Municipalities. The analysis assumes a hypothetical budgetary levy increase of 1% for each member municipality for display purposes and the approved 2018 County budgeted levy. As displayed, the shifts in taxation occur primarily onto the residential tax class from the multi-residential and industrial classes given residential represents the largest proportion of the assessment base. This is more pronounced in the municipalities with proportionately more assessment in the multi-residential and industrial classes. Increased taxation burden shifting onto the residential class ranges from a low of 0.06% in Alnwick-Haldimand to a high of 0.66% in Cobourg.

Conclusion/Outcomes

Council approves tax ratios for the 2018 tax policy based on recommendations under Report No. 2017-65 Property Tax Policy Review as presented to Council on October 18, 2017 and information contained herein.

Attachments

1. Tax Sensitivity Analysis Member Municipalities
2. EOWC Treasurers Position Paper Farm Tax Ratio
3. Municipality of Trent Hills Resolution Farm Tax Ratio
4. 2018 Tax Ratio Bylaw