

2021 Property Tax Policy

Presented To:	Finance and Administration Committee
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Type:	Managers' Reports
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Recommended by:	General Manager of Corporate Services

Report Summary

This report provides recommendations regarding the adoption of property tax policy decisions.

Resolutions

Resolution 1:

THAT the City of Greater Sudbury approves property tax ratios as follow:

Multi-Residential - 1.965000;
Commercial - 1.912000;
Industrial – 3.660404;
Large Industrial - 4.248925;
Pipeline – 2.179489;
Farm – 0.200000;

AND THAT the necessary Tax Ratio by-law and Tax Rate by-law be prepared as outlined in the report entitled “2021 Property Tax Policy”, from the General Manager of Corporate Services, presented at the Finance and Administration Committee on May 18, 2021.

Resolution 2:

THAT the City of Greater Sudbury use capping and clawback tools as follows:

- Implement a 10% tax increase cap
- Implement a minimum annual increase of 10% of CVA level taxes for capped properties
- Move capped and clawed back properties within \$500 of CVA taxes directly to CVA taxes
- Eliminate commercial and industrial properties that were at Current Value Assessment in 2020 from the capping exercise
- Eliminate commercial and industrial properties that crossed between capping and clawback in 2021 from the capping exercise

AND THAT the necessary by-law be prepared;

AND THAT the following clawback percentages, as calculated by the Online Property Taxation Analysis (OPTA) System, be adopted by the City of Greater Sudbury:

Commercial – 64.9559%;
Industrial – 63.9942%;

AND THAT the City of Greater Sudbury approves the recommendations as outlined in the report entitled “2021 Property Tax Policy”, from the General Manager of Corporate Services, presented at the Finance and Administration Committee Meeting on May 18, 2021.

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

Executive Summary

The purpose of this report is to establish 2021 property tax ratios to determine final property tax bills. There are two decisions:

1. Determine the property tax ratios applicable for 2020 tax bills
2. Determine the approach for managing tax capping and claw back provisions

The recommendations in this report are consistent with property tax policy decisions adopted in prior years and incorporate direction from Council with respect to the preferred methodology for Area Rating.

Calculation of Property Taxes

Rules governing property assessment values in Ontario are complex. However, the ultimate purpose of property assessment values is straightforward – to determine how the City’s tax levy is allocated to each property class.

Provincial regulations require decisions regarding tax policy options to be made prior to issuing final property tax bills, even if existing tax ratios (status quo) are being maintained.

Calculating property taxes is based on information provided by the Municipal Property Assessment Corporation (MPAC), under the authority of the Provincial Assessment Act and the Municipal Act, 2001. MPAC is responsible for the classification and identification of property values for all individual properties in Ontario. Municipalities use MPAC data to assign property tax obligations to each property.

The City must establish its tax rates through a by-law on an annual basis to raise the required levy set out in the annual budget. The municipal tax rates are based on assessment values, tax ratios and the annual tax-based operating budget. Tax rates are calculated as follows:

$$\text{Property Tax Rate} = \frac{\text{Property Tax Levy}}{\text{Weighted Assessment for All Classes}} \times \text{Tax Ratio for the Class}$$

For 2021, the City of Greater Sudbury will levy \$351 million in property taxation. This funds both municipal operations (\$302 M) and Greater Sudbury's four school boards (\$49 M).

Deciding Whether to Adjust Tax Ratios

Property tax policy differs from the annual budget process, although both the budget and the choices in this report affect the amount of tax payable by each tax class. It is useful to think of the budget process as determining the “size of the pie”; it establishes how much tax needs to be collected.

Property tax ratios, the subject of this report, determine “how the pie is sliced”. Property tax ratios are used to calculate the tax rates. The tax rates are then used to calculate the specific amounts each property owner pays. Unlike the budget process, property tax policy decisions do not change the amount of money the City receives through taxation.

Considering whether to adjust tax ratios is reasonable because several factors influence assessment values and these could lead to undesirable changes in taxes payable for some tax classes. For example, every four years MPAC resets its property values; this is called a “reassessment”. A reassessment could result in a shift in property tax burden from one property class to another continually during the four year period. By adjusting the tax ratios, this could be avoided and property classes will remain responsible for a consistent share of property tax payable.

For 2021, the ability to adjust tax ratios is limited. MPAC assessed property values as of January 1st, 2016 and continued to update property information during non-assessment years to 2020. Due to the COVID-19 pandemic, the reassessment that was intended to occur for the 2021 taxation year was postponed. Property assessments will remain consistent with 2020 amounts and it is forecasted that the reassessment will occur in 2022, which will be in effect for the 2023 taxation year. If this timeline continues, the 2022 Property Tax Policy will be similar to the one presented for 2021.

For the Industrial class, only 50% of the levy increase can be passed on as the Industrial tax ratio (3.660404 for 2021) is currently above the provincial threshold of 2.63. This means that approximately \$440,000 is allocated to all other classes, rather than going directly to the Industrial class. It also explains why the ‘Municipal Tax Increase’ in all other classes is higher than the 4% tax increase that Council approved in April, 2021. If Council directed staff to move the class ratio to the threshold ratio (2.63), approximately \$5.4 million of municipal taxation would be allocated from the Industrial and Large Industrial classes to all other classes.

Tax Ratios

A tax ratio represents the property tax level for a property class in relation to the residential property class. The tax ratio for residential properties is required by legislation to be equal to one (1.0). The tax ratios established for property classes determine how the tax rate for that class compares to the residential tax rate. For example, the commercial tax ratio for 2021 is 1.912000 which means that, for every residential property tax dollar paid, the commercial property class pays \$1.912 based on its current value assessment.

The recommended tax ratios are:

	2021 Proposed	2020 Approved
Residential	1.000000	1.000000
Multi-Residential	1.965000	1.965000
Commercial	1.912000	1.912000
Industrial	3.660404	3.726326
Large Industrial	4.248925	4.325445

Pipelines	2.179489	2.179489
Farm	0.200000	0.200000

If approved, the tax rates can be generated and the billing process can proceed. See Appendix "A" for Tax Rates.

Residential Property Tax Distribution

This next chart reflects the tax impact in the residential class (municipal and education) of the approved tax rates.

Tax Change	# Properties
0 - \$100	16,267
\$100 - \$200	34,272
> \$200	7,407
Total	57,946

There are 16,267 (28%) of the total 57,946 residential properties that will experience an increase of less than \$100 on their 2021 property tax bill. The average increase for all residential properties would be \$136, but this figure will vary depending on area of the City and the valuation of the dwelling.

Impact of Provincially Regulated Education Tax Rates

For 2021, the Ministry of Finance regulated the business class education tax rate at 0.88% representing a 10.2% reduction. Education tax rates for the residential and multi-residential classes remained at 0.153%.

Education Tax Rates			
	2020	2021	% change
Residential, Multi-Residential	0.153%	0.153%	-
Commercial, Industrial, Pipeline	0.98%	0.88%	(10.2)

Tax Increase by Property Class

Council will recall the 2021 approved budget anticipated a 4.0% tax increase to support planned service levels. Based on the recommended property tax policy decisions presented here, not accounting for the impacts of area rating, the following tax changes for specific property types would be as follows:

	Residential	Commercial	Industrial
Municipal Tax Increase	4.2%	4.1%	2.3%
Education Impact	-0.5%	-4.0%	-2.2%
Final Tax Impact	3.7%	0.1%	0.1%

The above chart reflects a 4.2% Municipal Tax Increase (for Residential), which is 0.2% higher than the property tax increase that Council approved, solely due to the 50% levy cap in the Industrial class.

Area Rating

With respect to Fire Services, 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 implications of this award was \$1.075 million, which was approved within the 2021 budget. This award resulted in a review of area rating methodology and staff presented a number of options for Council's consideration.

In April 2021, Council directed staff to include an option which allocates the entirety of the interest arbitration award to the Composite area, or the Former City of Valley East, over three years. This means that one third of the arbitration award is attributed to the Composite area, while the Career and Volunteer areas are allocated two thirds. For 2022, the Composite area carries two thirds of the award and Career and Volunteer areas have one third of the impact. By 2023, the entire amount of the arbitration award is within the Composite area.

In addition to the arbitration award, the area rating option includes an allocation based on call volumes. It is estimated that approximately 6% of incidents in outlying areas are responded to by Career or Composite services. This allocation is phased in over two years, resulting in 3% of direct suppression costs from the Career and Composite areas being allocated to the Volunteer areas.

These changes to the area rating methodology have been incorporated into the calculation of tax rates, inclusive of education, presented for Council's consideration. The following is the effective dollar impact for the residential class with an assessed value of \$230,000:

	Career / Urban	Composite / Commuter	Volunteer / Commuter	Volunteer
Municipal Portion - 2020	3,080	2,851	2,749	2,633
Education Portion - 2020	352	352	352	352
Total Taxation - 2020	3,432	3,203	3,101	2,985
Municipal Portion - 2021	3,206	2,973	2,868	2,736
Education Portion - 2021	352	352	352	352
Total Taxation - 2021	3,558	3,325	3,220	3,087
Dollar Change - Total Taxation	126	122	119	103
Percentage Change - Total Taxation	3.7%	3.8%	3.8%	3.4%

Tax Capping and Clawback Provisions

As a result of provincial legislation, there are limits to tax increases that can be applied to business properties. This is known as "tax capping". Under Bill 140, the cap was set at 5% over the previous year's taxes plus the municipal levy increase. These caps are not intended to be permanent, and since 2005 the Province has allowed municipalities some ability to manage the effects of property tax capping. Generally, this involves shifting the tax burden among properties within the affected property tax class.

The clawback is the amount that the decreasing property owners must forgo in order to fund the increasing properties' cap on tax increases. This is represented by a percentage and not a dollar value.

All of the measures are still available for use by municipalities. In 2008, the province allowed municipalities more options relating to capping which increased the cap from 5% to 10% and further enhanced measures for 2016 in an attempted to eliminate more properties from the capping exercise. In Greater Sudbury, this currently affects only Commercial and Industrial properties as the Multi-Residential class was previously phased out of the capping exercise.

Consistent with previous years' Tax Policies, the following tools are being recommended for approval:

1. Implement a 10% tax increase cap – this means that properties in the commercial and industrial classes, that were previously in the capping/clawback exercise, will continue to see property tax increases limited to 10% of the preceding year's annualized taxes, plus a portion of the Council's approved levy increase.
2. Implement a minimum annual increase of 10% of CVA level taxes for capped properties this means that properties in the commercial and industrial classes, that were previously in the capping/clawback exercise, will continue to see property tax increases limited to 10% of the preceding year's CVA taxes, plus a portion of the Council's approved levy increase.
3. Move capped and clawed back properties within \$500 of CVA taxes directly to CVA taxes.
4. Eliminate commercial and industrial properties that were at Current Value Assessment in 2020 from the capping exercise.
5. Eliminate commercial and industrial properties that crossed between capping and clawback in 2021 from the capping exercise.

The following table reflects the clawback percentage, capping dollars and properties affected by implementing the approved noted tools for the capping process.

	Commercial	Industrial	Total
Decrease Clawback %	64.9559%	63.9942%	
Clawback \$	\$120,138	\$688,314	\$808,452
Shortfall \$	\$0	\$0	\$0
# of Capped Properties	23	117	140
# of Clawback Decreasing Properties	12	21	33
# of CVA Tax Properties	2,623	300	2,923
Total # in Class	2,656	421	3,077

The use of all tax policy tools available is recommended to set the clawback percentage at:

Commercial	64.9559%
Industrial	63.9942%

By approving these clawback percentages, it ensures that properties seeing a tax decrease will fund a portion of taxes payable by properties seeing a tax increase of more than 10%.

2016 Reassessment – Industrial Properties

As mentioned in previous years, the 2016 reassessment returned a reduction of \$122 million in assessment (\$500 million in weighted assessment) for the industrial class. As a result, staff appealed the property valuations applied by MPAC to 13 large properties in an attempt to recoup this reduced assessment. MPAC, the property owners and the municipality are proceeding through the appeal process. As appeals are resolved, staff will report the results to Council.

Summary

The effect of the recommendations in this report produce a 3.7% increase in residential property taxes (municipal and education) for 2021 compared to 2020 levels, while Commercial and Industrial properties will pay relatively less due to the reduction in the Business Education tax rate. Actual changes in taxes payable for each property will be determined by its assessed value, type of dwelling and its location within the City.

Approving these recommendations will result in timely production of final tax bills. Refer to Appendix “A” for Tax Rates and Appendix “B” for comparison regarding property taxation across Ontario, as reflected in the BMA Study.

Resources Cited

Modification of Area Rating Model - <https://pub-greatersudbury.escribemeetings.com/filestream.ashx?DocumentId=39829>

2020 Property Tax Policy - <https://pub-greatersudbury.escribemeetings.com/filestream.ashx?documentid=235>