

2023 Property Tax Policy

Presented To:	Finance and Administration Committee
Meeting Date:	May 16, 2023
Type:	Managers' Reports
Prepared by:	Kyla Bell Taxation
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 follows:

New Multi-Residential	1.000000
Multi-Residential	1.965000
Commercial	1.912000
Industrial	3.536525
Large Industrial	4.105129
Pipeline	2.179489
Farm	0.200000
Managed Forest	0.250000

AND THAT the necessary Tax Ratio by-law and Tax Rate by-law be prepared.

Resolution 2:

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

- a) Implement a 10% tax increase cap
- b) Implement a minimum annual increase of 10% of current value assessment level taxes for capped properties
- c) Move capped and clawed back properties within \$500 of current value assessment taxes directly to CVA taxes
- d) Eliminate commercial and industrial properties that were at Current Value Assessment in 2022 from the capping exercise
- e) Eliminate commercial and industrial properties that crossed between capping and clawback in 2023 from the capping exercise

AND THAT the necessary by-law be prepared;

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

Commercial	63.9170%
Industrial	59.6376%

AND THAT the City of Greater Sudbury approves the recommendations as outlined in the report entitled “2023 Property Tax Policy”, from the General Manager of Corporate Services, presented at the Finance and Administration Committee Meeting on May 16, 2023.

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

The purpose of this report is to establish the 2023 property tax ratios to determine final property tax bills. There are two decisions:

- a) Determine the property tax ratios applicable for 2023 tax bills
- b) Determine the approach for managing tax capping and clawback provisions

Property tax ratios determine how property tax revenue requirements, established when Council approved the 2023 Budget, will be allocated among property classes. Determining property tax ratios enables the production and issuance of final tax bills.

The recommendations in this report are consistent with property tax policy decisions adopted in prior years and reflect the established method for Area Rating, which assigns specific taxation requirements to specified parts of the city based on different service levels approved by Council.

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.

Property tax calculations are based on information provided by the Municipal Property Assessment Corporation (MPAC), under the authority of the Assessment Act and 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 tax rates through a by-law on an annual basis to raise the required levy set out in the budget. The municipal tax rates are based on assessed values, tax ratios and the annual tax-based

operating budget. Tax rates are calculated as follows:

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

As described in the 2023 Budget approved by City Council, the City of Greater Sudbury will levy \$382 million in property taxation. This funds both municipal operations (\$332 M) and Greater Sudbury’s four school boards (\$50 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.

For 2023, the ability to adjust tax ratios is limited. Due to the COVID-19 pandemic, the Province postponed property reassessments across the province. Such reassessments usually occur every four years, but for now property assessments continue to reflect 2020 values.

In Greater Sudbury, the Industrial tax ratio is currently above the provincial threshold limit. This means only 50% of the levy increase can be applied to industrial properties, resulting in approximately \$650,000 in budgeted tax revenue allocated to all other classes. The effect of such requirements is that some property tax classes could have a municipal tax increase that is higher than the 4.6% increase Council approved in February 2023. If Council wanted to move the Industrial tax ratio so that it was at the provincial threshold, this would further shift taxation requirements to other property tax classes such that approximately \$6.8 million of additional municipal taxation revenue would be allocated from the Industrial and Large Industrial classes to all other classes. Staff do not recommend this change.

The recommended tax ratios are:

Table 1: Proposed 2023 Tax Ratios

	2023 Proposed	2022 Approved
Residential	1.000000	1.000000
New Multi-Residential	1.000000	1.000000
Multi-Residential	1.965000	1.965000
Commercial	1.912000	1.912000
Industrial	3.536525	3.590481
Large Industrial	4.105129	4.167760
Pipelines	2.179489	2.179489
Farm	0.200000	0.200000
Managed Forest	0.250000	0.250000

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.

Table 2: Typical Property Tax Changes For Residential Properties

Tax Change	# Properties
0 - \$100	9,369
\$100 - \$200	31,261
> \$200	17,549
Total	58,179

There are 40,630 (70%) of the total 58,179 residential properties that will experience an increase of less than \$200 on their 2023 property tax bill. The average increase for all residential properties would be \$176, 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 2023, the Ministry of Finance regulated the business class education tax rate at 0.88% consistent with 2022. Education tax rates for the residential and multi-residential classes remained at 0.153%.

Table 3: Education Tax Rates

Education Tax Rates			
	2022	2023	% change
Residential, Multi-Residential	0.153%	0.153%	-
Commercial, Industrial, Pipeline	0.88%	0.88%	-

Tax Change by Property Class

Council will recall the 2023 approved budget anticipated a 4.6% tax levy increase to support planned service levels. It is important to remember the corporation's planned taxation revenues will increase in accordance with the amounts determined in the 2023 Budget. Based on the property tax ratios recommended here, excluding the effects of area rating, the following tax changes for specific property types would be as follows:

Table 4: Tax Change by Property Class

	Residential	Commercial	Industrial
Municipal Tax Increase	5.0%	4.5%	2.7%
Education Impact	-0.5%	-1.1%	-0.4%
Final Tax Impact	4.5%	3.4%	2.3%

As this chart illustrates, the final tax impacts for other property classes result from the 50% levy cap in the Industrial class shifting taxation to the other classes. The education tax rates have remained the same from 2022 to 2023 so when they are applied to the larger tax levy for 2023 they have the impact of reducing the overall 2023 tax change in each class.

Area Rating

Area rating is a policy choice that municipalities can make to recognize that some municipal services are provided at different levels across a community, so property taxes are adjusted to recognize this. In Greater Sudbury, area rates exist for Fire and Transit Services.

The major variations in taxes levied in the four different service areas are predominately affected by the fire area rate. This changes taxes payable for a property depending on whether it is primarily served by career firefighters, a mix of career and volunteer firefighters (a “composite” service level), or primarily by volunteer firefighters.

A 2021 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.

Council directed staff to allocate the entirety of the interest arbitration award to the Composite area, or the former City of Valley East, over three years. As of 2023, the entire amount of the arbitration award has been allocated to the Composite area.

This policy was incorporated into the calculation of recommended tax rates, inclusive of education. The following is the effective dollar impact for the residential class for a home with a 2016 assessed value of \$230,000:

Table 5: Representative Effects of Area Rating on 2023 Property Taxes

	Career / Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
Municipal Portion - 2022	\$3,306	\$3,087	\$2,963	\$2,827
Education Portion - 2022	352	352	352	352
Total Taxation - 2022	\$3,658	\$3,438	\$3,315	\$3,179
Municipal Portion - 2023	\$3,442	\$3,307	\$3,124	\$2,991
Education Portion - 2023	352	352	352	352
Total Taxation - 2023	\$3,794	\$3,659	\$3,476	\$3,343
Dollar Change - Total Taxation	136	221	161	164
Percentage Change - Total Taxation	3.7%	6.4%	4.9%	5.2%

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”. Generally, this involves shifting the tax burden among properties within the affected property tax class. In the City of Greater Sudbury, this affects very few properties.

The clawback is a percentage that properties within a specific property class that are experiencing a tax decrease must forgo to support the properties within the same class that are experiencing an increase. In Greater Sudbury, this currently only affects Commercial and Industrial properties.

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 2022 from the capping exercise.
5. Eliminate commercial and industrial properties that crossed between capping and clawback in 2023 from the capping exercise.

The following table describes the effects of these changes. Overall, capping and clawback policies apply to 76 properties, while 2,988 properties will see their taxes reflect their full current value assessment.

Table 6: Impact of Proposed Capping and Clawback Policies

	Commercial	Industrial	Total
Clawback %	63.9170%	59.6376%	
Clawback \$	\$57,207	\$247,421	\$304,628
Shortfall \$	\$0	\$0	\$0
# of Capped Properties	3	44	47
# of Clawback Decreasing Properties	10	19	29
# of CVA Tax Properties	2,638	350	2,988
Total # in Class	2,651	413	3,064

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

Commercial	63.9170%
Industrial	59.6376%

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%.

Summary

The effect of the recommendations in this report produce a 4.5% increase in residential property taxes (municipal and education) for 2023 compared to 2022 levels, while Commercial and Industrial properties will pay relatively less due to the Business Education tax rate remaining consistent. 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.

References

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

2022 Property Tax Policy - <https://pub-greatersudbury.escribemeetings.com/filestream.ashx?DocumentId=43998>