Request for Decision

Finance and Administration Committee

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Type of Decision								
Meeting Date	May, 17, 2016			Report Date	May 13, 2016			
Decision Requested	X	Yes		No	Priority	X	High		Low
	Direction Only			Type of Meeting	X	Open		Closed

Report Title

2016 Property Tax Policy

Budget Impact/Policy Implication

X	This report has been reviewed by the Finance Division and the funding source has been identified.
	Background Attached

Resolution

Recommendation 1) THAT the City of Greater Sudbury approves property tax ratios as follows:

Multi-Residential - 2.157389;
Commercial - 2.143216;
Industrial – 3.141249;
Large Industrial - 3.560435;
Pipeline – 2.238347;

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

Recommendation 2) WHEREAS the City of Greater Sudbury continues the practice of having as many properties as possible pay their fair share of property taxes based on the Current Value Assessment (CVA);

AND WHEREAS the Province of Ontario has provided tax tools in the past to achieve this outcome, and for 2016, has enhanced these tools and has added more measures to exit or phase-out from the capping program where applicable;

THEREFORE BE IT RESOLVED THAT the City of Greater Sudbury use these tools to the maximum, resulting in more properties paying true CVA taxes, and the tools are as follows:

X	**Resolution Continued**

Recommended by the Department

Ed Stankiewicz
Acting Chief Financial Officer/Treasurer

Recommended by the C.A.O.

Kevin Fowke
Interim Chief Administrative Officer

Resolution Continued:

a) Implement a 10% tax increase cap

b) Implement a minimum annual increase of 10% of CVA level taxes for capped properties

c) Move capped and clawed back properties within $500 of CVA taxes directly to CVA taxes

d) Eliminate properties that were at Current Value Assessment in 2015 from the capping exercise

e) Eliminate properties that crossed between capping and clawback in 2016 from the capping exercise

f) Exit the capping program for the multi-residential class

g) Initiate the capping phase-out for the industrial class

AND THAT the necessary by-law be presented

AND WHEREAS the Province of Ontario under Bill 140 has a maximum tax increase policy (capping) for business properties (Multi-Residential, Commercial and Industrial);

AND WHEREAS the City of Greater Sudbury, through past practice, has funded this cap on taxes by clawing back from properties realizing reduced taxation;

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

Multi-Residential – 0%;
Commercial – 43.3628%;
Industrial – 4.5601%;

AND THAT the necessary by-law be presented.

Executive Summary

This report will provide a briefing on property taxation. It also deals with the adoption of 2016 property tax policy and there are two decision points that Council must consider. The recommendations in this report are consistent with property tax policy decisions adopted in prior years. As well, this report will provide Council with a distribution of tax increases/decreases, impact of reassessment and tax increases by service area (area rated services).

Background

Calculation of Property Taxes

The calculation of property taxes is based on the returned assessment roll 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 assignment of current value assessment and the classification for all individual properties in Ontario. Municipalities use this returned roll (raw assessment) and multiply the assessment in each class by the applicable tax class ratios to determine the weighted assessment for the municipality. The approved budget is then divided by the weighted assessment to determine the residential tax rate. The ratios of each class are multiplied by the residential tax rate to provide tax rates for each class. For the City of Greater Sudbury, the calculation is a three step procedure as the City has two area rated services, which will be addressed later in this report.

For 2016, the City of Greater Sudbury will levy $295 million in property taxation to fund the municipal levy of $239 million and $56 million levied on behalf of the four school boards.

Property Tax Policy

Property tax policy is the final stage of the annual budget process and decisions are required before final tax bills can be generated.

Decisions Required for 2016 Property Tax Policy

Like other municipalities in Ontario, this and past City of Greater Sudbury Councils have supported the use of tools that would:

1) Minimize the impact on the residential taxpayer,
2) Eliminate capping and clawback wherever possible so that properties pay taxes on true current value assessments.

Decision #1

Whether to adjust property class tax ratios?

There are three options:

1) Approve the same tax ratios for 2016 as were approved in 2015,
2) Reduce the commercial and industrial tax ratios to the provincial threshold,
3) Approve revenue neutral tax ratios, which maintains the tax burden within each class from 2015 to 2016.

Impact of Three Options

As a result of the province wide reassessment of 2012, which phases in increases over four years (2013-2016), the City continues to experience interclass shifting. This is a direct result of the collective residential classes realizing higher valuations than other tax classes, specifically the large industrial class and pipelines. 2016 is the last year of the phase-in from the 2012 reassessment.

1. Approving the 2016 starting tax ratios, which represent the 2015 approved tax ratios would cause a tax shift to the residential and multi-residential tax classes. The tax ratios for the commercial and industrial classes are above the provincial threshold (commercial – 1.98 and industrial – 2.63) and as a result, properties in these two classes would be subject to a 50% levy restriction, which would be absorbed by all other classes including the residential class. Based on this option, the residential class (including multi-residential) would realize a municipal increase in taxation of $7.6 million.

2. This option would move the tax ratios for the commercial and industrial class downward to the provincial threshold, thus allowing 100% of the tax levy to be passed on to these two classes. Since the tax ratio reduction to these two classes would be quite significant, the lower tax ratios would translate to lower taxes being generated from these two classes resulting in additional tax burden to be absorbed by all other classes. In total, the municipal tax increase from the collective residential class would be $12.1 million with $4.6 million of taxation being removed from the commercial and industrial classes.

3. The third option deals with moving tax ratios to a revenue neutral position, which would maintain the tax burden in each class at 2015 levels. As a result, the commercial and industrial class ratios would be above the provincial threshold, thus triggering the 50% levy restriction. The result of accepting these revenue neutral ratios provides for municipal tax increases in the collective residential class of $7.3 million, with the main beneficiary, being the multi-residential class, receiving a $200,000 reduction in taxation. The residential class would see a $100,000 reduction in taxation from what would have been realized under the starting ratio scenario. This burden would be transferred to the commercial, industrial, and pipeline classes.

   The following chart reflects the property tax ratios resulting from the approval of Option 3.

	2016 Proposed	2015 Approved
Multi Residential	2.157389%	2.184489%
Commercial	2.143216%	2.139699%
Industrial	3.141249%	3.103772%
Large Industrial	3.560435%	3.517957%
Pipelines	2.238347%	2.171503%

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

Decision #2

What tax tools should be used with capping and clawbacks?

As a result of provincial legislation, business properties are limited to tax increases that can be applied to their properties. Under Bill 140, the cap was set at 5% over the previous year's taxes plus the municipal levy increase. In 2005, the Province allowed the municipalities more tools relating to capping. In addition, in 2008, the Province allowed municipalities to eliminate more properties from the capping exercise by adding two more measures. All of the measures are still available for use by municipalities and have been enhanced for 2016 in an attempt to eliminate more properties from the capping in exercise. In addition, the Minister of Finance has provided options to municipalities to exit the capping program for eligible classes and to phase out capping for tax classes that have all properties within the class levied at least at 50% of their Current Value Assessment taxes. For our City, it is recommended that the capping exercise be exited for the multi-residential class as this class has had no properties affected since 2015. In addition, it is also recommended that a capping phase-out for the industrial class be initiated.

The following tools enable municipalities to have properties reach their true CVA taxes faster, and are as follows:

1. Implement a 10% tax increase cap
2. Implement a minimum annual increase of 10% of CVA level taxes for capped properties
3. Move capped and clawed back properties within $500 of CVA taxes directly to CVA taxes
4. Eliminate properties that were at Current Value Assessment in 2015 from the capping exercise
5. Eliminate properties that crossed between capping and clawback in 2016 from the capping exercise
6. Exit the capping program for the multi-residential class
7. Initiate the capping phase-out for the industrial class

Acceptance of all previous tax tools available is consistent with previous years' decisions and assists in reducing the number of properties affected by this cap. Acceptance of the last two measurers will allow the municipality to exit from the capping exercise in a shorter period of time.

The following table reflects the clawback percentage, capping dollars and properties affected by implementing all tax capping tools to fast track the capping process.

	Multi-Residential	Commercial	Industrial	Total	
Decrease Clawback %	0%	43.3628%	4.5601%		
Clawback $	$0	$72,565	$3,433	$75,998	
# of Capped Properties	0	23	3	26	}62
# of Clawback Decreasing Properties	0	33	3	36	
# of CVA Tax Properties	349	2,535	393	3,277	
Total # in Class	349	2,591	399	3,339	

By accepting all capping tools, the number of properties in the capping exercise (capped and clawed back properties) was reduced from 1,560 to 62. Prior to 2008, the number of properties that were included in the capping exercise exceeded 3,000. With the new measures in place, each year the number has been reduced, therefore having more properties paying tax on their true Current Value Assessment. In addition, there are no longer any multi-residential properties subject to the capping exercise therefore Council may adopt the measure to eliminate capping for the multi-residential class forever.

The approval of using all tools available is recommended to set the clawback percentage at:

Multi-Residential	0%
Commercial	43.3628%
Industrial	4.5601%

By approving these clawback percentages it ensures that the decreasing properties will fund the cap of the increasing properties. It also ensures that more properties pay taxes based on their true Current Value Assessment (CVA).

Tax Rates

In 2012, MPAC conducted the provincially mandated reassessment to update the assessment valuation date from January 1, 2008 to January 1, 2012. Assessment increases were to be phased in uniformly over the subsequent four-year taxation cycle from 2013 to 2016, while assessment decreases were fully implemented in the first year per Provincial Legislation. The CVA increase for the Residential class was 23%. In 2016, the City's average residential assessment valuations increased by 5%. In order to collect the approved municipal levy, tax rates had to be reduced to achieve this goal. The valuation increases did not generate additional revenue as the reduction in the tax rate allows the City to provide for the approved municipal net budget.

MPAC Reassessment - Valuation Changes affecting Residential Tax Increases

As a result of the 2012 reassessment, phased-in valuations for residential properties from 2015 to 2016 increased by an average of 5.0%. For that reason the residential municipal tax rate was reduced accordingly. Area rating will not be considered for this next explanation. With a 5.0% valuation increase being the average, that means if a property had a valuation increase of 5.0% from 2015 to 2016, would realize a 3.9% tax increase. For a valuation increase below 5.0%, properties would see a tax increase of less than 3.9%. Conversely, properties above a 5.0% valuation increase would realize a greater than 3.9% tax increase. These are all based on averages and will vary based on area rating.

Area Rating

A presentation on area rating of taxes was made to the Finance and Administration Committee in April. The following sections will provide a summary on how taxes are calculated by area and the 2016 tax impact by area.

Fire Services

This service was area rated based on the level of career firefighters compared to volunteer firefighters. This created three distinct service levels and area rates:

1) Career Fire Rate
   This rate recognizes that the former City of Sudbury is predominantly made up of career firefighters.

2) Composite Fire Rate
   This rate applies only to the former City of Valley East, which has some career firefighters heavily supplemented by volunteer forces.

3) Volunteer Fire Rate
This area includes every former area municipality excluding the former City of Sudbury and Valley East, but taking into account the annexed area and is serviced by volunteer firefighters.

The actual fire tax rate for each area is calculated by taking the cost of fire services for the area and dividing it by the weighted assessment for that area.

Public Transportation

There are two distinct areas for the public transportation area rate.

1) Urban Rate
This rate is applied to all properties in the former City of Sudbury and recognizes that this area requires more frequent service along both main arterial roads and residential streets. Based on the service hours received for this area, 80% of the conventional transit costs are allocated to this area. In addition, the Handi Transit costs realized within this boundary are also applied to this area.

2) Commuter Rate
This rate is applied to all other areas outside the former City of Sudbury with the exception of the annexed area, where no transportation rate would apply. This area would see approximately ten trips daily on main arteries and represents 20% of the service hours for conventional transit. Handi Transit actual costs for this area are used in the calculation of the area rate.

The transportation area rate is calculated for each area by taking the total costs (conventional and Handi Transit) for the area and dividing by the assessment for the area.

In the City of Greater Sudbury, valuation increases vary throughout the different areas of the City. The following chart reflects the taxes by area for a typical household:

2016 TOTAL PROPERTY TAXES (MUNICIPAL AND EDUCATION)
Residential Class
(5.0% valuation increase - 2015 CVA $219,000 / 2016 CVA $230,000)

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2015 Taxes	$3,067	$2,881	$2,786	$2,701
2016 Taxes	$3,194	$2,990	$2,890	$2,804
Tax Increase	$127	$109	$104	$103
Total % Increase	4.1%	3.8%	3.7%	3.8%

The Career/Urban percentage increase is higher than the other areas for two specific reasons. Firstly, the percentage increase for fire and transportation costs are higher than those in the other areas. In addition, the weighted assessment percentage increase from 2015 to 2016 is less than that of other areas. This results in a lower weighted assessment carrying the increased costs for fire and transportation services.

Property Tax Distribution

This next chart reflects the tax impact in the residential class (municipal and education). This chart reflects the tax increases and decreases.

$ Impact	Increasing Properties	Decreasing Properties
0 - $100	27,649	2,197
$100 - $200	20,870	16
> $200	6,772	6
Total	55,291	2,219

There are 29,846 (52%) of the total 57,510 residential properties that will either experience an increase of less than $100 or a decrease on their 2016 property tax bill. The average increase would be $120, but this figure will vary depending on area of the City, type of dwelling and valuation change year over year.

For example, the tax increase for the median of the 40,606 single family dwellings (2015 CVA - $221,500, 2016 CVA - $231,000) would be 3.1% or $89, while the tax increase for the median of the seasonal recreational dwellings would be 10.3% or $247. The increase for the median of residential condominium units is 3.6% or $91.

Summary

The recommendations outlined in this report are consistent with tax policy decisions adopted in the past. If these recommendations are approved, tax rates may also be approved at the next Council meeting resulting in timely production of 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.

Appendix A

City of Greater Sudbury
2016 Final Tax Rates for all Municipal Purposes

(all figures in the form of %'s)

		Fire Rate			Transportation Rate					
Property Description	**General**	**Career**	**Composite**	**Volunteer**	**Urban**	**Commuter**	**Career/Urban Area**	**Composite/ Commuter Area**	**Volunteer/ Commuter Area**	**Volunteer Area**
Residential/New Multi-Res	0.972657	0.147957	0.101661	0.058402	0.080187	0.037518	1.200801	1.111836	1.068577	1.031059
Multiple Residential	2.124759	0.323210	0.222077	0.127579	0.175168	0.081957	2.623137	2.428793	2.334295	2.252338
Commercial Occupied	2.081193	0.316583	0.217524	0.124962	0.171576	0.080276	2.569352	2.378993	2.286431	2.206155
Commercial Excess Land	1.456835	0.221608	0.152266	0.087473	0.120103	0.056194	1.798546	1.665295	1.600502	1.544308
Commercial Vacant Land	1.456835	0.221608	0.152266	0.087473	0.120103	0.056194	1.798546	1.665295	1.600502	1.544308
Industrial Occupied	3.018906	0.459226	0.315533	0.181266	0.248882	0.116446	3.727014	3.450885	3.316618	3.200172
Industrial Excess Land	1.962289	0.298496	0.205096	0.117823	0.161773	0.075690	2.422558	2.243075	2.155802	2.080112
Industrial Vacant Land	1.962289	0.298496	0.205096	0.117823	0.161773	0.075690	2.422558	2.243075	2.155802	2.080112
Large Industrial Occupied	3.421766	0.520506	0.357639	0.205455	0.282094	0.131986	4.224366	3.911391	3.759207	3.627221
Large Industrial Excess Lan	2.224148	0.338329	0.232464	0.133546	0.183361	0.085791	2.745838	2.542403	2.443485	2.357694
Pipelines	2.112128	0.321289	0.220757	0.126819	0.174126	0.081470	2.607543	2.414355	2.320417	2.238947
Farm	0.243164	0.036989	0.025414	0.014600	0.020047	0.009380	0.300200	0.277958	0.267144	0.257764
Managed Forests	0.243164	0.036989	0.025414	0.014600	0.020047	0.009380	0.300200	0.277958	0.267144	0.257764

Fire Area Rate

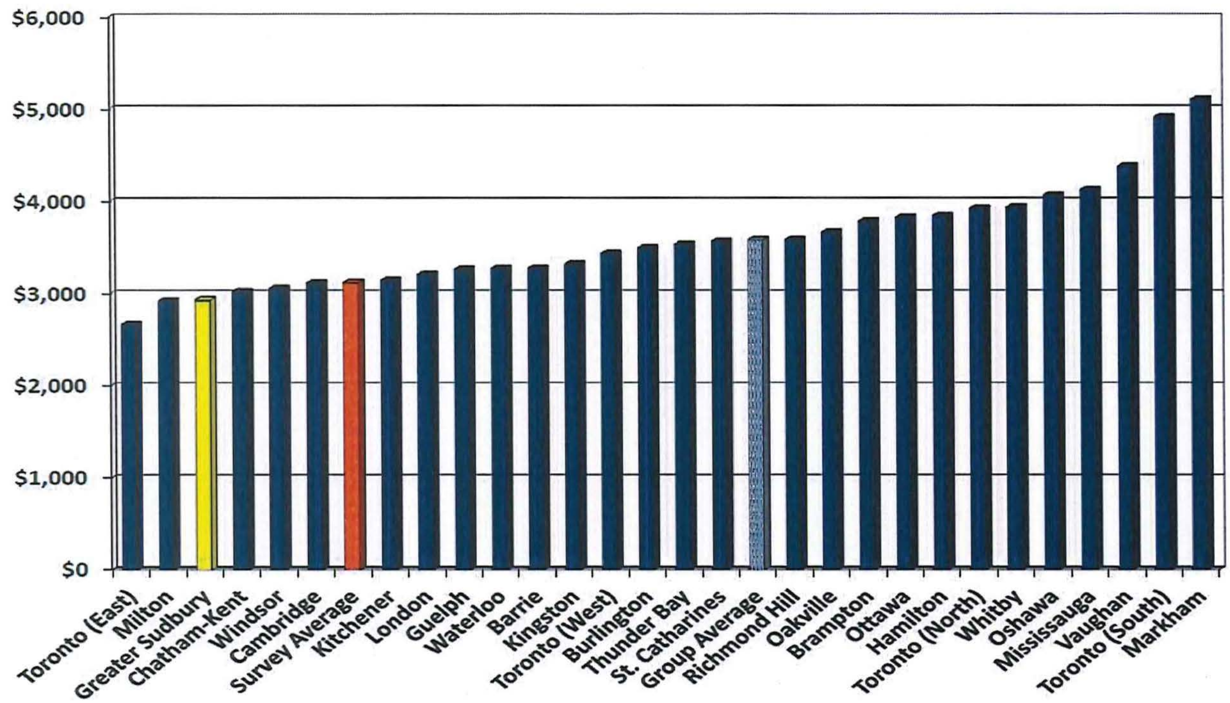
Career - this rate is applied to properties in the former City of Sudbury
Composite - this rate is applied to the properties in the former City of Valley East
Volunteer - this rate is applied to all other areas of the City of Greater Sudbury

Transportation Rate

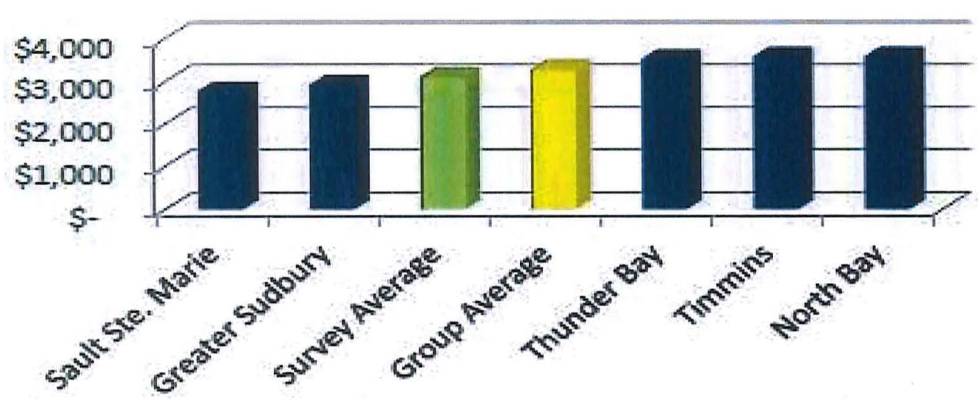
Urban - this rate applies to properties in the former City of Sudbury
Commuter Rate - this rate applies to all other areas of the City of Greater Sudbury with the exception of the formerly Unorganized areas
No Rate - applies to formerly Unorganized areas

2016 Tax Policy Report – Appendix B

2015 Residential Detached Bungalow – Municipalities over 100,000 Population



2015 Residential Detached Bungalow – Northern Municipalities



(Source: 2015 BMA Study)