Request for Decision
Policy Committee

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Type of Decision								
Meeting Date	April 20, 2011			Report Date	April 15, 2011			
Decision Requested	X	Yes		No	Priority	X	High		Low
	Direction Only			Type of Meeting	X	Open		Closed

Report Title
2011 Property Tax Policy

Budget Impact/Policy Implication

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

Recommendation

1) WHEREAS as a result of the property reassessment in 2009 which phases in assessment increases over four years, there continues to be inter-class shifting of tax burdens; and

WHEREAS the Ministry of Finance allows municipalities to set new tax ratios to mitigate the impact of tax shifts relative to the reassessment;

THEREFORE BE IT RESOLVED THAT THE CITY OF GREATER SUDBURY approve new revenue neutral tax ratios as calculated in the Online Property Tax Analysis System (OPTA) for the Multi-Residential, Commercial, Industrial and Pipeline property classes as follows: Multi-Residential - 2.266653; Commercial - 2.130216; Industrial – 3.025526; Large Industrial - 3.429270; Pipeline - 1.895743; and

THAT the necessary bylaw be passed.

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 to achieve this outcome;

X **Recommendation Continued**

Recommended by the Department

Lorella Hayes
Chief Financial Officer / Treasurer

Recommended by the C.A.O.

Doug Nadorozny
Chief Administrative Officer

Report Prepared By	Division Review
Ed Stankiewicz Manager of Financial Planning & Policy	

Recommendation continued:

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:

a) Implement a 10% tax increase cap rather than the mandatory 5% minimum cap, b) Implement a minimum annual increase of 5% of CVA level taxes for capped properties, c) Move capped and clawed back properties within $250 of CVA taxes directly to CVA taxes; d) eliminate properties that were at Current Value Assessment in 2010 from the capping exercise; e) eliminate properties that crossed between capping and clawback in 2011 from the capping exercise; and

THAT the necessary bylaw be passed.

3) 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 – 38.9733%; Commercial – 23.2790%; Industrial – 13.7855%; and

THAT the necessary bylaw be passed.

Executive Summary

This report deals with the adoption of 2011 property tax policy and there are two decision points that Council must consider. 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

Decisions Required for 2011 Property Tax Policy

Like other municipalities in Ontario, current 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 market values.

Decision #1

Whether to accept revenue neutral tax ratios?

As a result of the province wide reassessment in 2009 which phased in increases over four years, the City of Greater Sudbury continues to experience severe interclass shifting. This is a direct result of the collective Residential class realizing higher valuation increases than other tax classes.

There are three options:

1) Leave the starting for 2010 unchanged ratios and pass an additional tax burden onto the Residential class,
2) Move the Commercial and Industrial tax ratios to the Provincial threshold,
3) Approve the revenue neutral rates and return tax burden to its 2010 levels by property tax class.

Impact of the three options

1) The 2011 starting ratios for the Commercial and Industrial class were based on the 2010 tax rates for each class. Since these starting ratios are above the provincial thresholds (1.98 – Commercial and 2.63 – Industrial) properties in each of these two classes are subject to levy restriction of 50%, which must be absorbed by all other classes including Residential. Based on this option, the Residential class collectively would realize a municipal increase in taxation of $9.4 million or 5.7%.

2) If the tax ratios for the Commercial and Industrial classes are moved down to the provincial threshold, then 100% of the municipal levy will be passed onto these classes. However, the lower tax ratios would translate into lower taxes generated from these two classes and additional tax burden would be picked up by all other classes. In total, the increase in municipal taxes for the Residential class over 2010 would be $10.5 million or 6.6%.

3) The third option deals with moving the tax ratios for all classes to a revenue neutral position, which would maintain tax burdens in each tax class at the 2010 levels. As a result of both the Commercial and Industrial class ratios being above the provincial threshold, the 50% levy restriction will be in place. The result of accepting revenue neutral ratios provides municipal tax increases in the Residential class of $6.8 million or 3.56%. This was the scenario used when estimating the tax impact of the residential property owner during the 2011 budget deliberations.

Consistent with prior years, it is recommended that Council approve the revenue neutral tax ratios (Option 3), which is the most beneficial option to the Residential class.

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 options 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.

These options enable municipalities to have properties reach their true CVA taxes faster, and are as follows:

1) Increase the cap to a 10% increase over the 2010 taxes,
2) Increase taxes by at least 5% of CVA taxes,
3) Move capped and clawed back properties within $250 of CVA taxes directly to CVA taxes,
4) Eliminate properties that were taxed at CVA last year but would have been capped or clawed back this year,
5) Eliminate properties that moved between increasers and decreasers (ie: 2010 capped property moved to a clawed back property in 2011).

Acceptance of these options is consistent with previous years' decisions and assists in reducing the number of properties affected by this cap. The following tables illustrate the impact on clawback percentages, capping dollars and the number of properties involved in the capping exercise scenarios. It is recommended that the full array of options is utilized to reduce the clawback percentage and dollars involved, as well as reducing the number of affected properties.

Table 1 reflects the increased clawback percentage and higher number of properties affected by the cap under the mandatory 5% tax cap and the full array of options were not accepted.

Properties affected by the Mandatory 5% Cap

Table 1

	Multi-Residential	**Commercial**	**Industrial**	**Total**	
Decrease Clawback %	52.6518%	24.1492%	15.0378%		
Clawback $	$6,506	$160,942	$30,783	$198,231	
# of Capped Properties	4	88	14	106	}436
# of Clawback Decreasing Properties	8	293	29	330	
# of CVA Tax Properties	362	2,239	373	2,974	
Total # in Class	374	2,620	416	3,410	

Table 2 reflects the clawback percentage and properties affected by implementing the options to fast track the capping process.

Table 2

	Multi-Residential	**Commercial**	**Industrial**	**Total**	
Decrease Clawback %	38.9733%	23.2790%	13.7855%		
Clawback $	$4,815	$140,115	$27,628	$172,558	
# of Capped Properties	3	76	12	91	}331
# of Clawback Decreasing Properties	8	208	24	240	
# of CVA Tax Properties	363	2,336	380	3,079	
Total # in Class	374	2,620	416	3,410	

As reflected in Table 1 and Table 2, the number of properties in the capping exercise (capped and clawed back properties) was reduced from 436 to 331. When all options were accepted in 2009, the number of capped and clawed back properties was 691. 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 CVA.

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

Multi-Residential	38.9733%
Commercial	23.2790%
Industrial	13.7855%

By approving these clawback percentages it ensures that the decreasing properties will fund the cap of the increasing properties.

Impact of Provincially Regulated Education Tax Rates

Residential Education Taxes

With the 2009 province wide reassessment, the average provincial residential valuation change was approximately 5%. As a result, the Ministry of Finance reduced the provincially regulated residential education tax rate by approximately 5%. Based on the same premise as previously identified, if the property valuation increased by more than 5%, the property would realize an assessment related increase in education taxes. If the valuation was below 5%, the property would realize an assessment related education tax decrease. For 2011, the residential property education tax rate was reduced by 4.1%.

Property valuations in Sudbury experienced the highest valuation increases of any large city in the province, reflecting the robust economy at the time. This caused a large majority of the properties to increase by more than 4.1% in 2011, therefore realizing an assessment related education tax increase. The residential class has increased education taxes of approximately $1.7 million over 2010 values.

Commercial, Industrial and Pipeline Education Taxes

In the 2007 provincial budget, the Ministry of Finance introduced measures to reduce the education tax burden on businesses. Originally, this reduction was to take place over a seven year period. However, the Province reconsidered and implemented this phased-in reduction over three years for northern communities. The largest decrease in the tax rate took place in 2010, which is now at the target rate. This led to a reduction in education taxes in the Commercial class of approximately $5 million; Industrial class of approximately $2.6 million with a small reduction to the Pipeline class for a total of $7.6 million for these classes in 2010. The regulated target rate for 2011 was also adjusted to reflect the provincial wide valuation changes and therefore, has been reduced for the Commercial, Industrial and Pipeline classes by 7.0%. As a result, when considering the assessment growth in this area, these three classes are again benefiting from the education tax rate reduction in the combined value of $825,000.

The illustration below reflects the 2010 and 2011 education rates for these classes.

Education Tax Rates			
	2010	**2011**	**% change**
Residential	.241%	.231%	-4.15
Commercial, Industrial, Pipeline	1.43%	1.33%	-7.00

Valuation Changes affecting Residential Tax Increases

As a result of the 2009 reassessment, phased-in valuations for residential properties from 2008 to 2009 increased by an average of 13.7%. From 2010 to 2011 the residential average increased by 10.75%. Acceptance of revenue neutral ratios in essence brought all classes up to a 10.75% valuation increase. For that reason the municipal tax rate was reduced accordingly. For simplicity purposes, area rating will not be considered for this next explanation. With a 10.75% valuation increase being the average, that means if a property had an assessment increase from 2010 to 2011 of 10.75%, it would realize a 3.56% municipal tax increase. An assessment increase below 10.75%, properties would see a municipal increase of less than 3.56%. Conversely, properties above a 10.75% assessment increase would realize a greater than 3.56%municipal tax increase.

	$	**$**	**$ Increase**	**% Increase**
Assessment	152,880	169,320	16,440	10.75
Municipal Taxes	2,244	2,324	80	3.56
Education Taxes	368	391	23	6.25
Total Taxes	$ 2,612	$ 2,715	$ 103	3.94%

The above illustration reflects a property if no area rating exists. However, both fire services and transit services are area rated and the tax increases vary amongst service areas.

Appendix "A" charts will reflect the tax increases (municipal and education combined) by area and class for a property based on the average valuation increase from 2010 to 2011 for that class.

In reviewing the last two charts on the Appendix, you will notice that properties in the Industrial class that are close to the class valuation increase average will realize a tax decrease of 2.5% to 3.1%. The decreases in the Commercial and Industrial classes are a result of the Business Education Tax rate (BET) being adjusted downward in 2011.

The following chart reflects the reduction in municipal tax rates resulting from the affects of the reassessment and municipal levy increase.

Impact on Municipal Tax Rates

Class	2010 Tax Rate	2011 Tax Rate	% Change
Residential	1.520543	1.424818	(6.3%)
Multi-Residential	3.358546	3.229569	(3.8%)
Commercial	3.050787	2.944855	(1.8%)
Industrial	4.302459	4.253566	(1.1%)
Large Industrial	4.876606	4.821187	(1.1%)
Pipelines	2.682311	2.701090	.1%
*Since fire and transit services are area rated this illustration reflects the career fire / urban transit rates (former City of Sudbury)			

Distribution of Taxes

The following chart will reflect the distribution of tax increases (education tax included) by class and the number of properties increasing and decreasing.

Class	Municipal Tax Increase ($millions)	Education Tax Increase ($ millions)	Total Tax Increase ($ millions)
Residential	6.8	1.7	8.5
Multi-Residential	.7	.1	.8
Commercial	2.2	0	2.2
Industrial	.4	0	.4
Large Industrial	1.4	.2	1.6
Totals	11.5	2.0	13.5

This next chart reflects the tax impact in the Residential class, municipal taxes only.

$ Impact	Increasing Properties	Decreasing Properties
0 - $100 (1)	35,128	4,477
$100 - $200 (2)	14,191	204
> $200	2,382	101
Total	51,701	4,782

(1) Average increase is $61
(2) Average increase is $128

There are only 2,382 of the total 56,483 residential properties that will experience an increase of greater than $200 on the 2011 property tax bill. Approximately 70% or 35,000 of the increasing residential properties will reflect an increase in municipal taxation of less than $100 with the average increase being $61 per year.

The next chart reflects the impact of total taxation (municipal and education) on the residential class.

$ Impact	Increasing Properties	Decreasing Properties
0 - $100 (1)	24,436	4,006
$100 - $200 (2)	23,520	221
> $200	4,553	107
Total	52,149	4,334

(1) Average increase is $62
(2) Average increase is $134

With education taxes included, greater than 90% of the increasing properties will realize a tax increase of less than $200.

Summary

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

Appendix "A"

MUNICIPAL AND EDUCATION TAXES

2010 CVA $152,880

Residential Class (*10.8% valuation increase - 2011 CVA $169,320)

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2010 Taxes	2,693	2,543	2,460	2,385
2011 Taxes	2,804	2,641	2,550	2,471
Tax Increase	111	98	90	86
% Increase	4.12%	3.85%	3.66%	3.61%
Municipal Increase	3.78%	3.45%	3.20%	3.12%

2010 CVA $143,320

Multiple Residential Class (*8.5% valuation increase - 2011 CVA $155,480

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2010 Taxes	5,159	4,849	4,677	4,521
2011 Taxes	5,380	5,043	4,852	4,688
Tax Increase	221	194	175	167
% Increase	4.28%	4.00%	3.74%	3.69%

2010 CVA $129,120
Commercial Class (*3.5% valuation increase - 2011 CVA $133,680)

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2010 Taxes	5,786	5,529	5,387	5,250
2011 Taxes	5,781	5,509	5,354	5,222
Tax Increase	(5)	(20)	(33)	(28)
% Increase	(.08%)	(.36%)	(.61%)	(.53%)

2010 CVA $120,240
Industrial Class (*.1% valuation increase - 2011 CVA $120,360)

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2010 Taxes	6,893	6,556	6,369	6,200
2011 Taxes	6,720	6,371	6,174	6,005
Tax Increase	(173)	(185)	(195)	(195)
% Increase	(2.51%)	(2.82%)	(3.06%)	(3.15%)

2010 CVA $131,040
Large Industrial Class (*4.2% valuation increase - 2011 CVA $136,560)

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2010 Taxes	8,264	7,849	7,618	7,409
2011 Taxes	8,400	7,951	7,698	7,480
Tax Increase	136	102	80	71
% Increase	1.65%	1.30%	1.05%	.96%

* Represents the average valuation increase in each class as reflected in the 2009 reassessment.