

Executive Summary

The purpose of this report is to establish 2020 property tax ratios to determine final property tax bills. There are two decisions:

- a) Determine the property tax ratios applicable for 2020 tax bills following a review of changes since the prior year, with particular regard for the impact of property reassessment and information regarding Council's area rating policy.
- b) Determine the approach for managing tax capping and clawback provisions.

The recommendations in this report are consistent with property tax policy decisions adopted in prior years. As a result of valuation changes from the 2016 reassessment, assessment shifts amongst property classes continue to occur.

These assessment shifts change the relative share of taxes payable for each property class. Staff have analyzed options for mitigating the effect of assessment shifts.

Background

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 2020, the City of Greater Sudbury will levy \$341 million in property taxation. This funds both municipal operations (\$289 M) and Greater Sudbury's four school boards (\$52 M).

Decisions Required for 2020 Property Tax Policy

Generally, and consistent with other municipalities' practices, Greater Sudbury's traditional approach has been to establish tax ratios that minimize the impact to the residential property class. This means benefits from assessment growth have historically benefited the residential property class to a greater extent than other property classes.

As a result of the COVID-19 virus, staff have been conducting outreach to businesses throughout Greater Sudbury to assess the impact the pandemic is having on their businesses. This outreach has revealed that the hardest hit sectors appear to be in the service industries (tourism, hospitality, retail, etc.) while the mining and mining supply and services sectors appear to be faring better.

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.

Deciding Whether to Adjust Tax Ratios

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.

In 2019, the tax ratios for the industrial class were reduced. In 2020, staff’s recommends reducing the only the commercial ratio to assist those businesses negatively impacted by COVID-19.

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 recommended for 2020 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 industrial and large industrial ratios were reduced from 2019. This results from provincial policy requiring property tax ratios for non-residential properties to be within specified ranges compared to residential properties. Historically in Greater Sudbury, industrial and large industrial ratios have been outside the range specified by the province.

The recommended tax ratios are:

	2020 Proposed	2019 Approved
Residential	1.000000	1.000000
Multi-Residential	1.965000	1.965000
Commercial	1.912000	1.942000
Industrial	3.726326	3.795000
Large Industrial	4.325445	4.405160
Pipelines	2.179489	2.179489
Farm	0.200000	0.200000

These recommended ratios include a reduction for the Commercial tax class as a way of providing some relief to businesses most impacted by COVID-19. This supports economic development objectives and provides assistance to commercial businesses negatively impacted. For example, by reducing the commercial tax ratio, the city's competitive position improves slightly relative to other municipalities across the province.

While the lower tax ratio recommended for the Commercial property class reduces the proportion of property tax payable for commercial properties, it also has the effect of increasing the share of property tax payable by other tax classes. As described later in this report, staff believe this is an appropriate choice because overall, approximately 42% of residential properties will have an increase of less than \$100 per year as a result of applying these ratios.

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	24,587
\$100 - \$200	27,872
> \$200	5,494
Total	57,953

There are 24,587 (42%) of the total 57,953 residential properties that will experience an increase of less than \$100 on their 2020 property tax bill. The average increase would be \$69, but this figure will vary depending on area of the City, type of dwelling and valuation change year over year.

The average increase for residential properties experiencing a tax increase of under \$200, is \$104.

Tax Rates

In 2016, MPAC conducted the provincially mandated reassessment to update the assessment valuation date from January 1, 2012 to January 1, 2016. Assessment increases were to be phased in uniformly over the subsequent four-year taxation cycle from 2017 to 2020, while assessment decreases were fully implemented in the first year per Provincial Legislation. The CVA increase for the residential class was less than 4%. These valuation increases are phased in over a four year period. Therefore in 2020, the City's average residential assessment valuations increased by less than 1.0%. The valuation increases did not generate additional revenue for the City.

Impact of Provincially Regulated Education Tax Rates

Residential Education Taxes

As a result of the 2016 province wide reassessment, to account for the residential valuation increase throughout the province, the Ministry of Finance continues to reduce the provincially regulated residential education tax rate.

The residential property education tax rate went from .161% to .153%, representing a 5.0% decrease. This means that for areas of the province where property valuations are increasing by more than 5%, they would pay an increased share of education taxes. If the valuation was below 5.0%, the property would realize an assessment related education tax decrease. In Greater Sudbury, while changes in property values increased, the rate of increase was lower relative to the provincial average providing education tax savings to residents.

Collectively, the residential class will realize a reduction in education taxes of approximately \$1.2 million over 2019 values.

Commercial, Industrial and Pipeline Education Taxes

For 2020, the Ministry of Finance regulated the business class education tax rate at 0.98% representing a 5.0% reduction.

Education Tax Rates			
	2019	2020	% change
Residential, Multi-Residential	0.161%	0.153%	(5.0)
Commercial, Industrial, Pipeline	1.03%	0.98%	(5.0)

Tax Increase by Property Class

Council will recall the 2020 approved budget anticipated a 4.8% tax increase to support planned service levels, including a capital levy specifically for accelerating asset renewal efforts. As described in this report, based on the impacts of property valuation reassessments and the recommended property tax policy decisions presented here, the following tax changes for specific property types would be as follows:

Residential Properties

Municipal Tax Increase	4.5%
Reduction in Education Tax Rate	(0.9%)
Final Tax Impact	<u>3.6%</u>

Commercial Properties

Municipal Tax Increase	5.6%
Reduction in Education Tax Rate	(2.0%)
Final Tax Impact	<u>3.6%</u>

Industrial Properties

Municipal Tax Increase	4.4%
Reduction in Education Tax Rate	(1.2%)
Final Tax Impact	<u>3.2%</u>

Without the recommended change to the commercial tax ratio, the municipal tax increase for the residential, commercial and industrial classes would be 3.3%, 4.6% and 3.0% respectively net of the reduction in the Education Tax Rate.

MPAC Reassessment - Valuation Changes Affecting Residential Tax Increases

Although the broad residential class would realize a 4.5% property tax increase, the individual property taxpayer may see a different tax increase based on the type of dwelling and the new reassessed value.

Area Rating

Another factor affecting 2020 tax increase is area rating. The methodology of area rating for the City of Greater Sudbury was developed at amalgamation and has remained unchanged, aside from minor adjustments. Area rating establishes different levels of taxation for different parts of the City, with the premise being that service levels in those areas are sufficiently different and so the basis for allocating costs should also be different. The two services that are area rated are Transit and Fire Services.

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 serviced by 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. As has been recently discussed with Council, this method of allocation does not match service levels or costs incurred for the different service areas.

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, 77% 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 23% 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.

As a result, tax impact on properties will vary based on area rating and assessment changes from 2016 provincial reassessment.

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 and have been enhanced for 2016 in an attempt to eliminate more properties from the capping exercise. In Greater Sudbury, this currently affects only Commercial and Industrial properties.

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 2019 from the capping exercise.
5. Eliminate commercial and industrial properties that crossed between capping and clawback in 2020 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 %	62.4323%	70.8106%	
Clawback \$	\$156,969	\$1,120,017	\$1,276,986
Shortfall \$	\$0	\$0	\$0
# of Capped Properties	26	148	174
# of Clawback Decreasing Properties	12	21	33
# of CVA Tax Properties	2,628	274	2,902
Total # in Class	2,662	425	3,087

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

Commercial	62.4323%
Industrial	70.8106%

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 3.6% change in residential property taxes payable for 2020 compared to 2019 levels. For over 90% of residential properties, the average change in property taxes is \$104, although for 42% of residential taxpayers the average change will be much lower (approximately \$69). Actual changes in taxes payable for each property will be determined by its assessed value, type of dwelling and its location within the City.

Commercial properties will pay relatively less than they did in previous periods in recognition of the impact cause by COVID-19 and to promote investment in these areas. 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.