Presented To: Policy Committee

Presented To:	Policy Committee
Presented:	Wednesday, May 19, 2010
Report Date	Wednesday, May 12, 2010
Type:	Presentations

Request for Decision

2010 Property Tax Policy

Signed By

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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 - 2.208780; Commercial - 2.027537; Industrial - 2.859391; Large Industrial - 3.240966; Pipeline - 1.764048; and

THAT the necessary bylaw be passed.

2) WHEREAS the City of Greater Sudbury continues the practice of having as many properties as possbile 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;

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 2009 from the capping exercise; e) eliminate properties that crossed between capping and clawback in 2010 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 - 42.7505%; Commercial - 11.2570%; Industrial - 1.8148%; and

THAT the necessary bylaw be passed.

Executive Summary

This report deals with the adoption of 2010 property tax policy. In previous years, a brief history of the transference of this function from the Province to the municipalities, as well as the measures that the City has taken over the years, was presented to Council. As most decisions regarding tax policy have been in place for a number of years, and that there are only a few decision points for Council to review, therefore it will not be necessary to review the history.

Instead, this report will deal with the three 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 2010 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. The municipal tax burden pushed onto the Residential class totals $2.9 million. By revising the property tax ratios for the Multiple Residential, Commercial, Industrial and Pipeline classes, the tax burden for each class returns to its 2009 levels.

There are two options:

1) Leave the ratios unchanged from 2009 and pass an additional $2.9 million onto the Residential class,

2) Approve the revenue neutral rates and return tax burden to its 2009 levels by property tax class.

Consistent with prior years, it is recommended that Council approve the revenue neutral tax ratios, which is beneficial to the Residential class.

Decision #2

How to handle the Commercial tax ratio and Industrial tax ratio, which are over the provincial threshold of 1.98 and 2.63 respectively?

As a result of using revenue neutral tax ratios, the Commercial tax ratio has moved above the provincial threshold. The Industrial tax ratio has been above the threshold for the last two years.

Under provincial legislation, if a property tax class has a ratio above the provincial threshold, then only a maximum of 50% of the increased municipal levy can be passed onto this class, transferring this tax burden to all other classes.

There are two options:

1) Leave the Commercial tax ratio at 2.027537 and the Industrial tax ratio at 3.085393, pass on only 50% of the 2010 levy increase to properties in these classes. This would result in the Residential class collectively (inclusive of the increased education taxes) realizing a 3.3% tax increase.

2) Move the Commercial tax ratio and Industrial tax ratio to 1.98 and 2.63 respectively, and pass on 100% of the tax levy increase to these classes. The Residential class would realize an increase of 4.5%. This option would pass $1.9 million of additional tax burden onto all classes, inclusive of $1.7 million to the Residential class.

Option 1 is recommended as it benefits the residential property owner as well as all other classes at the expense of the Commercial and Industrial classes. Even with acceptance of this option, the percentage of tax burden for the Commercial and Industrial classes would still be less than in 2009.

Decision #3

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 2009 taxes,

2) Increase taxes by at least 5% of CVA taxes,
3) Move capped and clawbacked 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: 2009 capped property moved to a clawed back property in 2010).

Acceptance of these options is consistent with previous years' decisions and assists in reducing the number of properties affected by this cap.

Table 1 reflects the increased clawback percentage and higher number of properties affected by the cap under the mandatory 5% tax cap.

Properties affected by the Mandatory 5% Cap

Table 1

	Multi-Residential	Commercial	Industrial	Total	
Decrease Clawback %	19.4011%	6.0360%	1.6345%		
Clawback $	$20,702	$325,545	$44,025	$390,272	
# of Capped Properties	28	184	29	241	}3,034
# of Clawback Decreasing Properties	166	2,256	371	2,793	
# of CVA Tax Properties	180	178	16	374	
Total # in Class	374	2,618	416	3,408	

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 %	42.7505%	11.2570%	1.8148%		
Clawback $	$6,540	$221,840	$37,030	$265,410	
# of Capped Properties	4	94	14	112	}449
# of Clawback Decreasing Properties	9	297	31	337	
# of CVA Tax Properties	361	2,227	371	2,959	
Total # in Class	374	2,618	416	3,408	

As reflected in Table 1 and Table 2, the number of properties in the capping exercise (capped and clawed back properties) was reduced from 3,034 to 449. When all options were accepted in 2009, the number of capped and clawbacked properties was 691. In 2010, the number has been reduced by 242, 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	42.7505%
Commercial	11.2570%
Industrial	1.8148%

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

Tax Impacts Resulting from Approval of Recommendations

Revenue Neutral Tax Ratios - Impact on Residential Class

If Council chooses not to approve revenue neutral tax ratios, collectively the Residential class (inclusive of education) would reflect a 5.4% tax increase. However, approval of revenue neutral ratios brings the residential tax increase down to 3.3%.

During 2010 budget deliberations, Council approved amunicipal tax levy increase of 2.5% prior to the development of property tax policy and area rating.

The residential tax increase is affected by the issue that the Commercial and Industrial classes exceed the threshold and will only have 50% of the levy increase passed onto its properties. This adds approximately a .2% increase to the residential tax bill bringing the municipal increase to 2.7%.

Municipal Tax Increases

Class	Residential	Commercial	Industrial
Approved Budget Tax Increase	2.5%	2.5%	2.5%
Impact of Tax Policy	.2%	(.9%)	(1.2%)
Municipal Tax Increase	2.7%	1.6%	1.3%

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.

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 5%, therefore realizing an assessment related education tax increase. The residential class has increased education taxes of approximately$1.4 million over 2009 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 takes 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.

The illustration below reflects the 2009 and 2010 education rates for these classes.

Education Tax Rates

	2009	2010	% change
Residential	.252%	.241%	-4.4
Commercial	1.894%	1.43%	-24.5
Industrial	2.250%	1.43%	-36.5
Pipeline	1.509%	1.43%	-4.2

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 2009 to 2010 the residential average increased by 12.1%. Acceptance of revenue neutral ratios in essence brought all classes up to a 12.1% valuation increase. For that reason the municipal tax rate was reduced accordingly. In 2010, the City of Greater Sudbury approved a 2.5% municipal tax increase; adjusted to 2.7% as a result of tax policy. For simplicity purposes, area rating will not be considered for this next explanation. With a 12.1% valuation increase being the average, that means if a property had an assessment increase from 2009 to 2010 of 12.1%, it would realize a 2.7% municipal tax increase. An assessment increase below 12.1%, properties would see a municipal increase of less than 2.7%. Conversely, properties above a 12.1% assessment increase would realize a greater than 2.7% municipal tax increase.

	2009 $	2010 $	$ Increase	% Increase
Assessment	136,440	152,880	16,440	12.1
Municipal Taxes	2,185	2,244	59	2.7
Education Taxes	344	368	24	7.0
Total Taxes	2,529	2,612	83	3.3

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 2009 to 2010 for that class.

In reviewing the last two charts on the Appendix, you will notice that properties in the Industrial and Large Industrial classes that are close to the class valuation increase average will realize a tax decrease of 9.3% to 14.9%. Of the 358 properties in the Industrial class, 45 properties will have an increase in taxes over 2009. There are no Large Industrial properties that will have a 2010 increase in taxation. In addition, there are 2,194 of 2,618 commercial properties that will experience a tax reduction in 2010. The decreases in the Commercial and Industrial classes are a result of the graduated reduction measure in the Business Education Tax (BET) introduced in the 2007 Provincial Budget that is now at the target rate in 2010.

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)	Properties Increasing	Properties Decreasing
Residential	3.2	1.4	4.6	48,712	7,466
Multi-Residential	.4	.0	.4	343	31
Commercial	.7	(5.0)	(4.3)	424	2,194
Industrial	.0	(1.1)	(1.1)	45	358
Large Industrial	.2	(1.5)	(1.3)	0	13
Totals	4.5	(6.2)	(1.7)	49,524	10,062

This next chart reflects the tax impact in the Residential class, inclusive of education taxes.

$ Impact	Increasing Properties	Decreasing Properties
0 - $200	47,082	7,296
> $200	1,630	170
Total	48,712	7,466

There are only 1,630 of the total 56,178 residential properties that will experience an increase of greater than $200 on their 2010 property tax bill.

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 AA@

2009 CVA $136,440

Residential Class (*12.1% valuation increase - 2010 CVA $152,880)

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2009 Taxes	2,608	2,463	2,382	2,311
2010 Taxes	2,693	2,543	2,460	2,385
Tax Increase	85	80	78	74
% Increase	3.3%	3.2%	3.3%	3.2%

2009 CVA $131,160

Multiple Residential Class (*8.5% valuation increase - 2010 CVA $143,320)

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2009 Taxes	4,988	4,691	4,524	4,378
2010 Taxes	5,159	4,849	4,677	4,521
Tax Increase	171	158	153	143
% Increase	3.4%	3.4%	3.4%	3.3%

2009 CVA $124,560

Commercial Class (*3.7% valuation increase - 2010 CVA $129,120)

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2009 Taxes	6,258	6,009	5,869	5,748
2010 Taxes	5,786	5,529	5,387	5,250
Tax Increase	(472)	(480)	(482)	(498)
% Increase	(7.5%)	(8.0%)	(8.2%)	(8.7%)

2009 CVA $120,120

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

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2009 Taxes	7,991	7,649	7,456	7,288
2010 Taxes	6,893	6,556	6,369	6,200
Tax Increase	(1,098)	(1,093)	(1,087)	(1,088)
% Increase	(13.7%)	(14.3%)	(14.6%)	(14.9%)

2009 CVA $125,520

Large Industrial Class (*4.4% valuation increase - 2010 CVA $131,040)

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2009 Taxes	9,088	8,683	8,454	8,255
2010 Taxes	8,264	7,849	7,618	7,409
Tax Increase	(846)	(834)	(836)	(846)
% Increase	(9.3%)	(9.6%)	(9.9%)	(10.2%)

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