What the City has already adopted

From 1998 the Region and now the City have made a number of tax policy decisions that are currently in place. The City has complied with the three provincially mandated programs and these are:

1. Tax rebates for Registered Charities occupying Commercial and Industrial property,

2. Tax deferrals for Low Income Seniors and Low Income Disabled Persons residential property owners, and

3. Vacancy Rebate Program for properties in the Commercial and Industrial property classes.

In addition to this, the City has adopted the Optional Large Industrial Class, implemented tax reductions for vacant commercial and industrial properties and introduced the New Multi-Residential Class. For 2008, there is also a recommendation to modify the Elderly Property Tax Assistance Credit. The following provides a brief description for each of these.

Tax rebates for Registered Charities

Under provincial legislation, municipalities are required to rebate a minimum of 40% of the taxes paid by a registered charity occupying Commercial or Industrial property. Currently, the City provides a tax rebate of 40% to Registered Charities.

In addition, the City provides a 100% tax rebate to not for profit daycares in the residential class that are registered charities as well as legions, the Navy league and the Polish Combatants.

Tax deferrals for Low Income Seniors and Low Income Disabled Persons residential property owners

Under provincial legislation, municipalities are required to provide a tax relief policy for Low Income Seniors and Low Income Disabled residential property owners, beginning in a taxation year in which a general reassessment occurs. Currently, the City provides the option for these individuals to have a tax deferral on their property for any assessment related increase greater than $100 on their residential property tax bill.

Vacancy Rebate Program for properties in the Commercial and Industrial Property Classes

Under provincial legislation, municipalities are required to provide vacancy rebates to owners who have vacant units within their building and who apply for the rebate. Currently, the City reviews the application and provides the rebate to the property owners for the period that the units were vacant. The provincially imposed deadline for application is February 28 to be eligible for vacancy rebates for the previous year.

Tax reductions for vacant Commercial and Industrial properties

Under provincial legislation, municipalities are required to provide tax reductions for those properties that have excess land or vacant land. Currently, the City provides a 30% tax reduction to Commercial properties and a 35% reduction to Industrial properties.

Optional Class - Large Industrial Class

In 1998, Council chose to adopt the Large Industrial Class as an optional class within the Broad Industrial Class. This ensured that the tax burden placed on the large industrial property owners collectively in 1997 would be the same in 1998. This option ensured that the residual industrial property owners would not experience an additional tax burden as a result of the province wide reassessment and the new valuation methodology. If this optional class was eliminated the large industrial properties would realize less tax burden at the expense of the residual industrial properties as the tax burden must be kept within the broad class. Therefore removal of this optional class would not be recommended.

New Multi-Residential Class

In 2003, the City adopted a new Multi-Residential Class with a tax ratio of 1.0000 (same as residential). The creation of this new class was intended to spur development of additional multi-residential units. This ratio will remain in place for 35 years after the completion of building.

Recommended Modification to Elderly Property Tax Assistance Credit

In the 2008 operating budget deliberations, the Finance Committee approved the increase of this grant from $150 to $200 per year. One of the criteria currently in place to receive this grant is the taxes on the property must exceed $600. Some applications for this grant were denied as a result of the property owner's taxes being under the $600 threshold. Councillor Callaghan requested Finance staff to review this policy to ensure that individuals who were in need of the grant received this assistance.

The rationale for the $600 minimum taxes on a property preceded amalgamation when the former City of Sudbury provided this elderly assistance grant to seniors in their city. The former City of Sudbury collected taxes on behalf of the Region of Sudbury and the School Boards. Since both the Region and School Boards taxes were significantly higher than the City's local taxes, the grant was set at $100 if the total property taxes exceeded $600. For approximately every $600 collected on behalf of all three parties, the City's share was just over $100. The City was interested in refunding only the local taxes collected and did not want its taxpayers to pay for a rebate of Region and School Board taxes. The $600 threshold did accomplish that objective.

With the amalgamation in the City of Greater Sudbury and property tax reform relating to education taxes, the $600 threshold no longer has any relevance. Since the residential education taxes make up only approximately 14% of the total tax bill, the rebate of $200 will be the City's portion of taxes as long as the total bill exceeds $230. For this reason, it is recommended that the $600 minimum property tax criteria be eliminated from the application for the Elderly Property Tax Assistance Grant.

The taxation department has kept past years' applications of denied credits as a result of the $600 property tax criteria. If this recommendation is approved, the tax department will be sending out applications to these property owners and will also follow up with telephone calls to ensure they have the ability to apply and receive this credit.

It is anticipated that the budget impact on this item will be minimal and can be absorbed within the existing budget.

Capping

Under Bill 140, properties in the Multi-Residential, Commercial and Industrial classes can pay only an additional 5% in taxes over the previous year plus any levy increase. The difference between the amount of taxation that these business properties should have paid based on their Current Value Assessment (CVA) and what they do pay under Bill 140 has to be funded. The municipality has two choices in funding the cap:

1) from municipal funds i.e. Reserves or a levy increase

2) clawbacks from decreasing properties

CGS Councils have always chosen to fund the cap by clawing back from decreasing properties so as not to deplete our reserves. As a result, this becomes a revenue neutral exercise as the decreasing properties fund the cap.

The Province, through the 2004 Budget (Bill 83, The Budget Measures Act, 2004), added a number of options which are intended to have property owners pay their fair share of taxes sooner. The following options will allow properties to pay their taxes based on the Current Value Assessment (CVA) and reduce the number of properties affected by the capping and clawback formula:

1) Increase the amount of the annual cap from 5% to up to 10% of the previous year's taxes.

2) Implement a minimum annual increase up to 5% of the CVA level taxes.

3) Move capped or clawed back properties directly to CVA taxes if they are within $250 of their CVA taxes.

4) Phase out the "new construction treatment" by creating floors establishing a minimum percentage of CVA tax responsibility. For 2005 the floor has been set at 70%. For 2006 it was increased to 80%;for 2007 it was increased to 90%. For 2008, new construction will be taxed at its true CVA of 100%.

The aforementioned measures adopted by previous Councils has significantly reduced the number of properties affected by the protectionism measures that have been in place from 1998 to 2004.

Decisions Required for 2008 Tax Policy

Like other municipalities in the Province of 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 value

Decision #1

How to handle the industrial tax class ratio which is over the Provincial allowable level at 2.63?

There are two options:

a) Leave the ratio at 2.641 and pass only 50% of the 2008 levy increase to properties in this class. The residential class collectively (when the education tax rate is factored in) would realize a 5.3% tax increase.

b) Move the industrial tax ratio to 2.63 and pass on 100% of the tax levy to this class. The residential class would reflect a tax increase of 5.1% passing some of the tax burden back to the industrial class. This option would allocate $316,000 of tax burden back to the industrial class while relieving the residential class of $218,000 of tax burden and all other classes collectively of $98,000 of tax burden.

Both options are analysed and results identified in **Appendix 1.** Option 1(b) is recommended as it benefits the residential taxpayers.

Decision #2.

Which tax tools should be used when dealing with tax capping and clawbacks?

The analysis is reflected in **Appendix 2** and the recommendation is to adopt all three of the tax tools as it reduces the clawback percentages and removes properties from the capping exercise.

The following reflects the results for the business classes (multiple residential, commercial and industrial) if the recommended capping options are accepted:

	Multi-Residential	Commercial	Industrial	Total
Reduction in Clawback %	14.55%	10.60%	2.13%	
Properties Removed from Capping Exercise	88	1,615	274	1,977
Savings to Decreasing Properties	$4,988	$189,637	$27,384	$222,009

Based on the acceptance of the above noted tax tools, the Online Property Tax Analysis (OPTA) system that the City uses to determine the capping and clawback calculations has produced the following numbers:

Multi-Residential	68.1294%
Commercial	71.6995%
Industrial	35.2857%

Tax Impact based on recommendations

Given no changes to area rating and adoption of the revised industrial and large industrial tax ratios, the following reflects the property taxes (municipal and education) on properties assessed at $120,000 in each of the 4 service areas:

Residential Class

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2007 Taxes	2,372	2,258	2,177	2,109
2008 Taxes	2,494	2,368	2,286	2,218
Tax Increase	122	110	109	109
% Increase	5.1%	4.9%	5.0%	5.2%

Multiple Residential Class

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2007 Taxes	4,549	4,314	4,147	4,008
2008 Taxes	4,800	4,540	4,371	4,231
Tax Increase	251	226	224	223
% Increase	5.5%	5.2%	5.4%	5.6%

Commercial Class

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2007 Taxes	5,917	5,721	5,581	5,464
2008 Taxes	6,118	5,901	5,759	5,642
Tax Increase	201	180	178	178
% Increase	3.4%	3.1%	3.2%	3.3%

Industrial Class

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2007 Taxes	8,189	7,903	7,700	7,531
2008 Taxes	8,372	8,063	7,861	7,694
Tax Increase	183	160	161	163
% Increase	2.2%	2.0%	2.1%	2.2%

The education portion of the property tax bill for the commercial and industrial class is at a higher percentage than the residential class. In addition, in the 2007 Provincial budget, the ministry announced a graduated reduction in the Business Education Tax (BET) commencing in the 2008 property taxation year. The combination of these two items are responsible for the business classes reflecting an overall lower tax increase than the residential class. The reduction in education taxes for the commercial properties collectively is $18,500 while the industrial class reduction is $233,000.

Area Rating

During the 2008 budget deliberations, Finance Committee had questions regarding area rating of services and requested further information on this issue during 2008 tax policy.

For 2008 the current area rating section for fire services and separate rates would remain in place for Career, Composite and Volunteer districts. As well, there are no changes for area rating Transit Services, which is currently based on service hours. It is recommended for 2008 that the same area rating process remain in place.

See Appendix 3 to view the impact of eliminating part or all of area rating.

SUMMARY

In summary, it is recommended that Council adopt the tax ratios that benefit the residential class.

It is also recommended that Council adopt all the options available to ensure that more properties pay their CVA taxes.

For the capping program, it is recommended that Council adopt the clawback percentages identified in the report.

It is also recommended that the minimum $600 property tax criteria be eliminated as a qualification for the Elderly Property Tax Assistance Credit of $200.

Appendix 1

Effects of the Industrial Tax Ratio exceeding the Provincial Threshold of 2.63

Currently the starting 2008 tax ratio for the broad industrial class is 2.64 which is currently over the Provincial threshold of 2.63, which has relieved the industrial class of tax burden absorbed by all other classes. If this ratio is unaltered, only 50% of the levy increase can be passed on to property owners in this class. Impact of this decision is as follows:

Option 1a) Municipal Tax Increase by Class (Ratio at 2.64 and 50% Levy Increase)	
Residential	$6,373,605
Multi-Residential	$809,942
Commercial	$2,193,382
Pipeline	$55,958
Industrial (including L.I.)	$450,628

However, if the broad class industrial ratio is moved to the Provincial threshold of 2.63 then 100% of the levy increase can be passed onto all properties within the industrial class. The tax effects of this option is as follows:

Option 1b) Municipal Tax Increase by Class (Included at 2.63 Ratio)	
Residential	$6,155,644
Multi-Residential	$783,290
Commercial	$2,123,923
Pipeline	$54,020
Industrial (including L.I.)	$766,816

As you can see in this example, less tax burden is passed onto all other classes with the industrial class receiving an additional $316,000 in tax burden. For this reason, Option 1b, is recommended and that the 2008 starting tax ratios for the industrial class be reduced to 2.63 (provincial threshold) in order to pass 100% of the levy increase to the industrial class.

Recommended Ratios	
Residential	1.000000
Multi-Residential	2.059100
Commercial	1.720574
Pipeline	1.475204
Industrial Broad Class	2.630000
Industrial Residential	2.438594
Large Industrial	2.764015

Appendix 2

Eliminating Capping and Clawback wherever possible

The following are illustrations of how the tax tools can be utilized to eliminate properties from the capping and clawback exercise.

Table 1 illustrates the affects of implementing only the mandatory 5% cap on increasing business properties.

Properties affected by the Mandatory 5% Cap

Table 1				
	Multi-Residential	**Commercial**	**Industrial**	**Total**
Decrease Clawback %	82.6840%	82.3030%	37.4172%	
Clawback $	$16,104	$1,133,960	$225,186	$1,375,250
# of Capped Properties	12	234	55	301
# of Clawback Decreasing Properties	100	2,374	343	2,817
# of CVA Tax Properties	265	46	8	319
Total # in Class	377	2,654	406	3,437

Since previous Councils has always funded the cap from the decreasing properties, it is recommended that this practice continue as it will not deplete the City's reserves. For this reason, under this scenario a total 2,817 properties will have their tax reductions clawed back to fund the cap that was generated by providing protection to 301 properties. In total 3,118 properties are affected. In the past, Council has attempted to increase the number of properties that will pay CVA taxes.

Full Options Implemented to Fast Track Properties to CVA Taxes

The other options available to enable municipalities to have properties reach their true CVA taxes faster are as follows:

1) Increase the cap to a 10% increase over the 2007 taxes

2) Increase taxes of by at least 5% of CVA taxes

3) Move capped properties with $250 of CVA taxes directly to CVA taxes

These options will move more properties towards elimination from protection or will eliminate properties from the capping and clawback exercise. By choosing all of these option the following occurs.

Table 2				
	Multi-Residential	**Commercial**	**Industrial**	**Total**
Decrease Clawback %	68.1294%	71.6995%	35.2857%	
Clawback $	$11,116	$944,323	$197,802	$1,153,241
# of Capped Properties	7	194	41	242
# of Clawback Decreasing Properties	17	799	83	899
# of CVA Tax Properties	353	1,661	282	2,296
Total # in Class	377	2,654	406	3,437

Table 3 - for information purposes only			
Number of Properties Capped or Clawedback if recommendations are adopted			
	Base Cap - 5%	**With all Options**	**Properties Removed**
Multi-Residential	112	24	88
Commercial	2,608	993	1,615
Industrial	398	124	274
Total	3,218	1,141	1,977

RECOMMENDATION

With implementing the full option package (table 2), a total of 1,977 properties are eliminated from the capping and clawback exercise and more properties are paying true CVA taxes.

For this reason, the use of the full option package to achieve full CVA taxes faster is the recommended option and it is as follows:

1) Implement a maximum 10% tax increase

2) Increase taxes by at least 5% of CVA taxes

3) Move capped and clawedback properties with $250 of CVA taxes directly to CVA taxes.

Appendix 3

Effects of Elimination of Area Rating

This appendix will reflect the impact of area rating under the following scenarios:

1) eliminate area rating for Fire Services only,
2) eliminate area rating for Transit Services only,
3) eliminate all area rating.

Tax Impact

The following four charts reflect the impact on a home assessed at $120,000 in each of the four services areas:

Chart 1 - Area Rating for Fire and Transit Services on existing criteria
Chart 2 - No Area Rating for Transit Services
Chart 3 - No Area Rating for Fire Services
Chart 4 - No Area Rating for any services

Chart 1 - Current Practice on Area Rating

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2007 Taxes	2,372	2,258	2,177	2,109
2008 Taxes	2,494	2,368	2,286	2,218
Tax Increase	122	110	109	109
% Increase	5.1%	4.9%	5.0%	5.2%

Chart 2 - No Area Rating for Transit Services

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2007 Taxes	2,372	2,258	2,177	2,109
2008 Taxes	2,470	2,406	2,323	2,323
Tax Increase	98	148	146	214
% Increase	4.1%	6.6%	6.7%	10.1%

Chart 3 - No Area Rating for Fire Services

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2007 Taxes	2,372	2,258	2,177	2,109
2008 Taxes	2,447	2,386	2,385	2,317
Tax Increase	75	128	208	208
% Increase	3.2%	5.7%	9.6%	9.9%

Chart 4 - No Area Rating for any services

	Career/ Urban	Composite/ Commuter	Volunteer/ Commuter	Volunteer
2007 Taxes	2,372	2,258	2,177	2,109
2008 Taxes	2,423	2,423	2,423	2,423
Tax Increase	51	165	246	314
% Increase	2.2%	7.3%	11.3%	14.9%