

Type of Decision							
Meeting Date	May 28, 2019			Report Date	May 23, 2019		
Decision Requested	X	Yes		No	Priority	X	High
	Direction Only				Type of Meeting	X	Open
							Low
							Closed

Report Title
2019 Property Tax Policy

Resolution	Relationship to the Strategic Plan/Health Impact Assessment
<p><b>Resolution #1</b></p> <p>THAT the City of Greater Sudbury approves property tax ratios as follows:                      Multi-Residential - 1.965000;                      Commercial - 1.942000;                      Industrial – 3.795000;                      Large Industrial - 4.405160;                      Pipeline – 2.179489;                      Farm – 0.200000;</p> <p>AND THAT the necessary Tax Ratio by-law and Tax Rate by-law be prepared.</p> <p><b>Resolution #2</b></p> <p>THAT the City of Greater Sudbury use capping and clawback tools as follows:</p>	<p>This report refers to operational matters.</p>
X <b>Resolution Continued</b>	X <b>Background Attached</b>


Report Summary

This report deals with the adoption of property tax policy decisions.

Financial Implications

There are no financial implications associated with this report.

Report Prepared By

  
Name: Jim Lister  
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Division Review

  
Name: Ed Stankiewicz  
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Recommended by the Department

  
Name: Kevin Fowke  
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Financial Implications

  
Name: Jim Lister  
Title: Manager of Financial Planning & Budgeting

Recommended by the C.A.O.

  
Ed Archer  
Chief Administrative Officer

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**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 commercial and industrial properties that were at Current Value Assessment in 2018 from the capping exercise
- e) Eliminate commercial and industrial properties that crossed between capping and clawback in 2019 from the capping exercise

AND THAT the necessary by-law be prepared;

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

Commercial – 81.1462%;  
Industrial – 65.7198%;

AND THAT the City of Greater Sudbury approves the recommendations as outlined in the report entitled “2019 Property Tax Policy”, from the General Manager of Corporate Services, presented at the Finance and Administration Committee Meeting on May 28, 2019.

**Executive Summary**

The purpose of this report is to establish 2019 property tax ratios to determine final property tax bills. There are two decisions:

- a) Determine the property tax ratios applicable for 2019 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 between 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.

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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 2019, the City of Greater Sudbury will levy \$327 million in property taxation. This funds both municipal operations (\$274 M) and Greater Sudbury's four school boards (\$53 M).

### **Decisions Required for 2019 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. With the 2019 tax ratios, staff recommend policies that result in the anticipated 3.6% property tax increase for residential properties and reduce the rate of change for commercial and industrial property classes.

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 determine "how the pie is sliced"; it establishes 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. By adjusting the tax ratios, this could be avoided and property classes will remain responsible for a consistent share of property tax payable.

In 2018 the tax ratios for the industrial class were reduced. This shift in taxation from the industrial class should continue in 2019, to assist in ensuring the City's ability to attract new investment in this area.

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## 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 2019 is 1.942000 which means that, for every residential property tax dollar paid, the commercial property class pays \$1.942.

The recommended tax ratios are:

	2019 Proposed	2018 Approved
Residential	1.000000	1.000000
Multi-Residential	1.965000	2.000000
Commercial	1.942000	1.980000
Industrial	3.795000	3.957452
Large Industrial	4.405160	4.485558
Pipelines	2.179489	2.179489
Farm	0.200000	0.200000

The recommended ratios reduce multi-residential, commercial and industrial tax ratios. By reducing these ratios the multi-residential class as a group has a 4.0 % increase (decreased to 3.6% factoring in education rates), commercial class a 4.6% increase (2.8% including education) and industrial 1.3% (0.5% including education). This supports economic development objectives and provides assistance for housing policy objectives. For example, by reducing the commercial and industrial tax ratios, the city's competitive position improves slightly relative to other municipalities across the province. Similarly, the reduction in tax ratio for multi-residential supports affordable housing development.

As a result of the 2016 property reassessments, which reduced the valuations in the industrial class (specifically the large industrial class) quite significantly, Council increased the industrial tax class ratio in 2017 to mitigate the tax impact on the residential class.

The industrial tax ratio is the second highest amongst municipalities within the BMA Municipal Study in 2018. It would be appropriate to lower the tax ratio for this class to improve the city's economic competitiveness relative to its peers.

By reducing the industrial ratio from 3.95 to 3.795, additional tax burden would be passed on to all other classes. However, it is imperative from a competitive view point that this ratio continues to move downward.

In addition decreases in the multi-residential and commercial classes from the threshold ratio will shift taxation and should encourage growth in these classes. The multi-residential ratio will decrease from 2.0 to 1.965 and the commercial from 1.98 to 1.942.

These actions would result in a municipal tax increase of 3.6% to the residential class.

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	43,014
\$100 - \$200	12,359
> \$200	2,428
Total	57,801

There are 43,014 (74%) of the total 57,801 residential properties that will experience an increase of less than \$100 on their 2019 property tax bill. The average increase would be \$60, but this figure will vary depending on area of the City, type of dwelling and valuation change year over year.

The average increase for all residential properties under \$200 is \$76.

## 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 2019, 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 and in 2019; this represents a 5.3% reduction. If the property valuation increased by more than 5.3%, the property would realize an assessment related increase in education taxes. If the valuation was below 5.3%, the property would realize an assessment related education tax decrease. For 2018, the residential property education tax rate went from .170% to .161%, representing a 5.3% decrease.

Residential class property valuations in Sudbury increased by less than 1.0%. Collectively, the residential class will realize a reduction in education taxes of approximately \$0.9 million over

2018 values.

## Commercial, Industrial and Pipeline Education Taxes

For 2019, the Ministry of Finance regulated the business class education tax rate at 1.03% representing a 5.5% reduction.

Education Tax Rates			
	2018	2019	% change
Residential, Multi-Residential	0.170%	0.161%	(5.3)
Commercial, Industrial, Pipeline	1.09%	1.03%	(5.5)

## Tax Increase for Residential Property Class

Approved Budget	3.6%
Reduction in Education Tax Rate	<u>(1.0%)</u>
Tax Impact	<u>2.6%</u>

## MPAC Reassessment - Valuation Changes Affecting Residential Tax Increases

Although the broad residential class would realize a 3.6% property tax increase, the individual property taxpayer may see a different tax increase based on the type of dwelling and the new reassessed value. Within the residential class, there are a number of different classifications of dwellings. Single family dwellings not on water reflected a 1% increase in valuation over the 2016 value. Conversely, waterfront properties reflected a 7% aggregate reduction in valuation from 2016. Condominiums reflected a 2% valuation increase of 2016 assessment. Duplexes and multiple unit properties (under 7 units within a structure) all had different valuation changes.

## Area Rating

Another factor affecting 2019 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

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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, 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.

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



For Greater Sudbury, the capping exercise ceased in 2016 for the multi-residential class as this class has had no properties affected since 2015.

The following tools are being recommended for approval:

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 commercial and industrial properties that were at Current Value Assessment in 2018 from the capping exercise.
5. Eliminate commercial and industrial properties that crossed between capping and clawback in 2019 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 %	81.1462%	65.7198%	
Clawback \$	\$157,253	\$1,292,328	\$1,449,581
Shortfall \$	\$0	\$0	\$0
# of Capped Properties	15	144	159
# of Clawback Decreasing Properties	11	22	33
# of CVA Tax Properties	2,638	265	2,903
Total # in Class	2,664	431	3,095

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

Commercial	81.1462%
Industrial	65.7198%

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

### 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, City staff appealed 13 large properties in an attempt to recoup this reduced assessment. MPAC, the property owners and the City are proceeding through the appeal process. As appeals are resolved, staff will report to Council relative to the results and the impacts on the City.

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## **Summary**

The recommendations outlined in this report provide the residential class with the budgeted taxation increase while decreasing the relative taxation ratios to the multi-residential, commercial and industrial classes in order to promote investment in these areas. 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.

**2019 Tax Policy Report - Appendix A**

**City of Greater Sudbury  
2019 Final Tax Rates for all Municipal Purposes**

(all figures in the form of %'s)

Property Description	General	Career	Fire Rate		Transportation Rate		Career/Urban Area	Composite/Commuter Area	Volunteer/Commuter Area	Volunteer Area
			Composite	Volunteer	Urban	Commuter				
Residential/New Multi-Res	1.056400	0.155755	0.106101	0.060655	0.088733	0.040075	1.300888	1.202576	1.157130	1.117055
Multiple Residential	2.075826	0.306059	0.208488	0.119187	0.174360	0.078747	2.556245	2.363061	2.273760	2.195013
Commercial Occupied	2.051528	0.302476	0.206048	0.117792	0.172319	0.077826	2.526323	2.335402	2.247146	2.169320
Commercial Excess Land	2.051528	0.302476	0.206048	0.117792	0.172319	0.077826	2.526323	2.335402	2.247146	2.169320
Commercial Vacant Land	2.051528	0.302476	0.206048	0.117792	0.172319	0.077826	2.526323	2.335402	2.247146	2.169320
Industrial Occupied	3.936491	0.591090	0.402653	0.230186	0.336742	0.152085	4.864323	4.491229	4.318762	4.166677
Industrial Excess Land	3.936491	0.591090	0.402653	0.230186	0.336742	0.152085	4.864323	4.491229	4.318762	4.166677
Industrial Vacant Land	3.936491	0.591090	0.402653	0.230186	0.336742	0.152085	4.864323	4.491229	4.318762	4.166677
Large Industrial Occupied	4.569400	0.686126	0.467392	0.267195	0.390883	0.176537	5.646409	5.213329	5.013132	4.836595
Large Industrial Excess Land	4.569400	0.686126	0.467392	0.267195	0.390883	0.176537	5.646409	5.213329	5.013132	4.836595
Pipelines	2.302412	0.339466	0.231246	0.132197	0.193393	0.087343	2.835271	2.621001	2.521952	2.434609
Farm	0.211280	0.031151	0.021220	0.012131	0.017747	0.008015	0.260178	0.240515	0.231426	0.223411
Managed Forests	0.264100	0.038939	0.026525	0.015164	0.022183	0.010019	0.325222	0.300644	0.289283	0.279264

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

**2019 Property Tax Policy Report - Appendix B**

