Request for Decision

2018 Property Tax Policy

Presented To:	Finance and Administration Committee
Presented:	Tuesday, May 15, 2018
Report Date	Monday, Apr 30, 2018
Type:	Managers' Reports

Resolution

Resolution #1:

THAT the City of Greater Sudbury approves property tax ratios as follows:

Multi-Residential - 2.000000;

Commercial – 1.980000;

Industrial – 3.957452;

Large Industrial - 4.4855558;

Pipeline – 2.179489;

Farm – 0.200000;

AND THAT the necessary Tax Ratio by-law and Tax Rate by-law be prepared.

Resolution #2:

THAT the City of Greater Sudbury use capping and clawback tools as follows:

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 2016 from the capping exercise

e) Eliminate commercial and industrial properties that crossed between capping and clawback in 2017 from the capping exercise

AND THAT the necessary by-law be prepared;

Signed By

Report Prepared By
Ed Stankiewicz
Executive Director of Finance, Assets and Fleet
Digitally Signed Apr 30, 18

Financial Implications
Jim Lister
Manager of Financial Planning and Budgeting
Digitally Signed Apr 30, 18

Recommended by the Department
Kevin Fowke
General Manager of Corporate Services
Digitally Signed May 1, 18

Recommended by the C.A.O.
Ed Archer
Chief Administrative Officer
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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 –100%;

Industrial – 53.1676%;

AND THAT the shortfall in funding the commercial cap be provided for by a contribution from the Tax Rate Stabilization Reserve;

AND THAT the City of Greater Sudbury approves the recommendations as outlined in the report entitled "2018 Property Tax Policy", from the General Manager of Corporate Services, presented at the Finance and Administration Committee Meeting on May 15, 2018.

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

Report Summary

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

Financial Implications

If approved, a contribution of $10,357 from the Tax Rate Stabilization Reserve will be made to the Operating Fund to fund the shortfall in taxation from the commercial tax class capping exercise.

Executive Summary

The purpose of this report is to establish 2018 property tax ratios to determine final property tax bills. There are two decisions:

a) Determine the property tax ratios applicable for 2018 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 for 2017 as well as measures implemented by the Province to manage tax implications for the multi-residential class, 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.

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.

Provincial legislation require decisions regarding tax policy options to be made prior to issuing final property tax bills even if status quo is being maintained.

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:

$$\text{Property Tax Rate} = \frac{\text{Property Tax Levy} \quad \times \text{ Tax Ratio for the Class}}{\text{Weighted/Discounted Assessment for All Classes}}$$

For 2018, the City of Greater Sudbury will levy $313 million in property taxation. This funds both municipal operations ($260 M) and Greater Sudbury's four school boards ($53 M).

Decisions Required for 2018 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, and to take decisions that prompt taxation on the full value of the property. This means that where choices exist to artificially sustain a property valuation that results in less tax being payable than it otherwise would pay except for that policy choice, the City of Greater Sudbury takes steps to remove those choices.

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. 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.

Such a shift occurred in Greater Sudbury with the 2016 reassessment. The effect increased the relative property tax burden on residential and commercial properties and reduced it on the large industrial class. While increased assessments are phased in over a four year period, reductions in assessments are realized in the first year. In order to mitigate the large loss of taxation from the industrial class, Council approved increased tax ratios to recover some of this taxation. Since these large industrial property assessments are at their destination value, there will be no requirement in 2018 to raise these ratios.

For 2017, this was quite significant as the large industrial class realized a reduction in valuation of $122 million of raw assessment. When the current large industrial tax ratio was applied, this resulted in a reduction of $500 million in weighted assessment, which represented 2.5% of the City's total weighted assessment.

Also, the Province established a policy to ease the tax burden on multi-residential properties. The effect is to place a new upper limit on taxation for the multi-residential property class. On December 21, 2016, the Ministry of Finance announced measures to lessen the burden on the multi-residential class by imposing a maximum threshold ratio of 2.00 (compared to 2.74 previously). Ratios above that threshold would not provide the municipality the ability to pass any levy increase onto this class. The effect of this change increases the property tax burden on other property tax classes.

There are four options:

1. Approve the starting tax ratios for 2018 based on the approval of the 2017 ratios.
2. Reduce the multi-residential, commercial and industrial tax ratios to the provincial threshold.
3. Approve revenue neutral tax ratios, which maintains the relative tax burden within each class from 2017 to 2018.
4. Approve the threshold ratios for the multi-residential and commercial tax classes and reduce the broad industrial ratio to 4.15.

1. Approve the starting tax ratios based on the approval of the 2017 ratios.

This choice shifts tax responsibility marginally to the residential, and pipeline tax classes and reduces part of the tax obligations for the multi-residential, commercial and industrial classes. These three benefiting classes are above the provincial threshold (multi-residential - 2.00, commercial – 1.98 and industrial – 2.63) and as a result, properties in these three classes would be subject to a levy restriction. The levy restriction would be absorbed by the residential class and pipelines.

For the commercial and industrial class, only 50% of the approved levy increase can be passed on to these classes. With the new measures instituted for the multi-residential class, being above the new threshold ratio of 2.00, the result is a hard cap. That means no levy increase could be passed on to this class.

Based on this option, the residential class would realize an increase in taxation of $3.2 million over 2017.

2. Reduce the multi-residential, commercial and industrial tax ratios to the provincial threshold

This option would move the tax ratios for the multi-residential, commercial and industrial class downward to the provincial threshold, being 2.00, 1.98 and 2.63 respectively, thus allowing 100% of the tax levy to be passed on to these three classes. Since the tax ratio reduction in the industrial class would be quite significant, the lower tax ratios would translate to lower taxes being generated from the industrial class resulting in additional tax burden to be absorbed by all other classes. Since the ratios for the multi-residential and commercial classes are close to the threshold ratios, moving these two classes to the threshold ratios and passing on 100% of the levy increase; this would result in increased tax revenue from these two classes.

In total, the tax increase from the residential class would be $8.9 million with $6.5 million of taxation being removed from the industrial class. Staff recognize this is an unreasonable option.

3. **Approve revenue neutral tax ratios, which maintains the relative tax burden within each class from 2017 to 2018**

The third option deals with moving tax ratios to a revenue neutral position, which would maintain the relative tax burden in each class at 2017 levels. As a result, the industrial class ratio would be above the provincial threshold, thus triggering the 50% levy restriction.

The result of accepting these revenue neutral ratios provides for tax increases in the residential class of $4.1 million over 2017.

Staff recognize that this option is not acceptable.

4. **Approve threshold ratios for the multi-residential and commercial classes and move the broad industrial tax ratio downward to 4.15.**

As a result of the 2016 property reassessments, which reduced the valuations in the 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 2017. As a result, it is recommended that over time, the City attempt to lower the tax ratio for this class.

By reducing this ratio from 4.59 to 4.15, 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.

This action would result in a municipal tax increase of 3.0% to the residential class.

This is the recommended option.

Tax Increase/ (Decrease) over 2017 ($ millions)

Options	Residential	Multi-Residential	Commercial	Industrial	Large Industrial
Starting Ratios	3.2	0.4	3.1	1.5	(0.1)
Threshold Ratios	8.9	0.8	4.6	(3.2)	(3.3)
Revenue Neutral Ratios	5.1	0.4	2.0	0.9	0.3
Industrial Ratios at 4.15	4.1	0.5	3.2	0.8	(0.6)

The following chart reflects the property tax ratios resulting from the approval of Option 4, which would allow a reduction to the industrial class ratio which is one of the highest in the Province.

	2018 Proposed	2017 Approved
Multi-Residential	2.000000	2.121738
Commercial	1.980000	2.066940
Industrial	3.957452	4.310972
Large Industrial	4.485558	4.886254
Pipelines	2.179489	2.179489
Farm	0.200000	0.200000

If approved, the tax rates can be generated and the billing process can proceed. See Appendix “A” for Tax Rates.

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 addition, the Minister of Finance has provided options to municipalities to exit the capping program for eligible classes and to phase out capping for tax classes that have all properties within the class levied at least at 50% of their Current Value Assessment taxes.

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 2016 from the capping exercise.
5. Eliminate commercial and industrial properties that crossed between capping and clawback in 2017 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 %	100.0000%	53.1676%	
Clawback $	$142,345	$1,634,950	$1,777,295
Shortfall $	$10,357	$0	$21,895
# of Capped Properties	17	200	217
# of Clawback Decreasing Properties	11	24	35
# of CVA Tax Properties	2,658	189	2,847
Total # in Class	2,686	413	3,099

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

Commercial	100.0000%
Industrial	53.1676%

By approving these clawback percentages it ensures that the decreasing properties will fund the cap of the increasing properties in the industrial class. The clawback in the commercial class at 100% is not sufficient to fund the cap and therefore it is recommended that the shortfall be funded from the Tax Rate Stabilization Reserve.

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 2018, 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 2018; this represents a

5.0% reduction. If the property valuation increased by more than 5.0%, the property would realize an assessment related increase in education taxes. If the valuation was below 5.0%, the property would realize an assessment related education tax decrease. For 2017, the residential property education tax rate went from .179% to .170%, representing a 5.0% 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 2017 values.

Commercial, Industrial and Pipeline Education Taxes

For 2018, the Ministry of Finance regulated the business class education tax rate at 1.09% representing a 4.4% reduction.

The elimination of the commercial and industrial subclasses also impacts the education taxes and the total increase in education taxes of $0.6 million for commercial, industrial and pipeline is due in large part to this change in policy.

Education Tax Rates			
	2017	2018	% change
Residential, Multi-Residential	0.179%	0.170%	(5.0)
Commercial, Industrial, Pipeline	1.14%	1.09%	(4.4)

Tax Increase for Residential Property Class

Approved Budget	3.0%
Reduction in Education Tax Rate	(0.9%)
Tax Impact	2.1%

MPAC Reassessment - Valuation Changes Affecting Residential Tax Increases

Although the broad residential class would realize a 3.0% 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 2018 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 that 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 made up of 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, 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.

Property Tax Distribution

This next chart reflects the tax impact in the residential class (municipal and education). This chart reflects the tax increases.

$ Impact	Increasing Properties
0 - $100	48,839
$100 - $200	7,244
> $200	1,646
Total	57,729

There are 48,839 (85%) of the total 57,729 residential properties that will either experience an increase of less than $100 on their 2018 property tax bill. The average increase would be $50, but this figure will vary depending on area of the City, type of dwelling and valuation change year over year.

The average increase for properties under a $200 increase is $61.

Reassessment affecting 2019 tax rates

The 2016 reassessment affected the distribution of the tax burden amongst classes. However, the caps on taxation in the multi-residential and commercial classes emanating from ratios being above the provincial thresholds limited the tax burden to these classes.

With the adoption of threshold ratios for these two classes, there will no longer be a levy restriction and therefore, some of the tax burden will be removed from the residential class and moved to these two classes as a result of the valuation changes.

The annual valuation change for these classes are as follows:

Residential	1.0%
Multi-Residential	2.6%
Commercial	4.1%

For 2019 and 2020, the multi-residential and commercial classes will be responsible for a higher proportion of the tax burden to the benefit of the residential class.

2016 Reassessment – Industrial Properties

As mentioned last year, 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.

Dialogue with the mining companies is continuing with an expectation of a negotiated agreement amongst all parties.

Summary

The recommendations outlined in this report are consistent with tax policy decisions adopted in the past. 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.

2018 Tax Policy Report - Appendix A

City of Greater Sudbury
2018 Final Tax Rates for all Municipal Purposes

(all figures in the form of %'s)

Property Description	General	Fire Rate Career	Fire Rate Composite	Fire Rate Volunteer	Transportation Rate Urban	Transportation Rate Commuter		Career/Urban Area	Composite/ Commuter Area	Volunteer/ Commuter Area	Volunteer Area
Residential/New Multi-Res	1.034682	0.156238	0.105179	0.061291	0.082750	0.038116		1.273670	1.177977	1.134089	1.095973
Multiple Residential	2.020694	0.312476	0.210358	0.122582	0.165500	0.076232		2.498670	2.307284	2.219508	2.143276
Commercial Occupied	2.048670	0.309351	0.208254	0.121356	0.163845	0.075470		2.521866	2.332394	2.245496	2.170026
Commercial Excess Land	2.048670	0.309351	0.208254	0.121356	0.163845	0.075470		2.521866	2.332394	2.245496	2.170026
Commercial Vacant Land	2.048670	0.309351	0.208254	0.121356	0.163845	0.075470		2.521866	2.332394	2.245496	2.170026
Industrial Occupied	4.021711	0.618304	0.416241	0.242556	0.327479	0.150842		4.967494	4.588794	4.415109	4.264267
Industrial Excess Land	4.021711	0.618304	0.416241	0.242556	0.327479	0.150842		4.967494	4.588794	4.415109	4.264267
Industrial Vacant Land	4.021711	0.618304	0.416241	0.242556	0.327479	0.150842		4.967494	4.588794	4.415109	4.264267
Large Industrial Occupied	4.555839	0.700815	0.471787	0.274924	0.371180	0.170972		5.627834	5.198598	5.001735	4.830763
Large Industrial Excess Lan	4.555839	0.700815	0.471787	0.274924	0.371180	0.170972		5.627834	5.198598	5.001735	4.830763
Pipelines	2.255078	0.340519	0.229236	0.133583	0.180353	0.083073		2.775950	2.567387	2.471734	2.388661
Farm	0.206937	0.031248	0.021036	0.012258	0.016550	0.007623		0.254735	0.235596	0.226818	0.219195
Managed Forests	0.252587	0.039060	0.026295	0.015323	0.020688	0.009529		0.312335	0.288411	0.277439	0.267910

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

2018 Tax Policy Report - Appendix B