TO:	**GENERAL COMMITTEE**
SUBJECT:	**2017 TAX RATIOS AND CAPPING POLICIES**
WARD	**ALL**
PREPARED BY AND KEY CONTACT:	**M. MASLIWEC, SENIOR MANAGER, ACCOUNTING AND REVENUE (ACTING), x4428**
SUBMITTED BY:	**C. MILLAR, DIRECTOR OF FINANCE AND TREASURER**
GENERAL MANAGER APPROVAL:	**P. ELLIOTT-SPENCER, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES**
CHIEF ADMINISTRATIVE OFFICER APPROVAL:	**C. LADD, CHIEF ADMINISTRATIVE OFFICER**

RECOMMENDED MOTION

1. That the tax ratios for the 2017 taxation year be established as follows:

a)	Residential/farm property class	1.000000
b)	New Multi-residential	1.000000
c)	Multi-residential	1.000000
d)	Commercial	1.433126
e)	Industrial	1.516328
f)	Pipelines	1.103939
g)	Landfill	1.149396
h)	Farmlands	0.250000
i)	Managed forest	0.250000

2. That the capping program be funded by clawing back decreases from within the affected property tax classes.

3. That the recommended capping parameters for commercial, industrial and multi-residential properties be amended as follows:

   a) The property tax cap be set at an amount representing 10% of the previous year's annualized taxes;

   b) Any property within +/- $500 of the Current Value Assessment (CVA) taxes be moved directly to CVA taxation;

   c) Any property that reaches the CVA level of taxation be removed from the capping program;

d) Exclude any property whose classification changes from capped to clawed back, or vice versa;

e) A minimum cap of 10% of the previous year's CVA taxes; and

f) Reassessment related increases for 2017 be excluded from the capping calculations.

4. That the capping phase-out option for the multi-residential class be adopted, resulting in the reduction from CVA taxes to annualized taxes based on the following schedule:

a) 1/4 in 2017;

b) 1/3 in 2018;

c) 1/2 in 2019; and

d) Full CVA in 2020.

5. That the discounts for the commercial and industrial sub-classes for vacant land and excess land be maintained at 30% and 35% respectively.

6. That staff consult with the local business community regarding potential changes to the City's Vacancy Rebate Program and prepare a report prior to the end of 2017 to update General Committee, and provide recommendations on the future direction of this Program.

7. That two sub-classes for Farmland Awaiting Development be maintained in each of the multi-residential, commercial and industrial property classes at the following discounts:

a) Phase I - 25% discount off the residential tax rate; and

b) Phase II - 0% discount off the applicable property class tax rate.

8. That the City of Barrie continue with its existing Rebates for Charitable Organizations Program providing a tax rebate for Registered Charitable Organizations, as defined in Section 248(1) of the *Income Tax Act,* R.S.C. 1985, Chapter 1, at a rate of 40% of the current year's taxes applicable to the space occupied.

9. That the Registered Charities eligible for the tax rebate program continue to submit an annual application and provide evidence of taxes paid satisfactory to the Treasurer or his/her designate.

10. That the City Clerk be authorized to prepare all necessary by-laws to establish the 2017 taxation and capping policies as described herein.

PURPOSE & BACKGROUND

11. The purpose of this Staff Report is to recommend:

a) 2017 tax ratios;

b) Property tax capping parameters for commercial, industrial, and multi-residential properties; and

c) Property tax policies governing discounts for property tax sub-classes and charities.

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.

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.

12. 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 Business Plan. The municipal tax rates are based on assessment values, tax ratios, and the annual tax based Operating Budget. They are calculated as follows:

$$\text{Property tax rate} = \frac{\text{Annual Property Tax Levy}}{\text{Weighted Assessment for All Classes}} \times \text{Tax ratio for the class}$$

13. This year, 2017, is the first year of the Province's next four year (2017-2020) reassessment phase-in program. This program is designed to smooth the effect of significant increases in individual assessment values by spreading the increase over four years, rather than recognize the full value of the increase in a single year. Where there were assessment decreases the full amount of the decrease will be immediately recognized in 2017.

ANALYSIS

Reassessment Update

14. Every four years, the Municipal Property Assessment Corporation (MPAC) updates assessment values province wide. Increases in assessed values between the January 1, 2012 and January 1, 2016 legislated valuation dates will be phased in equally from 2017 to 2020. Properties that decreased in value will move to the lower value in 2017 with no phase-in. Appendix "A" provides a comparison of the assessment changes between the 2012 and 2016 base years, as well as the year 1 (2017) phase-in values, by property class. The City's total assessed value for all classes increased by 25.1%. A change in the value of a community's taxable assessment does not result in an increase in property taxation. This is accomplished by adjusting the current tax rates to reflect the new taxable assessment level. There may, however, be shifts in the tax burden between property tax classes. This usually occurs in the classes with higher than average assessment increases. Three of the larger taxable property classes - farmland, multi-residential, and shopping centres - had significantly higher than average increases.

The farm property class had the highest increase at 63.4%. MPAC attributed the increase to the following factors:

- Historic low interest rates have allowed farmers to expand farming operations;
- Over the last several years, the demand for farmland has significantly outweighed supply, resulting in increased competition;
- Non-agricultural buyers in Ontario continue to purchase farmland;
- Many sectors, including large intensive livestock enterprises, need land for nutrient management and cropping requirements; and,
- The availability of soil types that support high-value crops is driving up demand.

The multi-residential property class increase was just over 50%. This trend was consistent across the Province, with an overall increase of 28%. MPAC's analysis of the underlying reasons for the increase identified the following factors:

- Historic low interest rates have fuelled an active sales market for multi-residential properties;
- Competition for apartment investment properties in large urban centres has resulted in premium pricing;
- Real estate investment trusts and large institutional investors continue to invest in this stable asset class; and,
- Many young adults are choosing to rent instead of buying due to record high home prices, pushing up the demand for and price of rentals.

The combined increase for the Shopping Centre class was almost 39%. These properties are valued using the income approach, which looks at the property's revenue earning power, as well as sales of similar properties. Retail development remains strong in growing communities to support the demand for retail services from new residents.

Tax Ratios

15. 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 2017 is 1.433126 which means that, for every residential property tax dollar paid, the commercial property class pays $1.43.

16. While the tax ratios for commercial, industrial and multi-residential properties are established by Council, the tax ratio for Managed Forests is prescribed by the Province at 25% of the residential tax rate.

17. The table below indicates the tax ratio history for the City of Barrie.

City of Barrie Tax Ratio History

Broad Property Class	Range of Fairness	2013	2014	2015	2016
Residential	1.000000	1.000000	1.000000	1.000000	1.000000
Multi-Residential	1.0 to 1.1	1.000000	1.000000	1.000000	1.000000
Commerical	0.6 to 1.1	1.433126	1.433126	1.433126	1.433126
Industrial	0.6 to 1.1	1.516328	1.516328	1.516328	1.516328
Pipelines	0.6 to 0.7	1.103939	1.103939	1.103939	1.103939
Farm	0.1 to 0.25	0.250000	0.250000	0.250000	0.250000
Managed Forests	0.250000	0.250000	0.250000	0.250000	0.250000

18. Maintaining existing tax ratios will allow assessment related tax shifts between classes to occur. This results in greater tax equity.

19. Adjustments to tax ratios can be used to mitigate the effect of assessment changes on individual properties and assessment shifts between property classes. 2017 is the first year of the next four year reassessment cycle, and it will be this year that the most significant assessment related shifts occur. The following table shows how the transition ratios could be used to neutralize the effect of the assessment shifts for 2017.

Transition Ratios

Broad Property Class	Current Tax Ratios	Transition Ratios	% Change	Tax Shift ($)	Threshold Ratios
Residential	1.000000	1.000000	-0.64%	-1,001,512	
Multi-Residential	1.000000	0.939073	-6.69%	-466,991	2.7400%
Commercial	1.433126	1.480654	2.65%	1,278,552	2.7400%
Industrial	1.516328	1.571960	3.00%	174,695	1.9800%
Pipelines	1.103939	1.149634	3.47%	15,793	2.6300%
Farm	0.250000	0.250000	-0.64%	-528	
Managed Forests	0.250000	0.250000	-0.01%	-9	

20. Although revenue neutrality can be achieved by establishing tax ratios at the revenue neutral or transition ratio level as shown above, this will result in the tax burden being shifted from the residential and multi-residential property classes to the commercial and industrial property class. For 2017, this would result in an increased tax burden of $1,278,552 for all commercial properties, and an increase in the tax burden for industrial properties of $174,695. This results in a decrease of $72.21 on a residential property assessed at $1,000,000. For a multi-residential property assessed at $1,000,000, this results in a decrease of $758.82. For a commercial property assessed at $1,000,000, this would result in an increase of $432.13 if all other factors remained unchanged. For an industrial property assessed at $1,000,000, this would result in an increase of $517.45 if all other factors remained unchanged.

21. Property tax ratios can also be changed in order to achieve economic development objectives or to provide assistance to specific property classes. An example of this was the City's objective to support affordable housing initiatives by reducing the multi-residential tax ratio from 1.059025 in 2010 to 1.00 by 2013.

22. Economic development objectives can be achieved by reducing commercial and/or industrial tax ratios which will create an incentive for businesses to locate in Barrie due to lower taxes. However, reductions in the commercial and/or industrial ratios will lead to a tax burden shift to the residential class. The City of Barrie's commercial and industrial tax ratios are currently below the Provincial average based on the 2016 Municipal Study prepared by BMA Management Consulting (Appendix "B"), therefore adjustments to tax ratios for economic development reasons are not recommended at this time.

23. The City also has the option of reducing the tax burden on farmlands by setting a tax ratio that is lower than the provincially prescribed ratio of 0.25. However, the City has historically maintained a tax ratio of 0.25 for farmlands.

Discounts for Vacant Commercial and Industrial Properties

24. The Province allows discounted tax rates to apply to commercial and industrial vacant and excess land property sub-classes. The Province permits municipalities to set the discounts for either class at a level between 30% and 35%. Historically, the City of Barrie discount rates for the commercial and industrial sub-classes have been 30% and 35% respectively.

25. In response to municipal concerns about this program, the Province, in late 2016, proposed changes in Bill 70 (*Building Ontario Up for Everyone Act (Budget Measures), 2016*). The changes allow municipalities, in consultation with the local business community, to develop policies and programs that better reflect the community's needs. Municipalities can implement changes by providing the Minister of Finance details of the proposed changes along with a council resolution.

26. Staff plan to consult with the local business community regarding potential changes to the City's Vacancy Rebate Program and will prepare a report prior to the end of the year to update General Committee and provide recommendations on the future direction of this Program.

<u>Farmland Awaiting Development</u>

27. As a matter of public policy, farmland in Ontario has traditionally received preferential property tax treatment while it is a working farm by having a maximum tax ratio of 25% of the residential tax rate. By providing tax discounts for farmland waiting for development, municipalities are providing incentives to keep this land under cultivation during the development period.

28. The Province of Ontario prescribed two sub-classes for Farmland Awaiting Development for the purpose of providing tax reductions. Farmland Awaiting Development Phase I applies to those properties that have a registered plan of subdivision. This sub-class tax discount can be set between 25% and 75% of the residential property class tax rate, as long as the land continues to be farmed, even if the properties in the future may be classed as multi-residential, commercial or industrial. It is recommended that the City continue to provide a 25% discount off the residential rate for Farmland in Phase I which represents a balance between maximizing tax revenue and providing an incentive to continue farming.

29. Farmland Awaiting Development Phase II applies to properties once a building permit has been issued. The Phase II sub-class tax discount can be set between 0% and 75% of the property class rate for the specific property after the building permit has been issued. It is recommended that the City provide no discount (0%) for the Farmland Awaiting Development Phase II sub-class. This means that once a building permit is issued, the property would be taxed at 100% of the applicable property tax class rate.

30. Without these sub-classes, if a developer purchases land and continues to farm they would be taxed at 25% of the residential rate, or 100% of the residential rate if it is not farmed. The taxes would not change when plans are registered but would remain at the lower level until the land is scraped or buildings are occupied.

31. Barrie introduced these sub-classes in 2013 due to the pending development of the annexed lands. The objective of the sub-classes is to encourage farming between the plan of subdivision and building permit stage and increase property tax revenue throughout the development. This also has the effect of encouraging the developer to complete construction on a timely basis once a building permit is issued, since 100% of the applicable property tax rate would be applied.

<u>Capping Options</u>

32. Since 1998 business properties in Ontario have enjoyed some protection against assessment shifts as a result of the property tax capping legislation that was introduced by the Province to assist with the transition towards CVA. Capping is a provincially mandated program that applies to the multi-residential, commercial, and industrial property classes and limits assessment-related increases on any property in the specified classes to a prescribed maximum percentage each year.

33. In late 2016, the Province provided municipalities with additional flexibility in managing the property tax capping program to accelerate the movement of properties to CVA level taxes. The capping program parameter options include increasing the current maximum from 5% to 10%, increasing the threshold parameters from +/-$250 to +/-$500, allowing a four-year phase-out from the capping program when all properties within a class, excluding vacant properties, are within 50% of CVA level taxes. Municipalities also have the option of limiting capping protection only to reassessment-related changes prior to 2017

34. It is recommended that the City make use of all available capping options for each property class to exit the capping program as quickly as possible and move properties to their Current Value Assessment level of taxation.

35. The utilization of the capping options that will result in the quickest exit from the capping program results in the multi-residential category being eligible for the phase-out option. The capping phase-out option for this class, resulting in the reduction from CVA taxes to annualized taxes, would occur on the following schedule:

    a) 1/4 in 2017;

    b) 1/3 in 2018;

    c) 1/2 in 2019; and

    d) Full CVA in 2020.

36. The other classes do not meet the criteria for the phase-out option in 2017. These classes will be assessed each year to determine whether the capping program can be exited immediately or over the four year phase-out in future years.

Funding of Capping Program

37. Regulations governing the capping program allow capping costs to be funded from assessment-related tax decreases on other properties within the class; this is known as a "claw back". Using a claw back within a class is not mandatory, and Council may consider spreading the cost of the capping program across the entire assessment base, funding any shortfalls from other municipal funds or a combination of both. Barrie has historically used claw back as the means to finance capping program costs within the property class.

38. It is recommended that the use of claw back rates continue to be an appropriate method for funding capping program costs. Claw back rates will be established once the 2017 tax ratios are approved by Council.

Rebates for Charitable Organizations

39. Prior to the 1998 Provincial tax reforms, charitable and non-profit organizations were taxed at the residential property tax rate. With the tax reform, when such organizations are in a business premise, they are assessed in the commercial property class. As a result, property taxes billed to the property owner are passed on to the tenant(s). It was due to this difference in property classification that the Province mandated municipalities to provide tax rebates between 40% and 100% of the property taxes paid by registered charitable organizations, as defined by subsection 248(1) of the *Income Tax Act*. Council approved a rebate at a level of 40% in 1998. This charity rebate level has been maintained since that time.

40. It is recommended that the existing program of providing rebates for charitable organizations according to the definition under subsection 248(1) of the *Income Tax Act*, be maintained at a rate equal to 40% of the current year's taxes.

New Landfill Class

41. Effective January 1, 2017, the Province introduced a new landfill class along with a tax ratio framework for this class. In previous years this property was included in the Commercial class. The only property currently in this class is the landfill owned by the City.

ENVIRONMENTAL MATTERS

42. There are no environmental matters related to the recommendations.

ALTERNATIVES

43. There is one alternative presented for consideration by General Committee

Alternative #1 General Committee could choose to adjust the multi-residential, commercial and/or industrial tax ratios for social and/or economic development purposes.

This alternative is not recommended as the City's multi-residential, commercial, and industrial tax ratios are very competitive relative to other Ontario Municipalities. Also, any reduction to these tax ratios will result in an increase in property taxes for residential property owners.

FINANCIAL

44. There are no direct financial implications to the City associated with the recommendations regarding the tax ratios, tax rates, or capping options. Each option raises the required levy for the tax based operating budget. However, each recommendation impacts various property classes and property types to varying degrees.

45. The municipal portion of the rebate policy for charitable organizations is included in the annual operating budget as a reduction of the net tax levy. The amount included in the 2017 Operating Budget is $240,000 (2016 actual: $239,667).

LINKAGE TO 2014 - 2018 STRATEGIC PLAN

46. The recommendations included in this Staff Report support the following goal identified in the 2014 – 2018 Strategic Plan:

☒ Responsible Spending

47. The objective of the property tax policies recommended in this staff report are to maximize property tax revenue, maintain the City's competitive position with respect to economic development while ensuring a fair and equitable property tax policy framework for residents and business owners.

APPENDIX "A"

Assessment Change Summary by Property Class

The following chart compares the assessments by property class for the 2012 and 2016 base years, as well as the change for year one (2017) of the four year (2017-2020) phase-in.

Property Class/Realty Tax Class (RTC)	2012 Full CVA	2016 Full CVA	Change (%) 2012 to 2016	2017 Phased-in CVA	Change (%) 2012 to 2017
Taxable					
R - Residential	12,963,045,275	16,350,574,128	26.1%	13,804,498,376	6.5%
M - Multi-Residential	536,016,100	827,377,900	54.4%	608,127,850	13.5%
N - New Multi-Residential	73,330,800	111,428,000	52.0%	82,855,100	13.0%
C - Commercial	1,774,801,888	2,008,506,240	13.2%	1,793,618,289	1.1%
X - New Commercial	346,034,331	377,301,960	9.0%	345,322,653	-0.2%
S - Shopping Centre	587,767,122	794,892,810	35.2%	639,221,400	8.8%
Z - New Shopping Centre	151,032,830	231,416,040	53.2%	171,128,634	13.3%
D - Office Building	48,521,340	51,621,200	6.4%	48,995,541	1.0%
Y - New Office Building	11,810,590	13,394,800	13.4%	12,206,643	3.4%
G - Parking Lot	3,831,000	4,390,900	14.6%	3,970,975	3.7%
I - Industrial	314,573,853	377,438,620	20.0%	325,687,395	3.5%
J - New Industrial	28,077,949	33,109,800	17.9%	29,278,912	4.3%
L - Large Industrial	26,892,000	28,390,900	5.6%	27,040,975	0.6%
P - Pipeline	35,578,000	38,860,000	9.2%	36,398,500	2.3%
F - Farmland	25,107,100	41,027,200	63.4%	29,087,125	15.9%
T - Managed Forest	862,000	523,600	-39.3%	462,850	-46.3%
PIL					
R - Residential	3,081,000	4,030,000	30.8%	3,318,250	7.7%
C - Commercial	37,111,050	46,359,300	24.9%	39,019,013	5.1%
X - New Commercial	5,630,000	5,680,000	0.9%	5,637,174	0.1%
D - Office Building	12,680,800	17,428,500	37.4%	13,659,600	7.7%
G - Parking Lot	127,000	141,400	11.3%	130,600	2.8%
I - Industrial	95,000	197,000	107.4%	120,500	26.8%
H - Landfill NEW	2,011,000	4,652,700	131.4%	2,671,425	32.8%
E - Exempt	926,474,100	1,042,015,530	12.5%	926,205,909	0.0%
TOTAL	**17,914,492,128**	**22,410,758,528**	**25.1%**	**18,948,663,689**	**5.8%**

APPENDIX "B"

BMA Management Consulting Inc.

Municipal Study 2016

2016 Tax Ratios

Municipality	Multi-Residential	Commercial (Residual)	Industrial (Residual)
Barrie	1.0000	1.4331	1.5163
Belleville	2.5102	1.9191	2.4000
Brampton	1.7050	1.2971	1.4700
Brant County	1.7000	1.9100	2.5700
Brockville	1.7700	1.9482	2.6131
Bruce County	1.0000	1.2331	1.7477
Caledon	1.6843	1.3124	1.5805
Chatham-Kent	2.1488	1.9504	2.1610
Cornwall	2.3492	1.9407	2.6300
Dufferin	2.6802	1.2200	2.1984
Durham	1.8665	1.4500	2.2598
Elgin County	2.3458	1.6376	2.2251
Elliot Lake	2.0770	1.6790	1.6790
Espanola	2.0329	1.6846	2.0025
Essex	1.9554	1.0820	1.9425
Greater Sudbury	2.1574	2.1432	3.1412
Greenstone	2.2526	1.3298	2.0599
Grey	1.4412	1.3069	1.8582
Guelph	1.9979	1.8400	2.2048
Haldimand County	2.3274	1.6929	2.3274
Halton	2.2619	1.4565	2.3599
Hamilton	2.7400	1.9800	3.0900
Kenora	1.5248	1.9695	2.1859
Kingston	2.1639	1.9800	2.6300
Lambton	2.4000	1.6271	2.0476
London	1.8880	1.9500	1.9500
Middlesex	1.7697	1.1449	1.7451
Mississauga	1.7788	1.4098	1.5708
Muskoka	1.0000	1.1000	1.1000
Niagara	2.0440	1.7586	2.6300

Municipality	Multi-Residential	Commercial (Residual)	Industrial (Residual)
Norfolk	1.6929	1.6929	1.6929
North Bay	2.2054	1.8822	1.4000
Orillia	1.5918	1.8901	1.8392
Ottawa	1.4245	1.9570	2.6625
Owen Sound	2.1000	1.8800	2.2433
Oxford	2.7400	1.9018	2.6300
Parry Sound	1.5145	1.6646	1.5162
Perth County	2.1505	1.2469	1.9692
Peterborough (City)	1.9472	1.6001	1.8430
Prince Edward County	1.4402	1.1125	1.3895
Quinte West	2.1300	1.5385	2.4460
Sault Ste. Marie	1.3048	2.2042	3.1030
Simcoe	1.5385	1.2521	1.5385
St. Marys	1.2042	1.5463	2.4812
St. Thomas	2.4987	1.9475	2.2281
Stratford	2.1539	1.9759	2.8389
Thunder Bay	2.6310	2.0677	2.4453
Timmins	1.8452	1.9413	2.4196
Toronto	2.9044	2.5042	2.9044
Waterloo	1.9500	1.9500	1.9500
Wellington County	1.8680	1.4790	2.4000
Windsor	2.5403	2.0020	2.3384
York	1.0000	1.1172	1.3124
Average	**1.9424**	**1.6743**	**2.1413**
Median	**1.9554**	**1.6929**	**2.1984**
Minimum	**1.0000**	**1.0820**	**1.1000**
Maximum	**2.9044**	**2.5042**	**3.1412**
Provincial Threshold	**2.7400**	**1.9800**	**2.6300**