Barrie

STAFF REPORT FIN004-18
April 9, 2018

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TO:	**GENERAL COMMITTEE**
SUBJECT:	**2018 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:	**D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES**
CHIEF ADMINISTRATIVE OFFICER APPROVAL:	**M. PROWSE, CHIEF ADMINISTRATIVE OFFICER**

RECOMMENDED MOTION

1. That the tax ratios for the 2018 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 Occupied	1.433126
e)	Industrial Occupied	1.516328
f)	Pipelines	1.103939
g)	Landfill	1.067122
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 and industrial properties be maintained, 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 2018 be excluded from the capping calculations.

4. That the option to exit capping for the multi-residential class be adopted.

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

a) 1/4 in 2018;

b) 1/3 in 2019;

c) 1/2 in 2020; and,

d) Full CVA in 2021.

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

7. That staff consult with the local business community regarding potential changes to the City's discounts for the commercial and industrial sub-classes for vacant land and excess land, and provide recommendations on the future of these discounts in the 2019 Business Plan.

8. 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 of the residential tax rate; and

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

9. 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.

10. 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, as per the City's vacancy tax rebate policy.

11. That the City Clerk be authorized to prepare all necessary by-laws to establish the 2018 taxation and capping policies as described herein.

PURPOSE & BACKGROUND

12. The purpose of this report is to recommend:

a) 2018 tax ratios;

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

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

13. 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.

14. 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.

15. 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:

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

16. This year, 2018, is the second year of the Province's 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 was recognized in 2017.

ANALYSIS

Reassessment Update

17. 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 and 2 (2017, 2018) phase-in values, by property class. The City's total assessed value for all classes increased by 25%. 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 taxable property classes - farmland, multi-residential, and shopping centres - had significantly higher than average increases.

    The farm property class had the highest increase at 62.9%. 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 combined increase for the multi-residential property class was almost 55%. 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 36.3%. These properties are valued using the income approach, which looks at the property's revenue earning power, as well as sales of similar properties. Demand for retail space leading up to the 2016 assessment update was strong in growing communities, with retailers targeting to offer their goods and services to new residents.

Tax Ratios

18. 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 2018 is 1.433126 which means that, for every residential property tax dollar paid, the commercial property class pays $1.43.

19. 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.

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

Broad Property Class	**Range of Fairness**	**2014**	**2015**	**2016**	**2017**
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
Landfill	0.6 to 1.1	n/a	n/a	n/a	1.149396

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

22. Adjustments to tax ratios can be used to mitigate the effect of assessment changes on individual properties and assessment shifts between property classes. 2018 is the second year of the latest four year reassessment cycle. The following table shows how the transition ratios could be used to neutralize the effect of the assessment shifts for 2018.

Transition Ratios

Broad Property Class	Current Tax Ratios	Transition Ratios	% Change	Tax Shift ($)	Threshold Ratios
Residential	1.000000	1.000000	-0.11%	-172,378	n/a
Multi-Residential	1.000000	0.944837	-5.62%	-419,940	2.00%
Commercial	1.433126	1.448313	0.95%	464,394	1.98%
Industrial	1.516328	1.542558	1.62%	73,563	2.63%
Pipelines	1.103939	1.145995	3.70%	16,864	n/a
Farm	0.250000	0.250000	-0.11%	-86	n/a
Managed Forests	0.250000	0.250000	-0.11%	-2	n/a

23. 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 classes. For 2018, this would result in an increased tax burden of $464,394 for all commercial properties, and an increase in the tax burden for industrial properties of $73,563.

24. 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.

25. Economic development objectives can also 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 2017 Municipal Study prepared by BMA Management Consulting (Appendix "B"), therefore adjustments to tax ratios for economic development reasons are not recommended at this time.

26. 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

27. As permitted under Bill 70, the City's approved 2018 Business Plan and Budget eliminated the vacancy rebate program on commercial and industrial vacant properties (buildings). Eliminating the rebate program provided savings of $400K within the 2018 budget.

28. Under Bill 70, municipalities can also make changes to the discount of 30%/35% on vacant and excess commercial/industrial lands. Possible options include reductions to the discount, phasing it out over a few years, or the elimination of the discount. Any changes to the discount percentage would not impact the budget directly as it is not a rebate program. Instead, it would shift a portion of the municipal tax levy primarily from the residential class to the commercial and industrial classes.

29. As required by legislation, staff will consult with the local business community regarding potential changes to the City's discounts for the commercial and industrial sub-classes for vacant land and excess land and will provide recommendations on the future of these discounts in the 2019 Business Plan and Budget.

Farmland Awaiting Development

30. 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.

31. 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.

32. 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.

33. 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.

34. 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.

Capping Options

35. 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.

36. 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

37. It is recommended that the City continue to 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 CVA level of taxation.

38. In 2018, all properties within the multi-residential class reached their full CVA. As a result, there are no tax reductions or clawbacks for any properties in this class. The Province requires the City to formally declare that it would like to exit the property tax capping program for a class once it reaches this point. It is recommended that the option to exit capping for the multi-residential class be adopted.

39. The utilization of the capping options that will result in the quickest exit from the capping program also results in the industrial 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.

40. The commercial class does not meet the criteria for the phase-out option in 2018. This class 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

41. 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.

42. 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 2018 tax ratios are approved by Council.

Rebates for Charitable Organizations

43. 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.

44. 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.

ENVIRONMENTAL MATTERS

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

ALTERNATIVES

46. There are two alternatives 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.

Alternative #2 General Committee could choose to exit the capping program more gradually. The impact of this approach is to further slow the pace at which properties reach their CVA level of taxation.

This alternative is not recommended as there are only a small number of properties in both the Commercial and Industrial classes that are impacted by the capping program. The estimated impact is approximately $25,000 for the Commercial class and $50,000 for the Industrial class. The City has historically used a "claw back" within the property classes as the means to finance capping program costs.

FINANCIAL

47. 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.

48. 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 2018 Operating Budget is $240,000 (2017 actual: $242,897).

LINKAGE TO 2014 - 2018 STRATEGIC PLAN

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

☒ Responsible Spending

50. 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), year two (2018) and 2012 to year two (2018) 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 Phase-in CVA	2018 Phase-in CVA	Change (%) 2012 to 2017	Change (%) 2017 to 2018	Change (%) 2012 to 2018
Taxable								
R - Residential	13,094,309,738	16,507,371,137	26.1%	13,941,816,996	14,797,001,856	6.5%	6.1%	13.0%
M - Multi-Residential	530,180,220	829,056,700	56.4%	604,640,365	679,445,811	14.0%	12.4%	28.2%
N - New Multi-Residential	97,289,800	141,569,000	45.5%	108,359,600	119,429,400	11.4%	10.2%	22.8%
C - Commercial	1,767,048,688	2,006,521,000	13.6%	1,793,339,663	1,864,400,109	1.5%	4.0%	5.5%
X - New Commercial	416,981,434	455,257,300	9.2%	406,074,094	422,468,502	-2.6%	4.0%	1.3%
S - Shopping Centre	586,599,318	773,591,300	31.9%	632,944,569	679,826,810	7.9%	7.4%	15.9%
Z - New Shopping Centre	154,928,351	236,887,500	52.9%	175,418,139	195,907,927	13.2%	11.7%	26.5%
D - Office Building	48,440,948	51,529,400	6.4%	48,912,297	49,784,664	1.0%	1.8%	2.8%
Y - New Office Building	21,739,173	24,126,500	11.0%	22,336,005	22,932,837	2.7%	2.7%	5.5%
G - Parking Lot	4,388,445	5,013,600	14.2%	4,544,734	4,701,023	3.6%	3.4%	7.1%
I - Industrial	313,003,592	372,716,000	19.1%	323,138,398	339,664,263	3.2%	5.1%	8.5%
J - New Industrial	34,299,373	39,919,300	16.4%	35,647,356	37,071,339	3.9%	4.0%	8.1%
L - Large Industrial	26,892,000	28,390,900	5.6%	27,040,975	27,490,950	0.6%	1.7%	2.2%
P - Pipeline	35,851,000	39,192,000	9.3%	36,686,250	37,521,500	2.3%	2.3%	4.7%
F - Farmland	22,540,580	36,724,900	62.9%	26,086,660	29,632,740	15.7%	13.6%	31.5%
T - Managed Forest	1,025,279	780,200	-23.9%	649,459	693,040	-36.7%	6.7%	-32.4%
PIL			0.0%					
R - Residential	3,081,000	4,030,000	30.8%	3,318,250	3,555,500	7.7%	7.1%	15.4%
C - Commercial	37,319,650	45,043,000	20.7%	38,846,388	40,911,925	4.1%	5.3%	9.6%
X - New Commercial	5,630,000	5,680,000	0.9%	5,637,174	5,651,450	0.1%	0.3%	0.4%
D - Office Building	12,680,800	17,428,500	37.4%	13,659,600	14,915,900	7.7%	9.2%	17.6%
G - Parking Lot	127,000	141,400	11.3%	130,600	134,200	2.8%	2.8%	5.7%
I - Industrial	95,000	197,000	107.4%	120,500	146,000	26.8%	21.2%	53.7%
H - Landfill	2,011,000	3,359,700	67.1%	2,348,175	2,685,350	16.8%	14.4%	33.5%
E - Exempt	1,044,996,180	1,204,918,000	15.3%	1,056,651,711	1,106,073,809	1.1%	4.7%	5.8%
TOTAL	**18,261,458,569**	**22,829,444,337**	25.0%	**19,308,347,958**	**20,482,046,905**	5.7%	6.1%	12.2%

APPENDIX "B"

BMA Management Consulting Inc.

Municipal Study 2017

2017 Tax Ratios

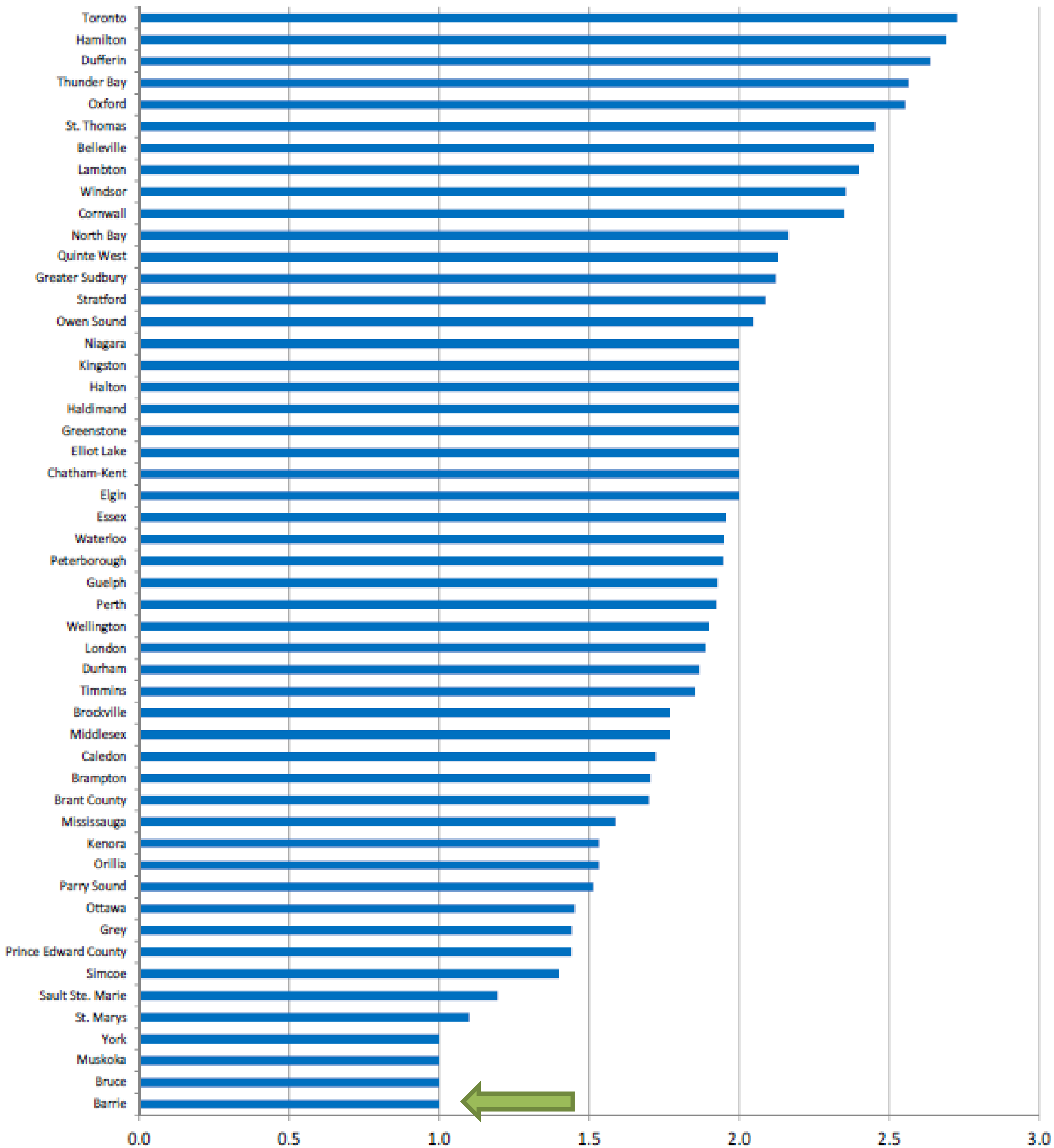
Municipality	Multi-Residential	Commercial - Residual	Industrial - Residual
Barrie	1.0000	1.4331	1.5163
Belleville	2.4500	1.9191	2.4000
Brampton	1.7050	1.2971	1.4700
Brant County	1.7000	1.9000	2.5500
Brockville	1.7700	1.9482	2.6131
Bruce	1.0000	1.2331	1.7477
Caledon	1.7223	1.3273	1.5894
Chatham-Kent	2.0000	1.9504	2.1610
Cornwall	2.3492	1.9407	2.6300
Dufferin	2.6376	1.2200	2.1984
Durham	1.8665	1.4500	2.2598
Elgin	1.9999	1.6376	2.2251
Elliot Lake	2.0000	1.5111	1.5111
Essex	1.9554	1.0820	1.9425
Greater Sudbury	2.1217	2.0669	4.3110
Greenstone	2.0000	1.3983	2.4569
Grey	1.4412	1.3069	1.8582
Guelph	1.9287	1.8400	2.2048
Haldimand	2.0000	1.6929	2.3274
Halton	2.0000	1.4565	2.3599
Hamilton	2.6913	1.9800	3.4414
Kenora	1.5337	2.1163	2.2760
Kingston	2.0000	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	1.5888	1.4517	1.5934
Muskoka	1.0000	1.1000	1.1000
Niagara	2.0000	1.7586	2.6300
North Bay	2.1640	1.8822	1.4000
Orillia	1.5323	1.9000	1.8523
Ottawa	1.4530	1.9260	2.7054
Owen Sound	2.0467	1.9195	2.2314
Oxford	2.5550	1.9018	2.6300
Parry Sound	1.5145	1.6646	1.5162
Perth	1.9250	1.2469	1.9692
Peterborough	1.9472	1.5801	1.7744
Prince Edward County	1.4402	1.1125	1.3895
Quinte West	2.1300	1.5385	2.4460
Sault Ste. Marie	1.1944	2.2487	4.8363
Simcoe	1.4000	1.2521	1.5385
St. Marys	1.1000	1.5463	2.4812
St. Thomas	2.4535	1.9475	2.2281
Stratford	2.0890	1.9759	2.7999
Thunder Bay	2.5665	2.1444	2.4883
Timmins	1.8542	2.0636	2.5000
Toronto	2.7277	2.8828	2.8828
Waterloo	1.9500	1.9500	1.9500
Wellington	1.9000	1.4910	2.4000
Windsor	2.3564	2.0190	2.3200
York	1.0000	1.1813	1.4169
Average	**1.8788**	**1.6881**	**2.2255**
Median	**1.9472**	**1.6929**	**2.2281**
Minimum	**1.0000**	**1.0820**	**1.1000**
Maximum	**2.7277**	**2.8828**	**4.8363**

APPENDIX "B" (Continued)

BMA Management Consulting Inc.

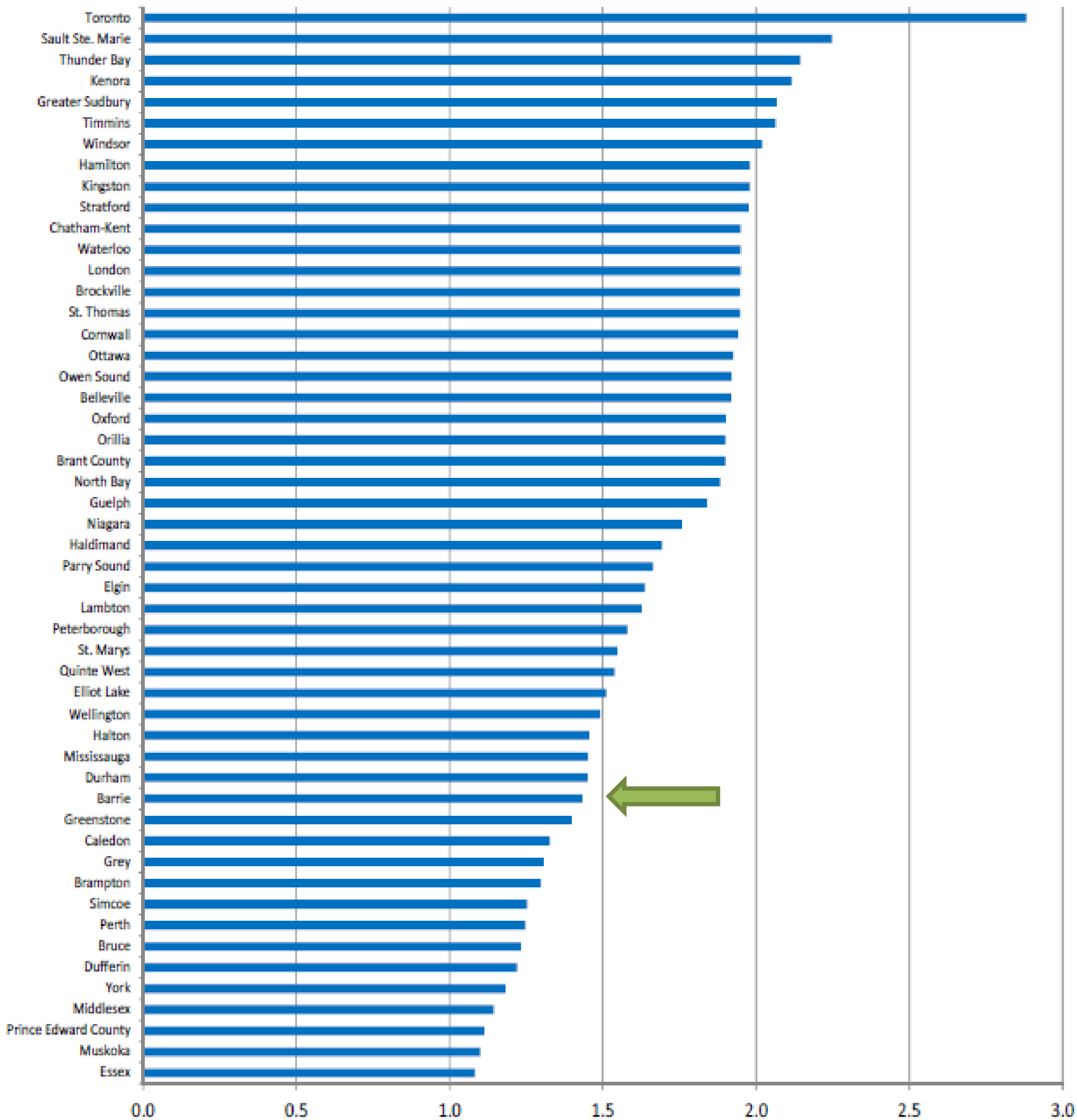
Municipal Study 2017

Multi-Residential Tax Ratios



APPENDIX "B" (Continued)

Commercial (residual) Tax Ratios



APPENDIX "B" (Continued)

Industrial (residual) Tax Ratios