The City of BARRIE

STAFF REPORT FIN003-15
April 13, 2015

TO:	**GENERAL COMMITTEE**
SUBJECT:	**2015 TAX RATIOS AND CAPPING POLICIES**
WARD	**ALL**
PREPARED BY AND KEY CONTACT:	**R. MCDOUGALL, REVENUE AND TAXATION SUPERVISOR, x4791** **K. SHORT, MANAGER OF REVENUE, x4428**
SUBMITTED BY:	**C. MILLAR, DIRECTOR OF FINANCE AND TREASURER**
COMMISSIONER 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 2015 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)	Farmlands	0.250000
h)	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 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 +/- $250 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; and,

e) A minimum cap of 5% of the previous year's CVA taxes.

4. New construction thresholds be maintained as follows:

a) Up to 70% of CVA-level taxes in 2005;

b) Up to 80% of CVA-level taxes in 2006;

c) Up to 90% of CVA-level taxes in 2007; and,

d) Up to 100% of CVA-level taxes in 2008 and beyond.

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 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.

7. That the City of Barrie continue 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.

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

9. That the City Clerk be authorized to prepare all necessary by-laws to establish the 2015 taxation and capping policies as described herein.

PURPOSE & BACKGROUND

10. The purpose of this report is to recommend:

a) 2015 tax ratios;

b) Property tax policies governing discounts for property tax sub-classes and charities; and,

c) Property tax capping parameters for commercial, industrial and multi-residential properties.

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

11. 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:

Property tax rate = $\dfrac{\text{Property Tax Levy}}{\text{Weighted/Discounted Assessment for All Classes}}$ X Tax ratio for the class

12. 2015 is the third year of the Province's reassessment phase-in program (2013-2016). The phase-in 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 immediately recognized in 2013.

13. A change in the level 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. When a community's taxable assessment increases, these adjusted rates ("notional rates") would be lower than the current rates in order to produce the same amount of property taxes. Notional rates provide the basis for describing the change in taxation that occurs due to changes in a municipality's levy requirements, based on its approved budget.

ANALYSIS

Tax Ratios

14. 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 2015 is 1.433126 which means that, for every residential property tax dollar paid, the commercial property class pays $1.43.

15. 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.

16. 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	2011	2012	2013	2014
Residential	1.000000	1.000000	1.000000	1.000000	1.000000
Multi-Residential	1.0 to 1.1	1.039350	1.019675	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

17. Adjustments to tax ratios can be used to mitigate the effect of assessment changes on individual properties and assessment shifts between property classes. 2015 is year three of the four year reassessment cycle. The most significant assessment related shifts occur in a property reassessment year; however, the following table identifies the transitions ratios that would neutralize the effect of the assessment shifts for 2015.

Transition Ratios

Broad Property Class	Current Tax Ratios	Transition Ratios	% Change	Tax Shift ($)	Threshold Ratios
Residential	1.000000	1.000000	0.00%	-1,868	
Multi-Residential	1.000000	0.099923	-0.08%	-4,590	2.7400%
Commercial	1.433126	1.435011	0.13%	55,573	2.7400%
Industrial	1.516328	1.501772	-0.96%	-41,448	1.9800%
Pipelines	1.103939	1.107368	0.31%	1,335	2.6300%
Farm	0.250000	0.250000	0.00%	-1	
Managed Forests	0.250000	0.250000	0.00%	0	

18. 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 industrial property classes to the commercial property class. For 2015, this would result in an increase tax burden of $55,573 for all commercial properties, a decrease in the tax burden for industrial properties of $41,448. This results in a $0.04 decrease on a typical residential property assessed at $282,000. For a typical commercial property assessed at $500,000, this would result in an increase of $10.52 if all other factors remained unchanged. For a typical industrial property assessed at $500,000, this would result in a decrease of $82.14.

19. 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.

20. 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 2014 Municipal Study prepared by BMA Management Consulting (Appendix "A"), therefore adjustments to tax ratios for economic development reasons are not recommended at this time.

21. 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

22. 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 at 30% and 35%.

Farmland Awaiting Development

23. 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.

24. The Province of Ontario prescribed two sub-classes for Farmland Awaiting Development for the purpose of providing tax reductions. Farmland Awaiting Development Phase I apply 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 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.

25. 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.

26. Without these sub-classes, if a developer purchases the land and continues to farm, they are 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.

27. 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.

New Construction Thresholds

28. Multi-residential, commercial, and industrial properties that are identified as "new construction" by the Municipal Property Assessment Corporation (MPAC), are taxed at a level of assessment that is the average of six comparable properties in the same vicinity, the selection of which is determined solely by MPAC. The comparables can result in lower levels of taxation being applied to newly constructed properties, if any or all of the comparable properties are capped. In the 2004 Provincial Budget (Bill 83), to address the concerns related to preferential treatment of new construction, changes to the legislation were introduced to provide municipalities with the option of phasing out the favourable treatment afforded to eligible new construction through the creation of floors establishing a minimum percentage of CVA tax responsibility, such that eligible properties would be taxed at:

   a) Up to 70% of CVA-level taxes in 2005;

   b) Up to 80% of CVA-level taxes in 2006;

   c) Up to 90% of CVA-level taxes in 2007; and,

   d) Up to 100% of CVA-level taxes in 2008 and beyond (effectively eliminating the program).

29. Despite the fact that new construction properties have been taxed at 100% of CVA since 2008, it is necessary to maintain thresholds for prior years given the potential for appeals or supplementary assessments effecting new construction properties.

30. It is recommended that the new construction threshold for 2015 be maintained at 100%.

Capping Options

31. 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. The Province continues to mandate capping parameters and provides municipalities with the following options:

    a) Maintain the annual cap at the mandatory 5% of the previous year's annualized taxes;

    b) Increase the cap to between 5% and 10% of the previous year's annualized taxes;

    c) Establish the annual cap at the greater of a) or b) above or up to 5% of the previous year's CVA taxes;

    d) Move capped or clawed back properties directly to their CVA taxes if the calculated taxes are within $250 of the properties CVA taxes;

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

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

    g) A minimum cap of 5% of the previous year's CVA taxes.

32. The City is currently using all capping options available to move properties to their Current Value Assessment level of taxation as quickly as possible. There are currently 131 properties receiving capping protection from a portfolio of 2,095.

Funding of Capping Program

33. 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.

34. 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 2015 tax ratios are approved by Council.

Rebates for Charitable Organizations

35. 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 – property taxes billed to the property owner and then 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.

36. 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

37. There are no environmental matters related to the recommendation.

ALTERNATIVES

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

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

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

FINANCIAL

39. 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.

40. 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 2015 Operating Budget is $200,000 (2014 actual: $205,073). The actual 2014 amount is slightly higher than budget due to re-assessment values increasing property taxes, therefore charities are receiving higher rebates in direct proportion to these increases.

LINKAGE TO 2014 - 2018 STRATEGIC PLAN

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

Responsible Spending

42. 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"

BMA Management Consulting Inc. *Municipal Study 2014*

2014 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
Brockville	1.7700	1.9482	2.6131
Caledon	1.6843	1.3124	1.5805
Central Elgin	2.3458	1.6376	2.2251
Dufferin	2.6802	1.2200	2.1984
Durham	1.8665	1.4500	2.2598
Essex	1.9554	1.0820	1.9425
Greater Sudbury	2.2294	2.1865	3.1780
Grey	1.4412	1.3069	1.8582
Guelph	2.0819	1.8400	2.4174
Halton	2.2619	1.4565	2.3599
Hamilton	2.7400	1.9800	3.1752
Kenora	1.6390	1.9835	2.1232
Kingston	2.2917	1.9800	2.6300
Lambton	2.4000	1.6942	2.0476
London	1.9800	1.9800	2.2200
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
North Bay	2.2054	1.8822	1.4000
Ottawa	1.5316	1.9344	2.6288
Owen Sound	2.4002	1.9662	2.4496
Oxford	2.7400	1.9018	2.6300
Perth	2.1505	1.2469	1.9692
Peterborough (City)	1.9472	1.6202	1.9116
Prince Edward County	1.4402	1.1125	1.3895
Quinte West	2.1300	1.5385	2.4460
Sault Ste. Marie	1.2808	2.0936	2.8453
Simcoe	1.5385	1.2521	1.5385
St. Thomas	2.4987	1.9475	2.2281
Stratford	2.1539	1.9759	2.9005
Thunder Bay	2.6856	1.9800	2.5400
Timmins	1.7866	1.8525	2.2708
Toronto	3.1185	2.9218	3.1185
Waterloo	1.9500	1.9500	1.9500
Windsor	2.5403	2.0037	2.4200
York	1.0000	1.1172	1.3124
Average	**2.0068**	**1.6854**	**2.1802**
Median	**2.0120**	**1.7993**	**2.2266**
Minimum	**1.0000**	**1.0820**	**1.1000**
Maximum	**3.1185**	**2.9218**	**3.1780**
Provincial Threshold	**2.7400**	**1.9800**	**2.6300**