





TO: GENERAL COMMITTEE

SUBJECT: 2012 TAX RATIOS AND CAPPING POLICIES

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CHIEF ADMINISTRATIVE OFFICER APPROVAL: CARLA LADD, CHIEF ADMINISTRATIVE OFFICER 

**RECOMMENDED MOTION**

1. That the tax ratios for the 2012 taxation year be established as follows:

a)	Residential/farm property class	1.000000
b)	New Multi-residential	1.000000
c)	Multi-residential	1.019675
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 established as follows:
  - a) The property tax cap be set at an amount representing 10% of the previous year's annualized taxes, and
  - 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

4. New construction thresholds be established 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
  - 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 established at 30% and 35% respectively;
6. 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;
7. That the Registered Charities eligible for the tax rebate program be required to submit an annual application and provide evidence of taxes paid satisfactory to the Treasurer or his/her designate, and
8. That the City Clerk be authorized to prepare all necessary by-laws to establish the 2012 taxation and capping policies as described herein.

#### **PURPOSE & BACKGROUND**

9. The purpose of this report is to recommend:
  - a) 2012 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

Decisions about these recommendations will allow staff to produce and issue final 2012 property tax bills. Previously, these decisions were required prior to April 30 but legislative changes that took effect in 2010 allow municipalities to make these decisions any time prior to the issuance of final property tax bills.

10. 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 by 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:

$$\text{Property tax rate} = \frac{\text{tax based operating budget}}{\text{Weighted and Discounted Assessment for All Classes}} \times \text{Tax ratio for the class}$$

12. 2012 is the fourth and final year of the Province's reassessment phase-in program. 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 2009.

13. Changes in the level of a community's taxable assessment do 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 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. Adjustments to tax ratios can be used to mitigate the effect of assessment changes on individual properties, adjustments and the effect of assessment shifts between property classes. An assessment shift can occur when the relative value of a particular property tax class changes compared to a community's total assessment value. For example, if all other factors influencing property taxes remained unchanged, higher than average assessment growth in the commercial property class would result in a greater share of the total tax levy being paid by commercial property taxpayers.
15. Municipalities can neutralize the effect of assessment shifts by determining transition ratios. Transition ratios are the set of ratios that result in the relative tax burdens of each property tax class remaining consistent with tax burdens prior to a reassessment. This is also referred to as maintaining revenue neutrality. These transition ratios become the upper limit for setting tax ratios. If a current ratio is higher than the transition ratio then the ratio can either remain the same or be reduced toward the transition ratio, but it cannot be increased. If a current ratio is lower than the transition ratio, it can be increased up to the transition ratio, remain the same or be decreased to within the range of fairness as established by the Province.
16. 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, in 2011 the commercial tax ratio was 1.433126 which means that, for every residential property tax dollar paid, the commercial property class pays \$1.43.
17. 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.
18. The City has the option of using the provincially prescribed ratio of 0.25 for Farmlands or to apply a ratio that is lower than this rate. Historically, the City has established the tax ratio for Farmlands at 0.25.

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

Broad Property Class	Range of Fairness	1998 -2003	2004 - 2005	2006 - 2009	2010	2011
Residential	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000
Multi-Residential	1.0 to 1.1	1.077500	1.078700	1.078700	1.059025	1.039350
Commerical	0.6 to 1.1	1.323600	1.393800	1.433126	1.433126	1.433126
Industrial	0.6 to 1.1	1.501900	1.441100	1.516328	1.516328	1.516328
Pipelines	0.6 to 0.7	0.891000	0.989100	1.103939	1.103939	1.103939
Farm	0.1 to 0.25	0.250000	0.250000	0.250000	0.250000	0.250000
Managed Forests	0.250000	0.250000	0.250000	0.250000	0.250000	0.250000

20. As previously mentioned, property tax ratios can be adjusted to maintain the relative portion of the taxes collected from each property class to the level that existed prior to the reassessment. This can be accomplished by establishing the tax ratios at the transition ratio level, as the following table shows:

Transition Ratios

Broad Property Class	Current Tax Ratios	Transition Ratios	% Change	Tax Shift (\$)	Threshold Ratios
Residential	1.000000	1.000000	0.34%	432,731	
Multi-Residential	1.039350	1.046750	1.06%	56,698	2.7400%
Commercial	1.433126	1.409820	-1.29%	-490,801	2.7400%
Industrial	1.516328	1.509613	-0.10%	-5,075	1.9800%
Pipelines	1.103939	1.121363	1.93%	6,235	2.6300%
Farm	0.250000	0.250000	0.34%	208	
Managed Forests	0.250000	0.250000	0.34%	5	

21. Although revenue neutrality can be achieved by establishing tax ratios at the revenue neutral or transition ratio level, this will result in tax burden being shifted onto the residential and multi-residential property classes. For 2012, this would result in an increase tax burden of \$432,731 for residential properties from Commercial and Industrial property class which would result in a \$10.10 increase on a typical residential property if all other factors remained unchanged.

22. Staff analyzed a series of scenarios to identify various tax ratio options. The scenarios analyzed are identified in the table below:

Tax Ratio Options

Broad Property Class	Option 1 25% Toward Multi-res Range of Fairness-1.0	Option 2 Multi-res Range of Fairness-1.0	Option 3 25% towards Industrial Range of Fairness -1.1	Option 4 25% towards Both Multi-Res and Industrial Range of Fairness	Option 5 25% towards Commercial Range of Fairness -1.1
Residential	1.000000	1.000000	1.000000	1.000000	1.000000
Multi-Residential	1.019675	1.000000	1.039350	1.019675	1.039350
Commercial	1.433126	1.433126	1.433126	1.433126	1.349845
Industrial	1.516328	1.516328	1.412246	1.412246	1.516328
Pipelines	1.103939	1.103939	1.103939	1.103939	1.103939
Farm	0.250000	0.250000	0.250000	0.250000	0.250000
Managed Forests	0.250000	0.250000	0.250000	0.250000	0.250000

23. The following table represents the corresponding tax shifts based on each of the above-noted tax ratio options. It also describes the financial impact of each option on the average residential property taxpayer.

Broad Property Class	Option 1 25% Toward Multi-Res Range of Fairness	Option 2 Multi-Res Range of Fairness 1.0	Option 3 25% Towards Industrial Range of Fairness	Option 4 25% Toward Industrial and Multi- Res Range of Fairness	Option 5 25% Towards Commercial Range of Fairness
Residential	72,373	144,830	252,130	324,795	1,613,817
Multi-Residential	-97,531	-195,173	10,913	-86,808	69,848
Commercial	21,994	44,014	76,623	98,705	-1,754,189
Industrial	2,940	5,885	-340,438	-337,688	65,571
Pipelines	186	373	650	837	4,158
Farm	35	70	121	156	775
Managed Forests	1	2	3	4	20

Increase on Residential (\$)	\$2.00	\$4.00	\$6.00	\$8.00	\$38.00
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24. In 2010, Council approved a reduction in the Multi-Residential tax ratio that would move it 25% closer to 1.0. It is recommended that the Multi-Residential tax ratio be moved 25% closer to 1.0 again from 2011 levels in 2012 with the objective of reaching a tax ratio of 1.0 by 2013, as it is an affordable, effective option the Corporation can use to contribute to the County's efforts to address social housing needs in Barrie.
25. An argument can also be made that multi-residential properties should be taxed in the same proportion as residential properties as they are used for the same purpose. By reducing the multi-residential tax ratio the property taxes for that class will be reduced.

26. The table below indicates the impact of the phased in assessment values on property classes within the City of Barrie. If the multi-residential tax ratio is reduced to a level that is 25% closer to 1.0, property taxes for the multi-residential property class will be reduced by \$97,531 or 1.84%. This amount will be shared across all other property classes and generally result in a 0.06% increase in annual taxes for those classes.

**2012 Recommended Reduction to Multi-residential Ratio (25% Toward 1.0)**

<b>Broad Property Class</b>	<b>EST Mun Taxation</b>	<b>Revised EST. Mun Taxation</b>	<b>% Change</b>	<b>Tax Shift (\$)</b>	<b>Tax Shift (%)</b>
Residential	125,488,203	125,560,576	0.06%	72,373	0.6%
Multi-Residential	5,431,286	5,333,756	-1.84%	-97,531	-1.84%
Commercial	38,135,820	38,157,813	0.06%	21,994	0.6%
Industrial	5,098,712	5,101,653	0.06%	2,940	0.6%
Pipelines	323,283	323,469	0.06%	186	0.6%
Farm	60,292	60,327	0.06%	35	0.6%
Managed Forests	1,548	1,549	0.06%	1	0.6%
	174,539,144	174,539,143	0.00%	-2	0.0%

27. For illustration purposes, the 2012 municipal taxes for a multi-residential property assessed at \$3,000,000 would be approximately \$33,750.00 if the tax ratios remain the same. The impact of adopting the recommended ratios for 2012 for this property would be a property tax reduction of approximately \$620.00.
28. This reduction of the multi-residential tax ratio will result in a slight property tax increase to the residential property class. For illustration purposes, the 2012 municipal taxes for a residential property assessed at \$272,000 would be approximately \$2,944. If the ratios recommended in this report are applied, this amount would increase by approximately \$2.
29. If the multi-residential ratio is instead immediately reduced to 1.0 (see Option 2 in the table presented in paragraph 22), the impact on a typical residential property assessed at \$272,000 would be an approximate \$4 increase. This option has been presented as an alternative in this report.
30. No other tax ratio changes are being recommended at this time given the impact that it would have on residential properties.

31. The following table identifies how the City of Barrie's tax ratios compare with those of other municipalities.

Tax Ratio Comparison

Broad Property Class	Barrie (Proposed)	York	Mississauga	Hamilton	Durham	Ottawa	Waterloo
Residential	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000
Multi-Residential	1.019675	1.000000	1.778781	2.740000	1.866500	1.000000	1.950000
Commercial	1.433126	1.143100	1.409816	1.980000	1.450000	1.928800	1.950000
Industrial	1.516328	1.330500	1.570762	3.269000	2.259800	2.243900	1.950000
Pipelines	1.103939	0.919000	1.151172	1.736700	1.229400	1.132600	1.161300
Farm	0.250000	0.250000	0.250000	0.202800	0.200000	0.200000	0.250000
Managed Forests	0.250000	0.250000	0.250000	0.250000	0.250000	0.250000	0.250000

### Discounts for Vacant Commercial and Industrial Properties

32. The Province allows discounted tax rates to apply to commercial and industrial vacant and excess land property sub-classes. Initially, the Province required that the discounts for the commercial and industrial vacant land and excess land be set at 30% and 35% respectively. Subsequently, the Province permitted municipalities to set the discounts for either class at a level between 30% and 35%. The City of Barrie continued to utilize discounts rates for the commercial and industrial subclasses at 30% and 35%.

### Capping Options

33. 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 Current Value Assessment. 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:
- Maintain the annual cap at the mandatory 5% of the previous year's annualized taxes
  - Increase the cap to between 5% and 10% of the previous year's annualized taxes
  - Set the annual cap at the greater of a) or b) above or up to 5% of the previous year's CVA taxes
  - Move capped or clawed-back properties directly to their CVA taxes if the calculated taxes are within \$250 of the properties CVA taxes
  - Any property that reaches the CVA level of taxation be removed from the capping program.
  - Exclude any property whose classification changes from capped to clawed back or vice versa.
34. The City is currently using all capping options available to move properties to their Current Value Assessment as quickly as possible, with the exception of the 5% of the prior year's CVA tax limit (c). Utilizing this option was analyzed for 2012 and it does not substantially increase the rate at which properties are reaching the CVA level of taxes therefore it is not being recommended for use at this time. It is recommended that the tax capping options remain the same as 2011 as

the analysis revealed that properties are not moving substantially closer to CVA taxes by utilizing the 5% towards CVA tax option.

### **New Construction Thresholds**

35. Multi-residential, commercial, and industrial properties that are identified as "new construction" by 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
  - d) Up to 100% of CVA-level taxes in 2008 and beyond (effectively eliminating the program)
36. 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.
37. It is recommended that the new construction threshold for 2012 be set at 100%.

### **Funding of Capping Program**

38. 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 used claw-back as the means to finance capping program costs within the class.
39. It is recommended that the use of clawback rates continue to be an appropriate method for funding capping program costs. Clawback rates will be established once the 2012 tax ratios are established by Council.

### **Rebates for Charitable Organizations**

40. 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 – taxes billed to the property owner and 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. The charity rebate level has been maintained since that time.
41. It is recommended that the existing program of providing rebates for charitable organization according to the definition under subsection 248(1) of the *Income Tax Act*, be maintained at a rate equal to 40% of their current year's taxes.

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**ENVIRONMENTAL MATTERS**

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

**ALTERNATIVES**

43. There are four alternatives presented for consideration by General Committee

**Alternative #1** General Committee could choose to maintain the same tax ratios used in 2011 for 2012 (Status quo).

This option is not recommended as reduction to the multi-residential tax ratio is an effective way for the City to contribute to the County's effort to address social housing needs in Barrie and to continue the objective of reaching a tax ratio of 1.0 by 2013.

**Alternative #2** General Committee could choose to set the multi-residential tax ratio at 1.0 (Option 2).

This alternative is not recommended as it shifts \$195,173 of the tax burden from the multi-residential tax class to the other property tax classes which will increase the amount of taxes paid by residential properties. The proposed phase in of the multi-residential tax ratio to 1.0 will mitigate the impact on residential properties.

**Alternative #3** General Committee could select any of the other tax ratio changes identified in paragraph 23. This is not recommended as each option shifts the tax burden from the commercial and industrial classes to the residential class.

**Alternative #4** General Committee could choose to utilize the capping option of 5% of the previous year's CVA taxes.

This alternative is not recommended as it does not have a substantial impact on moving properties toward the CVA level of taxation but could have an adverse effect on individual properties.

**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. Those implications have been described throughout the report.

45. Establishing the new construction thresholds as set out in this report effectively eliminates the new construction rebates payable by the City.
46. 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 2012 Operating Budget is \$160,000 (2011 actual: \$158,133).

**LINKAGE TO COUNCIL STRATEGIC PRIORITIES**

47. This is an operational matter that has no direct relationship to the City of Barrie's Strategic Priorities.