

TO: GENERAL COMMITTEE

SUBJECT: 2023 TAX RATIOS

WARD: ALL

PREPARED BY AND KEY CONTACT: K. JYLHA, MANAGER OF TAXATION AND REVENUE, EXT.5146

SUBMITTED BY: C. SMITH, SENIOR MANAGER, OF ACCOUNTING AND REVENUE

GENERAL MANAGER APPROVAL: C. MILLAR, CHIEF FINANCIAL OFFICER AND TREASURER

CHIEF ADMINISTRATIVE OFFICER APPROVAL: M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

RECOMMENDED MOTION

1. That the tax ratios for the 2023 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)	Farmlands	0.250000
h)	Managed forest	0.250000
i)	Landfills	1.067122
2. 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 from the residential tax rate; and,
 - b) Phase II - 0% discount from the applicable property class tax rate.
3. That the City of Barrie (City) continue with its existing Rebates for Charitable and Non-Profit Organizations Program providing a tax rebate at a rate of 40% of the current year's taxes applicable only to the leased space occupied by the organization and that the eligible organizations continue to submit an annual application and provide evidence of taxes paid satisfactory to the Treasurer or his/her designate.
4. That the City Clerk be authorized to prepare all necessary by-laws to establish the 2023 taxation ratios as described herein.

PURPOSE & BACKGROUND

Report Overview

5. The purpose of this report is to recommend:
 - a) 2023 tax ratios
 - b) Property tax policies governing discounts for property tax sub-classes and
 - c) Rebates for Charitable and non-profit organizations
6. 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.
7. Rules governing property assessment values in Ontario are complex. However, the ultimate purpose of property assessment values and assigned ratios is straightforward – to determine how the City's tax levy is allocated among property classes and ultimately to each property.
8. 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:

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

9. The Municipal Act allows municipalities to provide a rebate to registered charities and non-profit organizations that are tenants in commercial properties. The purpose of the rebate is to provide equity with similar organizations that own their properties and are taxed in the lower residential class. The amount is to be set out in an annual By-law.

ANALYSIS

Reassessment Phase In

10. A province wide Assessment Update was scheduled to take effect for the 2021 tax year, based on a valuation base date of January 1, 2019, however due to Covid-19 related 'stay at home' and 'state of emergency' orders, the Provincial government postponed the reassessment and announced that property assessment values for 2022 and 2023 would continue to be based on a January 1, 2016 date, and for the most part would be the same values used for 2021 unless the property has undergone physical changes or finalized a successful assessment appeal. At the time of preparing this report, the Provincial government has not released any information on the next Province wide Assessment Update or provided any information on how what assessment values will be used for the 2024 tax year.

Tax Ratios

11. A tax ratio represents the assessment 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 2023 is 1.433126 which means that, for every residential property tax dollar paid, the commercial property class pays \$1.43. An industrial property pays \$1.51.

12. While the tax ratios for commercial, industrial, and multi-residential properties are established by Council, the tax ratios for managed forests and landfills are prescribed by the Province.
13. The City has maintained consistent tax ratios throughout the current assessment cycle, as shown below.

Broad Property Class	Range of Fairness	2016 - 2022	Recommended 2023
Residential	1.000000	1.000000	1.000000
Multi-Residential	1.0 to 1.1	1.000000	1.000000
Commercial	0.6 to 1.1	1.433126	1.433126
Industrial	0.6 to 1.1	1.516328	1.516328
Pipelines	0.6 to 0.7	1.103939	1.103939
Farm	0.1 to 0.25	0.250000	0.250000
Landfill	0.6 to 1.12	1.067122	1.067122
Managed Forests	0.250000	0.250000	0.250000

14. Maintaining the existing tax ratios for 2023 will allow any tax shifts between classes to occur consistently. Due to the reassessment deferral, any assessments that did not have a change are the same as 2021, therefore using the same ratios for 2023 will for the most part be revenue neutral. This results in greater tax equity, stability, and predictability for taxpayers.
15. Property tax ratios can also be changed to achieve economic development objectives or to aid 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. It currently remains at 1.00, matching the burden of the overall residential class.
16. Economic development objectives can also be achieved by reducing commercial and/or industrial tax ratios which may create an incentive for businesses to locate in Barrie due to slightly lower taxes. However, reductions in the commercial and/or industrial ratios will lead directly to a tax burden shift to the residential class. The City's commercial and industrial tax ratios are currently below the provincial average based on the 2022 Municipal Study prepared by BMA Management Consulting (Appendix "A"), therefore adjustments to tax ratios for economic development reasons are not recommended at this time.
17. 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.

Graduated Tax Rates (Bands of Assessment)

18. The Municipal Act contains a provision in s.314 that allows municipalities to establish bands of assessment, for the purposes of facilitating graduated tax rates in the commercial and/or industrial class. Adopting this policy results in a tax reduction for low valued, as well as the lower portion of higher valued properties, however each dollar of tax not paid by the lower valued band is shifted directly to the higher valued band within the class.
19. Staff do not recommend establishing the graduated tax rates for a small business relief program. Some small businesses located in buildings with a higher CVA could see an increase in their property taxes due to shifting of the tax burden. Additionally, for buildings with a decrease in property taxes, there is no mechanism to ensure tenants will receive the benefits in a timely manner or at all.

Small Business Tax Class

20. An optional Small Business Property Tax Subclass (SBTC) was announced in the 2020 Ontario budget. Amendments to O. Reg 282/98 under the *Assessment Act, R.S.O. 1990* and O. Reg 73/03 under the *Municipal Act, 2001* were not filed until May 7, 2021. These amendments provided municipalities with the flexibility to target property tax relief to eligible small businesses within the commercial and/or industrial tax classes and provided some of the implementation details.
21. Following the issuance of the regulations, Finance staff collaborated with various municipal stakeholders to gather information and understand the program impacts, requirements, timing, flexibilities, and limitations. Staff then undertook a broad analysis of the financial impacts of an SBTC. A report detailing the considerations, complexities, and increased costs of implementing any type of SBTC program was provided to the Finance and Corporate Services Committee (FCSC) in November, 2021 with the recommendation that the report be received for information purposes as per Motion 21-G-272.
22. The Report to FCSC concluded that many variables need to be considered in contemplating creating a SBTC in order to achieve a desired level of support, will be challenging and costly, and may unintentionally create inequities between tax classes by creating significant tax burdens for some, with little relief for others. Property tax and assessment are based on the principles of equity and fairness. In addition, many small businesses are tenants who may not benefit directly from property tax savings. As a result, staff do not recommend implementing a Small Business Tax Class in the City.
23. The Cities of Toronto and Ottawa are the only two municipalities that have adopted the Small Business Tax Class since its introduction.

Farmland Awaiting Development

24. 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.
25. The Province of Ontario prescribes 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 on the residential rate for Farmland in Phase I. This represents a balance between maximizing tax revenue and providing an incentive to continue farming. However, it is important that the lands be monitored to ensure farming has not ceased. In this regard, Finance staff monitor and work with MPAC to ensure these properties continue to be eligible to receive the benefit and if not, they are adjusted.
26. 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.

27. 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.
28. Barrie introduced these sub-classes in 2013 with an objective 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.

Rebates for Charitable Organizations

29. 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 tenants in a commercial or industrial premise, they are taxed as such when 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 provide tax rebates between 40% and 100% of the property taxes paid by registered charitable organizations along with an option to include similar not for profit 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.
30. It is recommended that the existing program of providing rebates to registered charitable organizations and similar not for profit organizations at a rate of 40% of the current year's taxes applicable to the space occupied, continue for all applications received in 2023. This will be in line with the budget for 2023 which reflects a cost of \$240,000.

ENVIRONMENTAL AND CLIMATE CHANGE IMPACT MATTERS

31. There are no environmental or climate change impact matters related to the recommendations.

ALTERNATIVES

32. The following alternatives are available 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 set the registered charity and similar organization rebate at a percentage anywhere between 40% and 100% and fund the additional costs from the Tax Rate Stabilization Reserve. General Committee could also choose to eliminate 'similar not-for-profit' organizations from the rebate as the Regulation only requires registered charities to be included.

The first alternative is not recommended as an increase would result in unbudgeted costs which would be required to be funded from the Tax Rate Stabilization Reserve. An increase to 75% would require additional funding in the amount of \$210,000, an increase to 100% would require an additional \$360,000. It is further not recommended to eliminate not-for-profit organizations as this would cause a hardship for these organizations.

Alternative #3

General Committee could choose to implement Graduated Tax Rates for 2023.

This alternative is not recommended as relief may not reach the intended recipients and will place additional burden on other commercial properties due to the following:

- i) Any property tax relief will be passed on to the owner of the property. In the short term there is no mechanism to ensure relief to the small properties will reach any tenants in a timely manner or at all. Many commercial properties are owned by larger companies and the businesses are tenants;
- ii) Small businesses located in buildings with a higher CVA could see an increase in their property tax due to the shifting of the burden;
- iii) This is a broad property tax tool resulting in reductions for all properties within a class including vacant and excess unused lands, along with some multi-residential properties, and businesses such as auto dealerships, LCBOs, and banks. Properties that are not the intended target cannot be eliminated;
- iv) Shifts taxes to larger properties that are more likely to appeal their assessments and receive settlements, increasing the City's potential losses annually;
- v) In the long term, a policy that shifts taxation away from smaller properties onto larger ones may be viewed as a detriment to larger employers locating or expanding in Barrie if nearby municipalities are not implementing similar measures.

FINANCIAL

33. There are no direct financial implications for the City associated with the recommendations regarding the tax ratios or tax rates. 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.

LINKAGE TO 2023-2026 STRATEGIC PLAN

34. The recommendations included in this Staff Report support the following goals identified in the 2023 - 2026 Strategic Plan:
- a) Affordable Place to Live.
35. The objectives of the property tax policies recommended in this staff report are to ensure a fair and equitable property tax policy framework for residents and business owners, and maintain the City's competitive position with respect to economic development.

APPENDIX "A"
Excerpt from 2022 BMA Municipal Study

2022 Tax Ratios

Municipality	Multi-Residential	Commercial Residual	Industrial - Residual
Barrie	1.0000	1.4331	1.5163
Belleville	2.0000	1.9191	2.4000
Brampton	1.7050	1.2971	1.4700
Brant County	1.7000	1.9000	2.5500
Brantford	1.8528	1.7457	2.2482
Brockville	1.7700	1.9482	2.6131
Bruce	1.0000	1.2331	1.7477
Caledon	1.7223	1.3475	1.5910
Chatham-Kent	1.9404	1.9404	2.0350
Cornwall	1.9355	1.9407	2.6300
Dryden	1.9659	1.8587	1.4849
Dufferin	2.0000	1.2200	2.1984
Durham	1.8665	1.4500	2.0235
Elgin	1.9999	1.6376	2.2251
Elliot Lake	1.8630	1.4750	1.4750
Essex	1.5277	1.0820	1.9425
Greater Sudbury	1.9650	1.9120	3.5905
Grey	1.4412	1.2969	1.8310
Guelph	1.7863	1.8400	2.2048
Haldimand	2.0000	1.6929	2.3274
Halton	2.0000	1.4565	2.0907
Hamilton	2.3594	1.9800	3.1985
Kenora	1.5511	2.1039	2.1972
Kingston	1.7000	1.9800	2.6300
Lambton	2.0000	1.6271	2.0476
Leeds & Grenville	1.0000	1.3464	1.8114
London	1.7119	1.9100	1.9100
Middlesex	1.7697	1.1449	1.7451
Mississauga	1.2656	1.5170	1.6150
Muskoka	1.0000	1.1000	1.1000
Niagara	1.9700	1.7349	2.6300
Norfolk	1.6929	1.6929	1.6929

APPENDIX "A" (continued)

2022 Tax Ratios (cont'd)

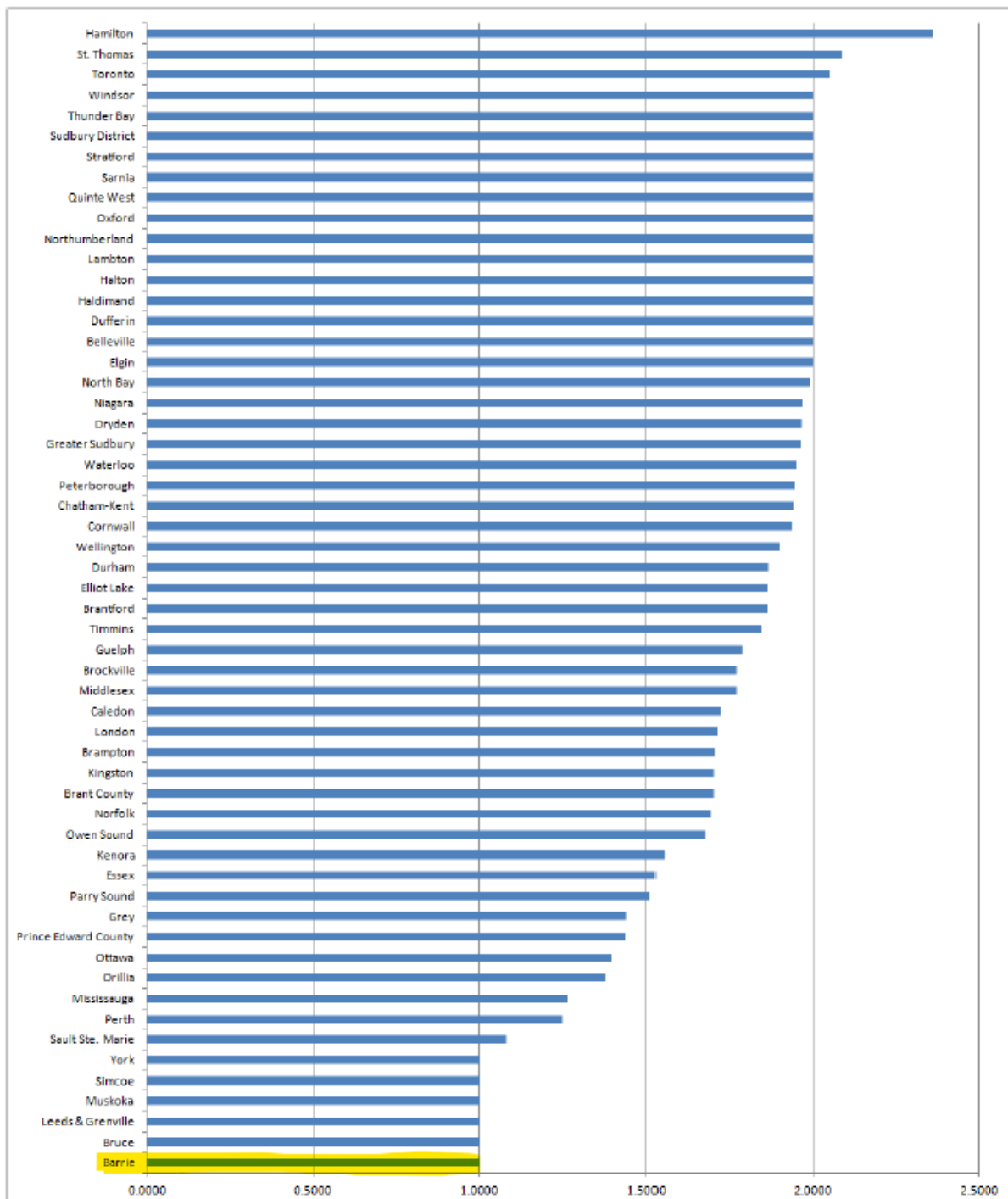
Municipality	Multi-Residential	Commercial - Residential	Industrial - Residential
North Bay	1.9900	1.8800	1.4000
Northumberland	2.0000	1.5000	2.1000
Orillia	1.3780	1.8330	1.8420
Ottawa	1.3961	1.8692	2.5408
Owen Sound	1.6779	1.7154	1.8310
Oxford	2.0000	1.9018	2.6300
Parry Sound	1.5145	1.6646	1.5162
Perth	1.2500	1.2469	1.9692
Peterborough	1.9472	1.5000	1.5000
Prince Edward County	1.4402	1.1125	1.3895
Quinte West	2.0000	1.5385	2.4460
Sarnia	2.0000	1.6271	2.0476
Sault Ste. Marie	1.0820	2.0582	4.4267
Simcoe	1.0000	1.2223	1.1925
St. Thomas	2.0870	1.7926	2.2546
Stratford	2.0000	1.9759	2.6380
Sudbury District	2.0000	1.8087	2.3171
Thunder Bay	2.0000	2.0420	2.3708
Timmins	1.8452	1.9800	2.5000
Toronto	2.0499	2.6374	2.5857
Waterloo	1.9500	1.9500	1.9500
Wellington	1.9000	1.4910	2.4000
Windsor	2.0000	2.0140	2.3158
York	1.0000	1.3321	1.6432
Average	1.7246	1.6689	2.1175
Median	1.8629	1.7042	2.0691
Minimum	1.0000	1.0820	1.1000
Maximum	2.3594	2.6374	4.4267

APPENDIX "A" (continued)

BMA
Management Consulting Inc.

Municipal Study 2022

Multi-Residential Tax Ratios

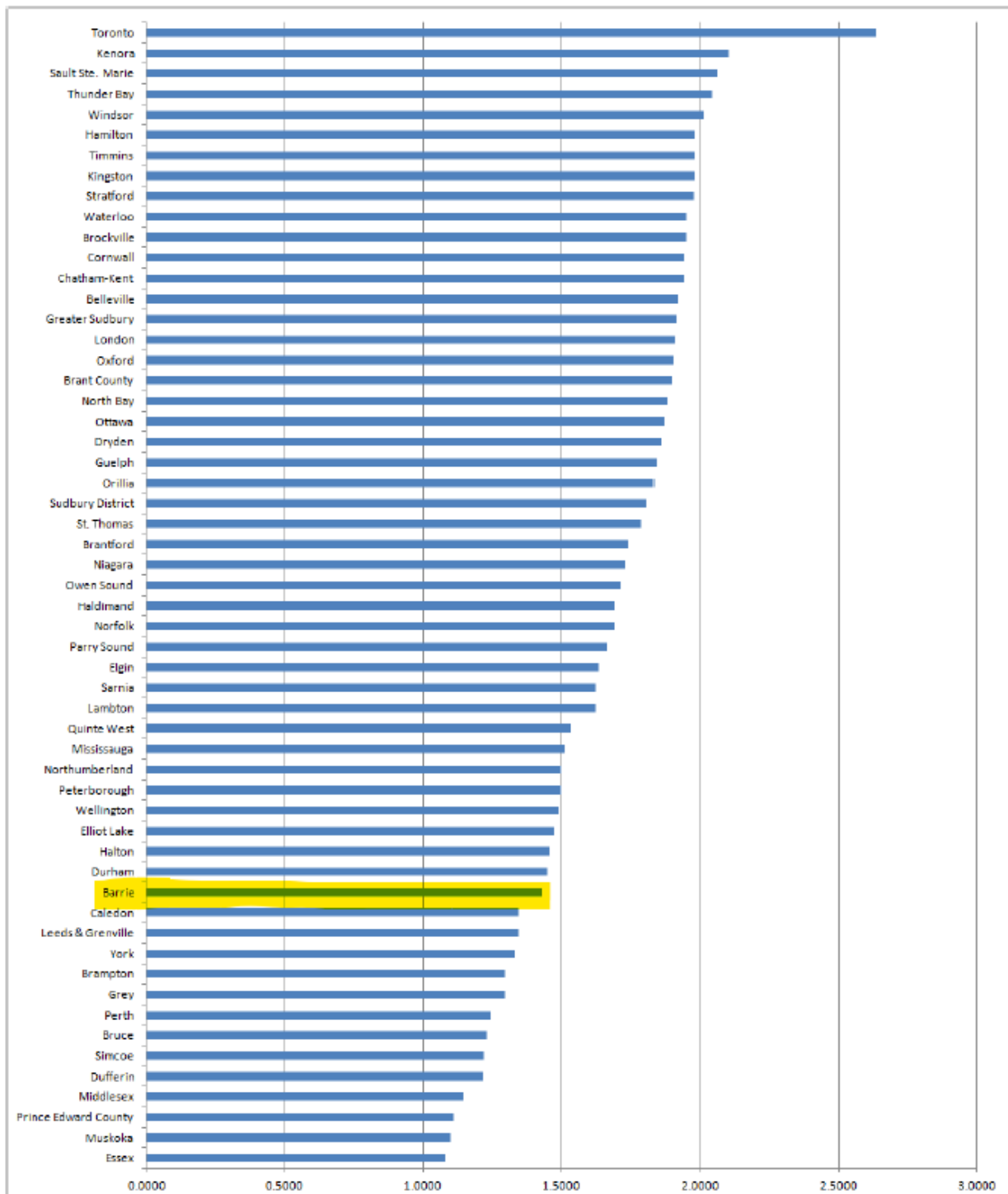


APPENDIX "A" (continued)

BMA
Management Consulting Inc.

Municipal Study 2022

Commercial (residual) Tax Ratios



APPENDIX "A" (continued)

BMA
Management Consulting Inc.

Municipal Study 2022

Industrial (residual) Tax Ratios

