

Report FR-CW-11-17

To: Warden Barfoot and Members of Grey County Council
From: Kevin Wepler, Director of Finance
Meeting Date: April 27, 2017
Subject: **2017 Tax Policy**
Status: Recommendation adopted by Committee as presented per Resolution CW82-17; Endorsed by County Council May 11 2017 per Resolution CC22-17;

Recommendation

1. That Report FR-CW-11-17 regarding 2017 property tax policies be received;
2. That the 2016 tax policies remain the same for 2017 for:
 - Tax Ratios (with the addition of the new Landfill class)
 - Tax Reductions for Mandated Subclasses of Vacant Lands
 - Tax Reductions for Farmland Awaiting Development Subclasses
 - Optional Classes of Property
 - Tax Relief and Rebate Programs
3. That the necessary By-laws be drafted for Council's consideration and approval;
4. That a future report be provided to Council, once the new capping program regulations are available and options are assessed, with a recommendation on the capping tools to be utilized by the County for the Business Property Tax Capping Program for 2017.

Background

The purpose of this report is to provide County Council with the background and advice to enable the County to establish tax policies that affect how the County of Grey apportions the tax burden by property class, as well as between the nine local municipalities.

It is also the responsibility of the upper-tier municipality to pass by-laws relating to tax policy decisions. In preparation for this report, the tax policy items set out below were shared with the local municipal treasurers and staff to receive their input and endorsement of the items in this report.

Tax Ratios

County Council establishes the relative tax burden for multi-residential, commercial, industrial and pipeline classes annually. Property tax ratios determine how a property class municipal tax

rate compares with the residential tax rate which is legislated to equal 1.0. For instance, if the tax ratio for the commercial class is 2.0, a commercial property would pay twice the amount of municipal property tax as a similar valued residential property. The farm tax class and managed forest tax class have a prescribed ratio of 0.25. Municipalities have the flexibility to set a tax ratio for the farm tax class below 0.25, however, this reduction would only apply to the municipal portion of the tax bill. For 2017 municipalities must also establish a tax ratio for the newly created landfill property class.

In setting tax ratios for all other property classes, municipalities must do so within the guidelines prescribed by the Province. Council may choose to adopt:

1. Either the current tax ratio for any class,
2. Establish a new tax ratio for the year that is closer to or within the Range of Fairness, as shown in Table 1 – Tax Ratio Summary,
3. Utilize restated revenue neutral transition ratios to mitigate reassessment related tax shifts between classes in accordance with the regulated calculations.

In addition to these standing rules, the Province has instituted a unique set of rules related to the establishment of the new landfill property class. In setting the ratio for 2017, the County's calculated transition ratio for this class is 1.302257, which represents the maximum level for this year.

Table 1 – Tax Ratio Summary

Realty Tax Class	2016 Ratios	2017 Start Ratios	Ranges of Fairness		Threshold Ratios	
			Lower Limit	Upper Limit	Threshold	Subject to Levy Restriction
Residential	1.000000	1.000000	1.00	1.00	-	N/A
Farm	0.250000	0.250000	0.00	0.25	-	N/A
Managed Forest	0.250000	0.250000	0.25	0.25	-	N/A
New Multi-Residential	1.000000	1.000000	1.00	1.10	-	N/A
Multi-Residential	1.441197	1.441197	1.00	1.10	2.00	No
Commercial	1.306940	1.306940	0.60	1.10	1.98	No
Resort Condominium	1.000000	1.000000	1.10	1.10	-	N/A
Industrial	1.858187	1.858187	0.60	1.10	2.63	No
Landfill	1.306940	1.306940	0.60	1.10		N/A
Pipeline	0.906848	0.906848	0.60	0.70	-	N/A

The Municipal Property Assessment Corporation (MPAC) updates property values in Ontario every four years. The 2016 assessment update reflects the current values of properties as of January 1, 2016, versus the values used for the 2013 through 2016 taxation years, which were based on a valuation date of January 1, 2012.

Updates in assessment values are being made as part of a four year phase-in, with 2017 being year one of the phase-in. Reassessment changes will not affect the municipal revenue because tax rates must be restated (revenue-neutral tax rate). However the reassessment will affect the overall distribution of the tax burden as there are differences in the rate of value appreciation and/or depreciation, which vary between individual properties, tax classes, and between local municipalities in a two-tier jurisdiction. In order to mitigate the inter-class tax shifts associated with reassessment, the County would need to increase the tax ratio of one or more business property classes.

By retaining the 2016 tax ratios and applying these ratios to the new assessment values for 2017, a shift in taxation to the farm class of approximately \$285,000 is occurring. The reason for the shift in tax dollars onto the farm property class is simply the case of the farm property values appreciating at a much higher rate than other property classes.

New Landfill Class

The Province introduced effective January 1, 2017, a new landfill class along with a tax ratio framework for this class. Under this tax ratio framework, the transition ratios for the landfill class will provide most municipalities with the flexibility to increase the level of revenue collected from the class by 5% in the 2017 tax year.

The County will be required to set a tax ratio for this new class in 2017. The Province's Range of Fairness for this new class has been set with a ratio range of a low of 0.60 to a high of 1.10. Based on the ministry's regulation, the County of Grey's 2017 class neutral ratio has been calculated to be 1.240245. The Province has provided in 2017 flexibility to increase this ratio by 5% in the 2017 tax year and the County could consider a transition ratio of 1.302258, which would be the maximum ratio allowed for this landfill class.

The only properties currently in this class are landfills owned by local municipalities. These properties were treated as commercial class Payments in Lieu of tax (PILs) up until the end of 2016. The local municipality was responsible for paying the County's tax portion of the taxes based on full commercial rates. As the taxes on these properties represent a direct cost to the local municipality, it is recommended that a ratio of 1.0 be adopted.

The total upper-tier taxes levied on these properties in 2016 was approximately \$6,800, setting the ratio at 1.00 would reduce that by approximately \$1,200, with very little tax shift associated with this recommendation.

Multi-Residential Class Ratios

The Ministry of Finance has announced that a review of the property taxation of multi-residential properties will take place in early 2017. While the review is under way, the Province has taken steps to implement measures that limit tax increases and reassessment related shifts onto the multi-residential class where that tax ratio exceeds 2.0. Considering the County's multi-residential ratio is 1.441197, this amendment will not apply to Grey County in 2017.

It may be the Province's intent to make further reduction to this class, which may include reducing this ratio to 1.0 to be at par with the residential tax class. The County therefore should review this item in the future and consider possibly a multi-year mitigation plan to reduce the County ratio to 1.0. This would result in a shift onto the residential class that would be phased-in over a number of years.

Recommendation – County of Grey adopt the 2016 year’s actual tax ratios, with the addition of the new landfill class tax ratio of 1.0 , for use in setting the 2017 tax rates.

Tax Reductions for Mandated Subclasses

The County has historically used the legal default reduction of 30% for commercial and 35% for industrial property classes, and the alternative to having two rates is to set a uniform discount rate for both classes anywhere between 30% and 35%.

Starting in 2017, the Province has provided municipalities broad flexibility to tailor the vacant unit and vacant/excess subclasses reduction to reflect their local community needs and circumstances.

What the Province has not done, is provide any specific menu of options to pick from. It is up to each municipal jurisdiction to craft their own local policies. Municipalities interested in pursuing policy refinements and enhancements must take on the policy making task locally and submit their desired program designs to the Province for review and consideration. As part of any such submission, the County must demonstrate that it has:

- Engaged the local business community.
- Provided details on how and when the municipality engaged the local business community.
- Considered the potential impacts the proposed change may have on local businesses.
- Communicated potential impacts of proposed changes to the business community.
- Made Council aware of the potential impacts on the business community.

Upper and single-tier municipalities that have decided to change the programs can notify the Minister of their intent to utilize this flexibility and provide details on the proposed changes along with a council resolution. Changes to the programs will be implemented through regulation in response to municipal requests. Three timelines were provided to municipalities to support administrative processes. The last timeline for 2017 changes is July 1, 2017. Municipalities will have the opportunity after July 1, 2017 to submit a request for changes to the programs for future years.

The Ministry has heard that some municipalities are interested in learning more about potential changes being considered by other municipalities and the consultations being done in support. The Ministry is working with municipal associations to survey municipalities in the coming weeks and will communicate the results.

Recommendation – County of Grey continue to use reductions of 30% for commercial and 35% for industrial vacant lands/units in 2017. As well, that the County of Grey use the 2017 year to learn more about the potential changes being considered by other municipalities and consider what changes, if any, should be considered to the program for future years.

Tax Reductions for Farmland Awaiting Development Subclasses

Two categories of Farmland awaiting development are possible:

- I. Type 1 with subdivision registered, may be taxed at between 25% - 75% of the residential tax rate;
- II. Type 4 with building permit issued, may be taxed at up to 100% of zoned class rate.

Recommendation – County of Grey shall leave the Type 1 at a tax rate of 25% and the Type 4 to be taxed up to 100% of the zoned class rate.

Optional Classes of Property

The County of Grey in 2005 established a Resort Condominium property class and in 2012 established a New Multi-Residential property class. At this time there does not appear to be any need to add any new optional property classes.

Tax Rates

By-law No. 4955-16, a By-law to Adopt the Estimates and Revenue and Expenditures for the Year 2017 was adopted by Council on November 22, 2016.

Recommendation – the Director of Finance prepare a general rating by-law, based on the recommended 2017 tax policy items, for 2017 Tax Rates, for approval by County Council.

Other Policies

The following policies have been adopted by Council in the past and legislation does not require ratification or reconsideration on an annual basis. They are mentioned here as information to Council.

Tax Relief to Certain Elderly and Disabled Persons who are Owners of Real Property in the County of Grey – This by-law provides for deferral of the annual eligible amount for the eligible property.

Tax Rebate Program for the purposes of Providing relief from taxes on Eligible Property Occupied by Eligible Charities – This by-law provides a tax rebate program for the purposes of providing relief from taxes or amounts paid on taxes on eligible property owned by eligible charities or similar organizations.

Tax Rebate Program for the purposes of Providing relief from taxes on Eligible Property Used and Occupied by Branches of the Royal Canadian Legion and Similar Organizations – This by-law provides rebates in the amount of 100 per cent of taxes levied for veterans' clubhouses, athletic grounds, and legion halls for the taxation years 2011 to 2020.

Business Class Tax Capping Options

The Province has also announced additional business class tax capping tools for 2017. More specifically, it allows municipalities to “ignore” vacant lands when considering eligibility for entering a staged phase-out. These properties will remain subject to capping, but they will not be considered as part of the eligibility test. The Ministry also provides municipalities the ability to limit the capping program to assessment related tax changes prior to 2017, so that properties do not move further away from exiting the capping program.

As of the date of drafting this report, the regulation details regarding these new tax policy capping tools have not been set out in regulation. Once these regulations have been finalized, staff will provide a subsequent report for final consideration with a recommendation on the capping tools to be utilized by the County for 2017.

Financial/Staffing/Legal/Information Technology Considerations

The information contained in this report has no impact of the County's 2017 budget instead it reflects how the County and Local Municipality's tax levies will be distributed among the various property tax classes.

The Director of Finance has prepared this report with consultation with Local Municipal Treasurers.

Link to Strategic Goals/Priorities

Upper-Tier municipalities are responsible for making tax policy decisions that are sensitive to local needs and priorities on an annual basis.

Attachments and Background Information

None

Respectfully submitted by,

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Director of Finance