

NORTHUMBERLAND COUNTY 2023 TAX POLICY AND TAX RATIO SENSITIVITY







Prepared and Presented by:
Peter Frise,
Municipal Tax Equity (MTE) Consultants Inc.

February 28th, 2023

THE ANNUAL TAX DISCUSSION

- Each year the County and local area municipalities must make a host of decisions that will shape the size and distribution of the tax levy.
 - The County and local municipalities must decide how much revenue to raise; and
 - The County must set tax ratios, subclass treatment and may also choose to employ a variety of other tax policy tools in order to manage the balance of taxation.
- In order to make informed decisions about this year, it is generally necessary to consider and understand the the very different ways these four essential variables impact tax outcomes.
 - Reassessment & Phase-In Related Tax Implications;
 - Assessment and Revenue Growth/Loss;
 - Tax Policy Adjustments; and
 - Municipal Levy Change.
- Today's focus will be on municipal policy adjustment, specifically, the implications of adjusting the County's multi-residential tax ratio.

GROWTH, REASSESSMENT, PHASE-IN, POLICY & LEVY CHANGE

Variable	Tax Implications
 Reassessment / Phase-In	<ul style="list-style-type: none"> Updates the <u>relative</u> value of everyone's property, which can impact the <u>proportional share of tax</u> each taxpayer is responsible for From 2009 - 2020, these shifts in proportional share were phased in <u>No new tax revenue</u> for municipalities, but individual tax liabilities will change/shift among properties and groups of properties
 Growth	<ul style="list-style-type: none"> <u>New municipal revenue</u> from new assessable property Only taxpayers whose properties undergo assessable changes in state use and condition are impacted <u>Existing taxpayers do not contribute</u> to revenue increases
 Tax Policy	<ul style="list-style-type: none"> Tax ratios, discounts and other tax policy options can be adjusted to alter the <u>distribution of tax</u> among properties and groups of properties Some of these tools alter the share of taxes based on a property's use (Class & Ratios), others alter the balance based on value (Banding)
 Levy Change	<ul style="list-style-type: none"> The difference (+/-) in revenue a municipality chooses to raise compared to the prior year at year-end, after growth <p style="text-align: center;"> Prior Year Levy + Growth = Revenue Limit Current Year Levy – Revenue Limit = Levy Change </p>

TAX POLICY OPTIONS AND TOOLS SETTING AND MANAGING THE BALANCE OF TAXATION



ASSESSMENT AS A BASIS OF TAXATION

- In Ontario, individual property tax liabilities are calculated by applying a tax rate against the property's assessed value
- We do not tax the value of property in the same way income, or the value of a purchase is taxed (Transactional Value)
- We use assessment as a means of distributing a finite tax burden or requirement across a known tax base
 - Unlike all other taxes, we calculate the rate knowing how much we need to levy from a fixed base

$$x(\text{Tax Rate}) = \text{Tax Levy } (\$1.65 \text{ Mil}) \div \text{Tax Base } (150 \text{ Mil CVA})$$



CVA (Mil \$)	150.0	70.0	31.0	12.0	23.0	14.0
Share of CVA	100%	46.7%	20.7%	8.0%	15.3%	9.3%
Tax Rate	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Tax	\$1,650,000	\$770,000	\$341,000	\$132,000	\$253,000	\$154,000
Share of Tax	100%	46.7%	20.7%	8.0%	15.3%	9.3%

So... it is **not the absolute value of property** that determines one's tax liability, it is the property's **relative value**, or its **share** of the total base.

TAX CLASSES AND TAX RATIOS

- In addition to a value, each property is assigned a classification based on use.
- This second variable allows the tax burden to be distributed on the basis of:
Relative Property Value; and Property Use (expressed as classification)
- Tax Ratios, Discounts and Class/Subclass Options give the municipalities the ability to manipulated and adjust the balance of taxation
- Outwardly, Tax Ratios express the relationship between the tax rate for a class and the residential tax rate

Each Building is
Assessed at
\$100,000



Class	Residential	Commercial	Industrial
Tax Ratio	1.00 (Legislated)	2.00	3.00
Tax Rate	1.0%	2.0%	3.0%
Tax	\$1,000	\$2,000	\$3,000

VALUE, CLASSES, RATIOS & THE BALANCE OF TAXATION

- The real function of tax ratios is manipulating the balance of taxation among property classes
- Each dollar of CVA is essentially *Weighted* but the tax ratio for its class and thereby altering the proportional share each class represents
 - Farm captures 8.58% of the County-wide CVA, but only carries 2.08% of the tax burden.
 - Multi-Residential makes up 1.44% of the assessment but 2.87% of the tax.

Realty Tax Class	Current Value Assessment		Weighted CVA			County Levy	
	\$ (Mil)	Share	Tax Ratio	Wtd. CVA	Share	\$	Share
Residential	10,466.9	81.21%	1.0000	10,466.9	81.71%	\$52,578,108	81.71%
Farm	1,106.1	8.58%	0.2500	276.5	2.08%	\$1,338,873	2.08%
Managed Forest	44.2	0.34%	0.2500	11.1	0.09%	\$57,247	0.09%
New Multi-Res.	7.6	0.06%	1.0000	7.6	0.06%	\$40,396	0.06%
Multi-Residential	185.8	1.44%	2.0000	371.7	2.87%	\$1,844,603	2.87%
Commercial	836.1	6.49%	1.5000	1,254.2	9.85%	\$6,337,250	9.85%
Industrial	149.3	1.16%	2.1000	313.5	2.49%	\$1,603,821	2.49%
Landfill	0.4	0.00%	1.0000	0.4	0.00%	\$1,862	0.00%
Pipeline	91.5	0.71%	1.1981	109.6	0.84%	\$543,319	0.84%
Total	12,887.9	100.00%		12,811.5	100.00%	\$64,345,479	100.00%

TAX RATIO OPTIONS

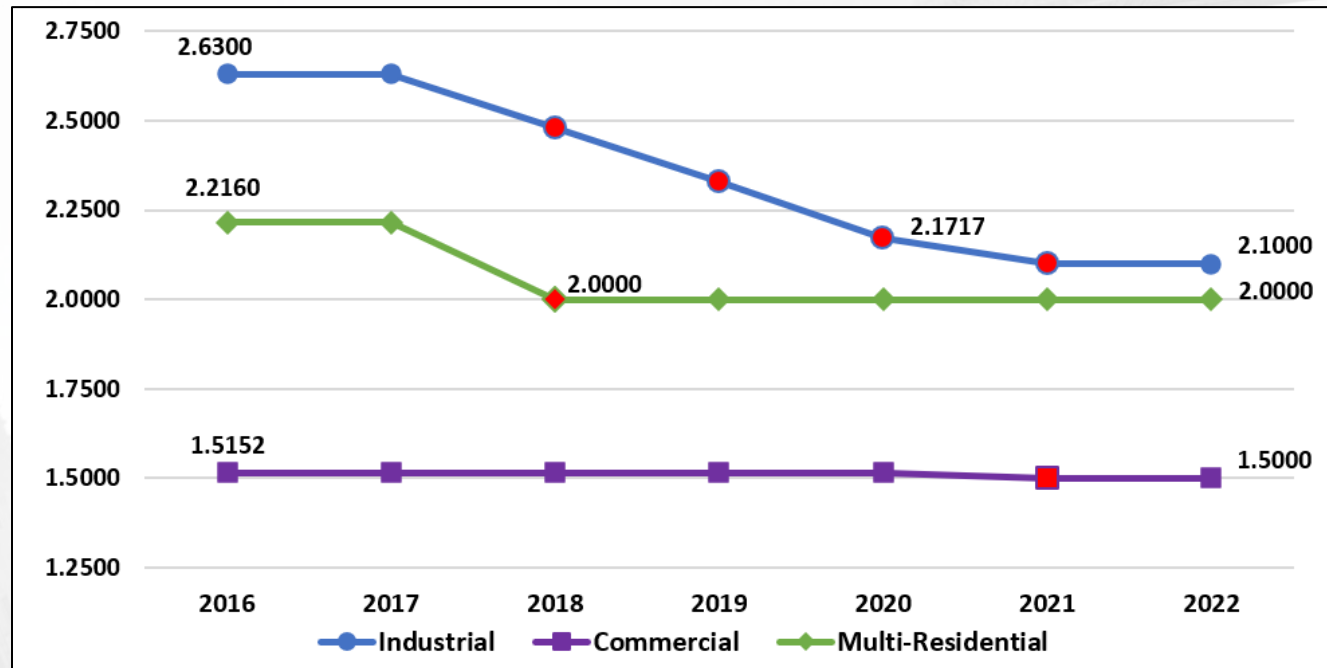
- Flexibility to move ratios is prescribed by a series of fairly rigid Provincial rules.
- Generally, ratios may be adjusted towards or within the Province's target ranges.

Realty Tax Class	Current	Provincial Ranges		2023 Range of Flexibility		Levy Restriction	
		Low	High	Low	High	Threshold	Restricted
Residential	1.0000	1.00	1.00	1.0000	1.0000		
Farm	0.2500	0.00	0.25	0.0000	0.2500		
Managed Forest	0.2500	0.25	0.25	0.2500	0.2500		
New Multi-Res.	1.0000	1.00	1.10	1.0000	1.0000		
Multi-Residential	2.0000	1.00	1.10	1.0000	2.0000	2.0000	No
Commercial	1.5000	0.60	1.10	0.6000	1.5000	1.9800	No
Industrial	2.1000	0.60	1.10	0.6000	2.1000	2.6300	No
Landfill	1.0000	0.60	1.10	0.6000	1.0000	25.0000	No
Pipeline	1.1981	0.60	0.70	0.6000	1.1981		

- When levy restriction applies to the multi-residential class, that class cannot share in any portion of a municipal levy increase.
 - The ratio may also be subject to mandatory reductions in years where reassessment/phase-in applied.
- Other restricted classes may carry a portion of the annual levy increase at a rate up to 50% of that carried by non-restricted classes

TAX RATIO MOVEMENT – CURRENT CYCLE

This chart plots the County's ratio adjustments over the past several years.



- The industrial ratio was reduced incrementally to a target of 2.1717, which was set based on a comparator average identified in 2017;
- In 2021 both the industrial and commercial ratios were adjusted slightly at the same time tax rate discounts for vacant land in those classes were removed; and
- Multi-Residential was reduced in response to legislative changes in 2017 that imposed a strict levy restriction on the class if the ratio exceeded 2.00.

MULTI-RESIDENTIAL CLASS IN COMPARISON

Municipality	2009	2017	2022
Northumberland Co	2.2160	2.2160	2.0000
Haldimand County	2.3274	2.0000	2.0000
Lanark Co	2.3511	2.2873	2.1133
Leeds and Grenville Uco	1.0000	1.0000	1.0000
Lennox and Addington Co	2.2194	2.0000	2.0000
Peterborough Co	1.7802	1.7802	1.5815
Prescott and Russell Uco	1.9456	2.0000	1.6000
Prince Edward County C	1.4402	1.4402	1.4402
Renfrew Co	1.9436	1.9436	1.9436
Wellington Co	2.0000	1.9000	1.9000
Average	1.9223	1.8567	1.7579

- Multi-Residential Ratios have been moving steadily downward
- There were almost 200 separate multi-residential tax ratio reductions made by approximately 70 upper and single-tier jurisdictions from 2017 to 2021.
 - Almost double the number of reductions to commercial or industrial ratios over the same time.
- Jurisdictions that have not been reducing their multi-residential classes have found that their position has moved in terms of how they compare to their neighbours

MULTI-RESIDENTIAL RATIO CONSIDERATIONS

- In 2017 the Province decreased the threshold ratio from 2.74 to 2.0 and introduced strict levy restriction rules whereby a class with a ratio above 2.0 could not share in any portion of a municipal levy increase.
 - Northumberland County was captured by this change and was subject to levy restriction rules for 2017
- Although the Province has not made any legislative or regulatory changes since that time, there are indications that further changes are likely.
- As such, I am currently recommending the following to my client municipalities with ratios above 1.00:
 1. If they are in the process of decreasing the multi-residential ratio, keep going;
 2. If an existing reduction plan doesn't exist, consider some movement downwards; and/or
 3. Even if a ratio reduction is not palatable, ensure you understand the locally specific implications of a reduction... i.e. how far away is equalization?
- The further a municipality's ratio is from 1.00, the more weight I would give these recommendations.

MULTI-RESIDENTIAL RATIO COMMENTS

- The strongest indicators that a move towards equalization may be introduced in the not-so-distant future include, but are not limited to:
- In February 2022, the Provincially commissioned report by the *Ontario Housing Affordability Task Force* included a recommendation that the property taxes for purpose-built rental be aligned with those of condos and low-rise homes.
- The Province's 2022 Fall Economic Statement included a commitment to look at "potential approaches to reduce the current property tax burden on multi-residential apartment buildings".
 - This was reiterated in the annual communication regarding tax policy decisions and considerations sent to all municipal treasurers by the Ministry of Finance in December 2022.
- On February 9th of this year a call for eliminating the rate differential was reiterated in a joint report released by the Building Industry and Land Development Association and the Federation of Rental-Housing Providers of Ontario.

RATIO SENSITIVITY

- Tax Ratios changes alter the balance of taxation by altering the proportional shares of the *Weighted Base*.
- When we lower the weighted CVA of one class, we lower the total weighted CVA, which in turn;
 - Increases the tax rates required to raise the same levy; and
 - Increases the proportional share of every other class.

Realty Tax Class	2023 Tax Ratios			2023 County Rates		
	Status Quo	Model	Change	Notional	MR @ 1.80	Change
Residential	1.000000	1.000000	0.00%	0.00493389	0.00494808	0.29%
Farm	0.250000	0.250000	0.00%	0.00123347	0.00123702	0.29%
Managed Forest	0.250000	0.250000	0.00%	0.00123347	0.00123702	0.29%
New Multi-Res.	1.000000	1.000000	0.00%	0.00493389	0.00494808	0.29%
Multi-Residential	2.000000	1.800000	-10.00%	0.00986778	0.00890654	-9.74%
Commercial	1.500000	1.500000	0.00%	0.00740084	0.00742212	0.29%
Industrial	2.100000	2.100000	0.00%	0.01036117	0.01039097	0.29%
Landfill	1.000000	1.000000	0.00%	0.00493389	0.00494808	0.29%
Pipeline	1.198100	1.198100	0.00%	0.00591129	0.00592829	0.29%

- In order to measure the pure impact of the ratio change itself, the revenue to be raised must be held constant.
- In these models, we are using revenue neutral levies.

RATIO SENSITIVITY: COUNTY LEVY IMPACTS BY CLASS

Realty Tax Class	Revenue Neutral County Levy		Model Shifts	
	Notional	MR @ 1.80	\$	%
Residential	\$52,578,108	\$52,729,322	\$151,214	0.29%
Farm	\$1,338,873	\$1,342,724	\$3,851	0.29%
Managed Forest	\$57,247	\$57,410	\$163	0.28%
New Multi-Residential	\$40,396	\$40,512	\$116	0.29%
Multi-Residential	\$1,844,603	\$1,664,916	-\$179,687	-9.74%
Commercial	\$6,337,250	\$6,355,469	\$18,219	0.29%
Industrial	\$1,603,821	\$1,608,435	\$4,614	0.29%
Landfill	\$1,862	\$1,867	\$5	0.27%
Pipeline	\$543,319	\$544,880	\$1,561	0.29%
Total (Tax + PIL)	\$64,345,479	\$64,345,535	\$56	0.00%

- The impact of a ratio change on other property classes will depend on two key factors:
 - How much you move a ratio, and
 - The amount of tax carried by the class before the ratio change (this applies to both the class being changed and impacted classes)
- Whatever levy increases apply for 2023 will be carried by all taxpayers equally under either scenario

RATIO SENSITIVITY: COUNTY LEVY IMPACTS BY LOCAL

Realty Tax Class	Revenue Neutral County Levy		Model Shifts	
	Notional	MR @ 1.80	\$	%
Alnwick-Haldimand	\$6,276,062	\$6,292,170	\$16,108	0.26%
Brighton	\$8,327,254	\$8,337,920	\$10,666	0.13%
Cobourg	\$15,390,133	\$15,344,430	-\$45,703	-0.30%
Cramahe	\$4,352,023	\$4,358,152	\$6,129	0.14%
Hamilton	\$8,375,311	\$8,399,397	\$24,086	0.29%
Port Hope	\$12,422,060	\$12,404,477	-\$17,583	-0.14%
Trent Hills	\$9,202,635	\$9,208,989	\$6,354	0.07%
County-Wide	\$64,345,478	\$64,345,535	\$57	0.00%

- Tax shifts will also occur among local area municipalities.
 - In this case, those with more multi-residential assessment will see an overall decrease in their share of the County levy.
 - Those with little or no multi-residential assessment will see their share increase
- This, however, is not the full picture; it is important to understand and consider the balance of tax at the local as well as the County level.

RATIO SENSITIVITY: LOCAL CLASS LEVEL IMPACTS

- This table documents the combined class level shifts of the County and local general levies within the municipality with the most multi-residential assessment, and the one with none.

Realty Tax Class	Municipal (County + Local) Tax Shifts			
	Cobourg		Hamilton	
Residential	\$146,033	0.48%	\$22,123	0.14%
Farm	\$54	0.48%	\$756	0.14%
Managed Forest	\$1	0.28%	\$28	0.14%
New Multi-Residential	\$435	0.48%	N/A	
Multi-Residential	-\$233,638	-9.57%	N/A	
Commercial	\$33,999	0.48%	\$669	0.14%
Industrial	\$6,948	0.48%	\$222	0.14%
Pipeline	\$462	0.48%	\$289	0.14%
County-Wide	-\$45,706	-0.11%	\$24,087	0.14%

- While the high-level County picture tells us Cobourg will shed County taxes, they will actually see more change internally due to their larger share of multi-residential assessment.

RATIO SENSITIVITY: IMPACT OF EQUALIZATION

- As noted, the impact of a ratio change will depend on how much tax a class carries before the change and how big the changes is.
- Here we have compared the internal shifts Cobourg might experience with a ratio change to 1.8000 to full equalization with residential.

Cobourg	Municipal (County + Local) Tax Shifts			
	MR Ratio @ 1.80		MR Ratio at 1.00	
Residential	\$146,033	0.48%	\$745,752	2.43%
Farm	\$54	0.48%	\$273	2.44%
Managed Forest	\$1	0.28%	\$9	2.53%
New Multi-Residential	\$435	0.48%	\$2,222	2.43%
Multi-Residential	-\$233,638	-9.57%	-\$1,190,859	-48.78%
Commercial	\$33,999	0.48%	\$173,560	2.43%
Industrial	\$6,948	0.48%	\$35,455	2.43%
Pipeline	\$462	0.48%	\$2,361	2.43%
County-Wide	-\$45,706	-0.11%	-\$231,227	-0.55%

RATIO SENSITIVITY: TYPICAL PROPERTIES

- The impacts at the property level are relatively modest when the multi-residential ratio is changed to 1.8000.
- They are much more dramatic if the differential between residential and multi-residential were to be eliminated altogether.

Local Municipality	Average CVA	Impact: Single Detached Residential Homes			
		MR Ratio at 1.80		MR Ratio at 1.00	
Alnwick-Haldimand	321,751	\$5	0.15%	\$26	0.77%
Brighton	263,113	\$6	0.20%	\$32	1.07%
Cobourg	293,559	\$20	0.51%	\$96	2.44%
Cramahe	253,401	\$7	0.22%	\$33	1.04%
Hamilton	328,220	\$5	0.15%	\$24	0.72%
Port Hope	290,108	\$12	0.36%	\$63	1.88%
Trent Hills	221,408	\$8	0.28%	\$36	1.24%
County-Wide	281,063	\$9	0.27%	\$44	1.33%

- Even a modest movement reduces the outstanding risk of a future forced reduction.

CONTEXT FOR RECOMMENDATIONS

- The recommendation for municipalities to consider the current treatment of the multi-residential is not driven by the same policy objectives that may be at the root of the push for lower ratios.
 - Although a decrease in taxes can have a modest, if temporary impact on rents, but the most significant benefit will be realized by landlords and property owners; and
 - Multi-Residential ratio reductions cannot be expected to have a significant impact on housing supply because all newly constructed multi-unit properties will be taxed as New Multi-Residential and subject to a ratio of 1.00
- The suggestion that municipalities look at the treatment of this class is rooted in the idea that it is desirable for any change, or ratio migration path to be managed locally, rather than being forced; and
- Even if ratio movement is not possible, or desirable, its important to be well informed about the potential for change.

QUESTIONS, COMMENTS, DISCUSSION

Contact:
Peter Frise
peterf@mte.ca
www.mte.ca

