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Report 2024-050

Report Title: **2024 Property Tax Policy**

Committee Name: Finance and Audit

Committee Meeting Date: April 2, 2024

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Finance

Approved by: Jennifer Moore, CAO

Council Meeting Date: April 17, 2024

Strategic Plan Priorities: ☒ Innovate for Service Excellence
☒ Ignite Economic Opportunity
☒ Foster a Thriving Community
☒ Propel Sustainable Growth
☒Champion a Vibrant Future

Recommendation

"**That** the Finance and Audit Committee, having considered Report 2024-050 '2024 Property Tax Policy', recommend that County Council enact by-laws to authorize the 2024 tax ratios and tax rates at the April 17, 2024 County Council meeting."

Purpose

The purpose of this report is to present the 2024 tax ratio and tax rate by-laws for purposes of 2024 tax policy.

Background

Staff initiated a formal tax policy review as authorized by Council as per Resolution #2017-03-15-61. Further to this, Council directed staff to report on findings of the policy review and options for tax policy changes as per Resolution # 2017-10-11-222.

There were several factors that highlighted the need for a formal tax policy review in 2017. The County's tax policies had remained fairly constant for several years. In 2017, the Ministry of Finance (MOF) made a number of changes to statutes within the property taxation legislative framework increasing flexibilities for municipal tax policy setting. Reassessment of properties by the Municipal Property Assessment Corporation (MPAC) resulted in a shift in the proportion of assessment and taxation burden across property classes commencing in 2017. Various individuals and organizations had contacted staff and Councilors requesting changes to tax policy as it applies to an applicable tax class of interest to them.

In light of this, and at the direction of Council, staff and member municipal Treasurers undertook a formal property tax policy review in advance of adopting the property taxation policies for 2018 and for utilization in tax policy decisions for the years 2019 and 2020 aligned primarily with MPAC's reassessment cycle applicable to the tax years 2017-2020. This was to ensure that potential impacts to property owners in all tax classes as a result of any policy changes were fully understood. The findings were provided to Council, as outlined in Report 2017-65 'Property Tax Policy Review' and were utilized in tax policy decisions for those applicable years.

As part of the Ontario Government's Economic and Fiscal Update on March 25, 2020, the Ministry of Finance announced the Province's decision to postpone the 2020 assessment update, which would have seen MPAC update the assessed value of every property in Ontario as at January 1, 2020 with these valuations forming the basis for property tax calculations in the years 2021 to 2024. Most recently the Province has directed MPAC to conduct a review of the assessment process and has again postponed the province-wide assessment updates for the 2024 property tax year. Assessments will continue to be based on the fully phased-in January 1, 2016 valuations.

Many municipalities, including the County, have supported a resolution urging the Province to reconsider its decision and to direct MPAC to proceed with a province-wide assessment update in order for Ontario municipalities to be able to collect property taxes based upon actual property values. This would not result in increased property tax revenues but would correctly allot tax burden to individual properties based on updated valuations. In lieu of providing municipalities with a returned tax roll of updated assessed values for 2024, MPAC will provide property assessments based on the fully phased-in January 1, 2016 property values; therefore, representative of the same valuations that MPAC provided primarily for 2023. Given these circumstances, it does provide a unique opportunity to review tax policies and consider changes without concurrent impacts from shifts in proportion of taxation between the property tax classes as the result of a primarily static assessment base from the prior year for existing properties. In consideration of this, the Northumberland County Intermunicipal Treasurers Working Group undertook an update to the 2017 tax policy review to assess recommendations specific to 2021 tax policies that were proposed to Council, approved, and subsequently implemented.

In 2023 Northumberland County followed the advice of the Municipal Tax Equity (MTE) Consultants and reduced the multi residential ratio from 2.000 to 1.800. The rationale for the change is because there is a gap between the multi residential ratio and the new multi residential ratio that is fixed at 1.000. There have been indications that municipalities will be mandated to reduce the multi residential down to 1.000. It was determined that it was preferable to gradually reduce the multi residential ratio to lessen the impact on the other classes.

Consultations

Staff acquired the services of Municipal Tax Equity (MTE) Consultants Inc. to complete the detailed review of the County's tax policies in 2017 and for the latest update conducted in 2021.

MTE works exclusively with Ontario municipalities in the areas of property assessment and taxation.

Member municipal Treasurers were engaged in the process of drafting the 2021 tax policy study update and considerations for 2023 and 2024 tax policy as facilitated through the Northumberland County Intermunicipal Treasurers Working Group.

Legislative Authority / Risk Considerations

Assessment Act, R.S.O. 1990, c. A.31.

Municipal Act, 2001 Sections 313, 364 and Ontario Regulation 325/01, amended to Ontario Regulation 210/05.

Discussion / Options

The proportionate share of property assessment between property tax classes within the County changed in 2017 as a result of MPAC reassessment. MPAC is responsible for assigning a current value assessment (CVA) for all properties. On a four year cycle MPAC reassesses all properties within Ontario. In 2016, MPAC provided reassessment valuations based on a valuation date of January 1, 2016. This represented an update from January 1, 2012 valuations. The CVA from the 2016 reassessment was utilized for property taxation calculations in the four year taxation cycle of 2017-2020. During this four year cycle, any properties experiencing an increase in CVA as a result of reassessment had this phased-in by 25% in each of the four years. Properties that experience a decrease in CVA realized the change immediately in the first year of the reassessment cycle (2017). Changes in reassessment do not impact on municipal taxation revenues. Property taxation is collected based on approved annual budgetary levy requirements. Changes to CVA from reassessment result in shifts in the proportionate share of assessment between property tax classes from where taxation revenues are sourced and calculated.

Effective for 2017, the MOF made several changes to provincial legislation for property taxation. This included that a full levy and reassessment restriction for the multi-residential tax class be imposed on municipalities with a multi-residential tax ratio in excess of 2.0000. In addition to changes made to the existing multi-residential tax class, the MOF implemented a mandatory new multi-residential property class province-wide to ensure that municipalities tax new multi-residential buildings at a similar rate as other residential properties. Under the Fair Housing Plan, this initiative is meant to support and encourage the development of new rental housing as a step to improve housing affordability in the rental marketplace.

The Province implemented new flexibilities for municipalities to tailor vacant unit rebate and vacant/excess land tax subclasses programs based on local needs. Under Council resolution 2017-07-19-160, staff were authorized to review policy options specific to the vacant unit rebate program and engage stakeholders to assess potential impacts. Subsequent to this, Council resolution 2018-04-18-91 endorsed the elimination of the vacant unit property tax rebate program effective for the tax year 2018 such that applications received in 2018 for the tax year period of January 1, 2017 to December 31, 2017 would be processed with no program offering for the 2018 tax year and beyond. Staff submitted required documentation to the MOF requesting the change for Northumberland County and this was enacted in 2018 via legislation under O. Reg. 491/18 amending O. Reg. 325/01 under the Municipal Act, 2001. The Intermunicipal Treasurers Working Group recommended elimination of the discounts provided under Commercial and Industrial vacant/excess land subclasses and this was implemented in 2021.

In consideration of impacts from MPAC reassessment, stakeholder requests for changes to County tax policy and provincially legislated property tax changes, staff acquired Council's endorsement to facilitate a review of the County's current tax policies. Findings from the review were utilized for recommendations of tax policy in the years 2018-2020 aligned with the end of the last MPAC reassessment cycle. The tax policy study focused on historical taxation trends, assessment growth, current reassessment cycle projections, sensitivity analysis and comparator data. As a result of the postponement in MPAC reassessments that would have formed CVA for the four-year tax cycle of 2021-2024 an update to the study was completed in 2021 highlighting options for the 2021 tax year as contemplated by the Intermunicipal Treasurers Working Group.

CVA provides the basis for calculating tax rates. Each tax class, under municipal tax policy, is attributed a tax ratio. This ratio is applied to CVA in calculating the tax rates for each class. The residential tax class is the basis for calculation purposes of all other classes and is, therefore, set at a ratio of 1.0000 as prescribed under legislation. The tax ratios as derived under municipal tax policy will impact on the allocation of taxation burden across all tax classes.

In deriving tax policy, the principal objective should be to align policy decisions with the overall strategic goals of the municipality. It is also important to recognize the policies of neighbouring and comparator municipalities when considering competitiveness for retention and attraction of industrial and commercial enterprises. Balancing needs for the stimulus of economic growth with residential affordability are key considerations for setting tax policy. The County's infrastructure sustainability and service level requirements are addressed by establishing clearly defined financial objectives within a long-term financial planning framework. Therefore, tax policy decisions should not be based on changes as a result of reassessment but rather aligned with the County's strategic goals as formally stated. Establishing tax ratios are derived based on this objective. The County's tax ratios (2020) from the 2021 tax policy study are displayed below relative to comparator municipalities:

2020 Tax Ratio and Optional Class Survey by Ratio Setting Authority

Municipality	Farm	Managed Forest	Multi-Residential	New Multi-Residential	Commercial	Commercial Optional	Industrial Residual	Large Industrial[1]	Pipeline
Northumberland	0.2500	0.2500	2.0000	1.0000	1.5152	*No commercial optional classes used within sample group*	2.1717	*2.1717*	1.1981
Haldimand County	0.2500	0.2500	2.0000	1.0000	1.6929		2.3274	*2.3274*	1.4894
Lanark	0.2500	0.2500	2.1575	1.1000	1.8429		2.5316	*2.5316*	2.0072
Leeds & Grenville	0.2500	0.2500	1.0000	1.0000	1.3464		1.8114	2.8035	1.6551
Lennox & Addington	0.2500	0.2500	2.0000	1.0000	1.4175		2.1700	2.7300	1.2972
Peterborough	0.2500	0.2500	1.7802	1.0000	1.0986		1.5432	*1.5432*	0.9386
Prescott & Russell	0.2500	0.2500	1.9000	1.0000	1.4410		2.4469	3.5000	1.4158
Prince Edward County	0.2500	0.2500	1.4402	1.0000	1.1125		1.3895	*1.3895*	0.5394
Renfrew	0.2500	0.2500	1.9436	1.0000	1.8147		2.8517	3.5577	1.3328
Wellington	0.2500	0.2500	1.9000	1.1000	1.4910		2.4000	*2.4000*	2.2500
Average	**0.2500**	**0.2500**	**1.8122**	**1.0200**	**1.4773**		**2.1643**	**2.4955**	**1.4124**

*The optional commercial classes are shopping centre, office building and parking lot.

[1] Where a large industrial ratio is displayed in grey italic text, the municipality does not actively maintain that optional class and assessment within that class will attract the residual class ratio.

As displayed above, The County's tax ratios from the tax policy study update are aligned fairly closely with the comparators with the exceptions of the multi-residential and pipeline classes. Adjusting the pipeline ratio upwards towards the comparator average is not possible as the Province only permits municipalities to change tax ratios towards established "ranges of fairness" which for pipelines is set at 0.60-0.70. Municipalities are only permitted to adjust tax ratios for the multi-residential, commercial, industrial and pipeline property classes closer to the provincially prescribed ranges of fairness except when the change is to achieve a revenue neutral tax position between property classes thereby eliminating the impact of any reassessment related tax shifts that normally occur at the time of each reassessment cycle.

Many municipalities had moved their multi-residential tax ratio downwards in light of provincial regulations effective for the 2017 tax year, whereby any municipality that has a multi-residential tax rate that is greater than a provincial threshold of 2.0000 a full levy increase restriction will be required and reassessment related shifts onto the multi-residential class for existing properties will be prevented. Given the 2017 County tax ratio for multi-residential was 2.2160, this new regulation applied and was incorporated in the 2017 tax rate calculations as approved by Council on April 19, 2017. The result of reassessment was an overall reduction in CVA to multi-residential relative to other classes so this restriction did not apply; however, the levy increase restriction was applicable. Given the County's multi-residential ratio at 2.2160 exceeded the comparator average of 1.7928 and the provincial threshold of 2.0000 resulting in future levy increase restrictions, Council approved a reduction in this class for the 2018 tax policy down to 2.0000. Without a reduction in the ratio, 2018 and future years budgetary levy increases that would normally apply to this class would have been allotted to all other tax classes. Staff reviewed with the Finance and Audit Committee options for consideration of further reducing the multi-residential ratio in 2023. Although the Province has not made any legislative or regulatory changes since 2017, there are indications that further changes are likely towards equalizing the multi-residential ratio with that of the new multi-residential ratio which is 1.0000. The Finance and Audit Committee recommended to Council to commence a reduction in 2023 to the multi-residential ratio to 1.8000 as a first step towards equalizing it with the new-multi residential ratio. Strategically, this moved the ratio downwards in advance of possible legislative changes that may force this such that the impact of taxation shift, primarily onto the residential class, is minimized and staggered over a period of time.

Staff recommended a continuation of the gradual decrease in the multi residential ratio in 2024 from 1.8000 to 1.6000. Council approved this recommendation at the March 20, 2024 Council meeting and, as such, this is reflected in the accompanying bylaw.

The County's tax ratio for the industrial tax class which had stood at 2.6300 prior to policy changes from the 2017 tax policy review was high relative to the current comparator average of 2.1643. The industrial tax class proportionate share of total County CVA is small providing for 2.48% of the total 2020 County and lower-tier tax levies based on the tax policy review. The County's prior Strategic Plan (2015-2019) that was utilized for informing tax policy under the prior MPAC reassessment cycle identified goals for enhancing strategies for attraction and retention of new industry and expansion of core businesses that exist within the County. This theme continues in the new Strategic Plan. In recognition of this, and in conjunction with this tax ratio being high relative to comparators, staff recommended a strategy commencing with the 2018 tax policy to phase-in a reduction of the industrial tax ratio to be aligned with the comparator average. This equated to an annual reduction of approximately 0.1500 in each of the years 2018, 2019 and 2020 resulting in a ratio of 2.1717 by the year 2020. The ability to attract industry using various tools would ultimately grow assessment within the class towards reducing the proportionate share of assessment within the residential class and associated taxation burden.

The farm and managed forest tax class ratios at the default 0.2500 is equivalent to the comparator average. Few municipalities in Ontario have farm ratios lower then 0.25 with a significant proportion of those in more urban areas where broader assessment bases and minimal assessment in farm is more conducive to absorbing taxation shifts that occur as a result of this.

Staff prepared a detailed report to Council dated March 15, 2017 recommending that the farm tax ratio remain at 0.2500 despite reassessment increases for the class. The report was issued at Council's request after the Northumberland Federation of Agriculture (NFA) and the Ontario Federation of Agriculture (OFA) requested as a delegation to Council that the farmland tax ratio be reduced from 0.2500 to 0.2000, 0.1600, 0.1400 and 0.1300 in the years 2017, 2018, 2019 and 2020, respectively. The rationale for their proposed annual reductions was to off-set the increases in farmland reassessment such that the farmland proportion of the total tax burden would remain unchanged. The staff report highlighted that tax policy decisions for changing ratios results in taxation shifts across classes and that tax policy decisions should be rooted in overall strategic policy objectives of the municipality, not shifts in assessment. Further to this, the framework for the assessment based system is based on the principle that the amount of property taxation paid is indicative of the valuation that properties are assessed relative to all others. This is very similar to what occurred at the prior reassessment cycle with significant increases in valuations of waterfront properties. There was no means to compensate waterfront property owners via tax policy changes and their proportion of taxation increased. This is the foundation of how the assessment based model is intended to function. Given the County's ratio is in line with the comparators and across the Province, staff continue to recommend that this ratio stay at 0.2500.

Staff have actively been addressing various local agricultural needs and concerns inclusive of property taxation burden on farmland as a result of MPAC reassessment increases within this property class through the Northumberland Agriculture Advisory Group comprised of County staff and NFA members. Initiatives included staff and members of the NFA attending a meeting with the local MPP and staff presented as a delegation to representatives of the MOF at the Rural Ontario Municipal Association (ROMA) conference in 2019. In both instances, staff reiterated the concerns with inequity under the current property taxation system whereby residents in rural and small urban municipalities collocated with farm now subsidize lower farmland property taxation that previously was bore at the Provincial level through a provincial rebate program to farmers. The inequity has resulted in the urban centers no longer contributing towards reduced farm property taxation although they realize significant economic benefits and access to locally grown foods and agri-food products.

As previously noted, the residential tax class forms the base for setting tax ratios in all other classes and is legislated to be 1.0000.

For 2021 tax policy the Intermunicipal Treasurers working group assessed several options as highlighted in the tax policy review update and, as a result of this, recommended the elimination of tax rate reductions applied to the commercial and industrial vacant/excess land subclasses. Further, recommending that the favourable tax shift that this would create be directed primarily to the occupied/productive commercial and industrial tax classes. Therefore, the elimination of the tax rate reductions in the subclasses triggered a shift of taxation from occupied productive properties in the commercial and industrial classes onto those unoccupied non-productive properties with all sharing the same non-discounted tax rate. This recommendation was approved by Council for the 2021 tax year resulting in the commercial tax ratio being reduced from 1.5152 to 1.5000 applicable to all commercial properties inclusive of vacant/excess lands with a discount no longer applied to these subclasses. Similarly, the industrial ratio was reduced from 2.1717 to 2.1000 applicable to all industrial properties.

Given the numerous changes implemented as supported by tax policy study reviews over the past several years including 2021, and with the further postponement of MPAC province-wide reassessment cycle, the Intermunicipal Treasurers Working Group only provided options for Council consideration to reduce the multi-residential ratio for 2023 and 2024. Further tax policy changes to other tax classes would be determined in subsequent years concurrently with MPAC property reassessments to evaluate in conjunction with reassessment related tax shifts that will occur at that time.

Financial Impact

A change to tax policy relative to tax ratios will not impact the amount of taxes levied by the County or member municipalities but will shift the tax burden between property classes. The approved tax levy and property taxation to collect remains constant. The tax ratios are simply determining the proportion of taxation each property class is required to pay.

As was presented at the Finance and Audit Committee meeting of March 5, 2024 (Attachment 1 '2024 MTE Tax Ratio Sensitivity Analysis') the approved reduction to the multi-residential ratio in 2024 creates a shift in taxation burden across property classes. For the County portion of taxation, the levy collected from the multi-residential class is reduced by 10.86% and each of the other classes increase by approximately 0.28% to compensate.

Member Municipality Impacts

Changes made to tax policy relative to tax ratios can also result in a re-distribution of County taxes between member municipalities due to the varying compositions of property classes within the assessment base of each municipality. As displayed in the 2024 MTE Tax Ratio Sensitivity Analysis, the approved reduction to the multi-residential ratio shifts County taxation ranging from a decrease of 0.28% to an increase of 0.28% across the member municipalities. Further, the presentation displays that for the combined County and member municipal levies the average residential home taxation increases range from $4.90 to $19.60 dependent on the municipality in which they are located.

Conclusion / Outcomes

Council approve tax ratios and rates for the 2024 tax year based on recommendations as brought forward through the Northumberland Intermunicipal Treasurers Working Group and as previously approved by the Finance and Audit Committee and Council to reduce the multi-residential ratio to 1.6000.

Attachments

1. Report 2024-050 ATTACH 1 ‘2024 MTE Tax Ratio Sensitivity Analysis’

2. Report 2024-050 ATTACH 2 ‘By-law to Set Tax Ratios for Prescribed Property Classes and the Treatment of Subclasses for County Purposes and Lower Tier Municipal Purposes for the Year 2024’

3. Report 2024-050 ATTACH 3 ‘By-law to Establish the 2024 Tax Rates to be Levied Against the Lower Tier Municipalities’