City of North Bay
Report to Council

Report No: CORP 2021 – 41 **Date:** April 9, 2021

Originator: Marc A. Gauthier

Business Unit: Corporate Services **Department:** Financial Services

Subject: 2021 Tax Policy Review

Closed Session: yes ☐ no ☒

Recommendation

That Council adopts the 2021 Tax Policy recommendations as follows:

1. **Tax Ratios:**

Tax Class	***Ratio***	***Tax Class***	***Ratio***
New Multi-Residential	1.0000	Pipeline	1.1656
Multi-Residential	1.9900	Farmland	0.1500
Commercial	1.8800	Managed Forest	0.2500
Industrial	1.4000		

2. **Tax Reductions for Mandated Subclasses of Vacant Land (Commercial/Industrial):**

   That the 2021 Vacant Commercial and Industrial Subclass Reduction By-Laws be prepared with the uniform rate of 30%.

Background

<u>Long-Term Tax Policy</u>

The purpose of the Long-Term Tax Policy is to establish a framework for tax ratio, tax capping and tax policy development reserve fund goals. The current policy provides for the reductions of tax ratios in the Multi-Residential and Commercial tax classes with the goal of bringing the ratios equal to the industrial ratio of 1.40. The policy provides for the reduction of tax ratios only if it can be achieved without imposing significant tax levy shifts to other classes.

Key definitions which will be helpful to Council when reviewing this report are attached as Appendix A.

Council at its Special Meeting held February 10, 2021 passed Clause No. 1 of General Government Committee Report No. 2021-03, which authorized the 2021 tax levy of $96,961,684, an increase of $3,166,243.

The 2021 municipal tax rates are estimated to increase by 3.12% assuming all 2021 Tax Policy recommendations are adopted by Council. The overall tax rate increase including the published education tax rates is estimated at 2.81%. 2021 is a unique year in that the next re-assessment cycle which was scheduled to begin on January 1, 2021 was deferred as part of March 2020 Provincial Economic and Fiscal Update. This resulted in no phase in values for 2021. Therefore the municipal tax rate increase is attributed to the levy increase, offset with some year end assessment changes.

The following steps will guide Council in making the necessary Tax Policy decisions to finalize the 2020 tax rates:

1. Assessment changes to the assessment roll; (details in Appendix D);
2. Tax ratio analysis;
3. Property tax shifts and tax dollar impacts from 2020 phase-in assessments;
4. Mandatory Capping;
5. Mandated subclasses commercial and industrial vacant land/units;
6. Optional Small Business Property Tax Subclass.

Financial/Legal Implications

See Options/Analysis for Financial Implications.

Corporate Strategic Plan

☐ Natural North and Near
☐ Economic Prosperity
☒ Affordable Balanced Growth
☐ Spirited Safe Community
☒ Responsible and Responsive Government

Specific Objectives

- Provide smart, cost effective services and programs to residents and businesses.
- Ensure that Council and staff have a shared perception of goals.

- Develop a practice of communications and engagement that ensures that residents are aware and understand what City Hall is doing

Options Analysis

1. Assessment Changes to the Assessment Roll:

As part of the Province's response to the COVID-19 pandemic, the planned property tax reassessment for 2021 was postponed under Ontario`s Action Plan 2020 March economic update. The reassessment was originally scheduled to be completed by the Municipal Property Assessment Corporation (MPAC) in 2020 for the 2021 taxation year. As a result, assessments for the 2021 taxation year are based on the same valuation date that was in effect for the 2020 taxation year. Furthermore, as part of the 2021 Budget, the Province has implemented a further postponement of property tax reassessment. As such, assessments for the 2022 property tax year will be the same as 2021, unless there have been changes to the property. The Province also outlined a process whereby it will be seeking input from municipalities, taxpayers and interested stakeholders regarding the next valuation date and cycle. The outcomes from those consultations will be communicated in the fall of 2021. Appendix D outlines the assessment patterns from 2016 to 2021.

MPAC will continue to maintain the assessment roll and ensure that it is updated to reflect changes such as new construction, renovations or alterations. This postponement will also provide an opportunity to better reflect the advice received through the Property Assessment and Taxation Review that is currently underway. Through this review, the government is seeking stakeholder input to explore opportunities to support a competitive business environment and enhance the accuracy and stability of property assessments. The feedback received during this review will help to inform the development of policies for the next reassessment. Details and timing of the new evaluation cycle have not been released as of the time of writing this report.

2017-2021 Value Changes adjusted for 2021 Returned Roll (includes PIL)

Property Class	2017 Value/ Equity	2018 Value/ Equity	2019 Value/ Equity	2020 Value/ Equity	2021 Value/ Equity	2017-2021 Value/ Equity
Residential	-20.67%	1.06%	1.06%	1.05%	-17.75%	-17.75%
Multi-Residential	-1.12%	3.67%	3.54%	3.42%	9.78%	9.78%
Commercial	45.69%	56.58%	52.69%	49.40%	227.79%	227.79%
Industrial	-10.96%	12.23%	11.57%	10.98%	26.72%	26.72%
Exempt	-3.62%	2.07%	2.02%	1.98%	2.36%	2.36%
Other	5.82%	19.28%	17.58%	16.21%	68.64%	68.64%

Property Class	2017 Value/ Equity	2018 Value/ Equity	2019 Value/ Equity	2020 Value/ Equity	2021 Value/ Equity	2017-2021 Value/ Equity
Total	-2.34%	1.47%	1.45%	1.43%	1.96%	1.96%

The above table demonstrates that the immediate recognition of assessment decreases produced the greatest change in the first year of the new assessment cycle (2017). The assessment changes for the remaining years of the 2017-2020 assessment cycle were very different than the last 4 year cycle (2012-2016). For example, in the last cycle residential assessment increased by 4% per year whereas, in this cycle (2017-2020) residential assessment had a year one decrease impact of 20.67% for 2017, followed by phased in increases for the remaining years (2018-2020) of approximately 1.00%. These tempered equity increases have resulted in added pressure to the existing tax base in terms of absorbing rate increases

2. Tax Ratios:

One of the most critical decisions impacting the relative tax burden paid by a property owner is that of tax ratio movement. Appendix C provides background and tax ratio details.

Municipalities are required to establish tax ratios annually for the Multi-Residential, Commercial, Industrial and Pipeline classes prior to finalizing tax rates. The established ratios govern the relationship between the rate of taxation for each property class and the tax rate for the residential property class.

Once a tax ratio is moved toward the Provincial Ranges of Fairness, it cannot be increased without authority from the Ministry. The Minister must pass a regulation annually to give municipalities the option to adopt “Revenue Neutral” ratios to mitigate large tax shifts to property classes because of re-assessment and phased-in assessment. Due to the deferral of the re-assessment cycle, “Revenue Neutral” ratios are “not permitted” for 2021 under O.Reg 385/98 - as these ratios would essentially “match” the 2021 starting ratios. The only differences in assessment values and distribution are the “physical changes” recorded in 2020 since there were no increases / decreases related to the re-assessment cycle.

In setting tax ratios, municipalities must do so within the guidelines prescribed by the Province. Council may choose to:

- adopt the current tax ratio for any class (2020 adopted)
- adopt the alternative tax ratios for any class within the Provincial ranges of fairness

In previous years Council has strategically chosen to reduce tax ratios of the business classes (multi-residential, commercial and industrial) downward toward the Provincial Ranges of Fairness as noted below:

Property Class	Provincial Ranges Of Fairness	City Transition Ratio 1998	2020 Tax Ratios	2020 BMA Study Average
Residential	1.0000	1.0000	1.0000	1.0000
Multi-Res.	1.0000-1.1000	2.3556	1.9900	1.7603
Commercial	0.6000-1.1000	2.0326	1.8800	1.6747
Industrial	0.6000-1.1000	3.2920	1.4000	2.1610

The industrial tax ratio was reduced from 3.2920 to 1.40 in an effort to attract industrial development to the City. This reduction was phased in over a 3-year term and has been at that level since 2003. To foster fairness and economic development to the multi-residential and commercial properties, the Long-Term Tax Policy was implemented in 2005, and is reviewed annually. The goal to reduce the tax ratios to the industrial rate was based largely upon the interests of the business sector, who are generally in favour of lower tax ratios and who argued that reducing ratios stimulates economic development in the community and facilitates competitiveness. However, it should be noted that reducing ratios of the business classes may shift the burden onto the residential tax class.

The passing of Bill 70, Building Ontario Up For Everyone Act (Budget Measures), 2016 implemented an interim step in addressing the issue of fair taxation for taxes paid on multi-residential. It is understood that generally the property taxes paid on multi-residential assessment is passed on to renters who usually represent lower income families. The Ministry of Finance sought to limit the tax burden on this group. Therefore, municipalities with a tax ratio on multi-residential greater than two times higher than the residential tax ratio will be unable to increase taxes on those properties.

Also as part of Ontario’s Fair Housing Plan in the 2017 Budget, the Province implemented a “New Multi-Residential” property class to ensure that municipalities tax new multi-residential buildings at a rate similar to other residential properties. The ratio for this class had a mandated range of 1.0 to 1.1. For a new multi-residential property with an assessed value of $1 million, the ratio difference of 0.1 would have represented an incremental $1,180.00 in tax revenue in 2017. Due to the negligible increase in tax revenue, the additional administrative costs - particularly those associated with municipal housing facility agreements, the New Multi-Residential ratio was set at 1.0 in 2017.

Typically council has options in setting the annual tax ratio. Due to the Ministry issued regulations councils only option is to maintain status quo tax ratios.

Administration is recommending Scenario 1 – Status Quo (2020) Tax Ratios

Property Class	Scenario 1 2021 Tax Status Quo	Target Policy Target **
Residential	1.000000	**1.000000**
New - Multi-Res.	1.000000	**1.000000**
Multi-Res.	1.990000	**1.400000**
Comm.	1.880000	**1.400000**
Industrial	1.400000	**1.400000**
Farmlands	0.150000	**0.150000**
Managed Forest	0.250000	**0.250000**
Pipelines	1.165600	**1.165600**

** The full Tax Policy Target has not been modeled out because the ranges of fairness and range of flexibility rules have too many limiting factors.

2021 Tax Shifts using 2020 (Status Quo) Tax Ratios (municipal only)

Tax Class	2021 Tax Ratios	Tax Levy Shift
	Increase / Decrease	Increase / Decrease
	%	$
Residential	3.12%	$1,862,218
New - Multi-Res.	3.12%	$2,545
Multi-Res.	3.12%	$234,202
Comm.	3.12%	$734,193
Industrial	3.12%	$66,026
Pipelines	3.12%	$37,176
Farmland	3.13%	$45
M. Forest	3.12%	$302
Total Impact	3.12%	$2,936,707

*** Totals may vary slightly from computer generated reports due to rounding. Levy shifts are less than Levy change of $3,166,243 because of assessment related changes.*

2021 Proposed Tax Rates

The tax rates outlined in the table below assume the adoption of the Status Quo Tax ratios.

Tax Class	Municipal Tax Rate	Education Tax Rate	Total Tax Rate	Municipal Change	Education Change	Total Change
Residential	1.418282	0.153000	1.571282	3.12%	0.00%	**2.81%**
New Multi-Res.	1.418282	0.153000	1.571282	3.12%	0.00%	**2.81%**
Multi-Res.	2.822381	0.153000	2.975381	3.12%	0.00%	**2.96%**
Commercial	2.66637	0.880000	3.54637	3.12%	-10.20%	**-0.54%**
Industrial	1.985595	0.880000	2.865595	3.12%	-10.20%	**-1.37%**
Pipelines	1.653149	0.880000	2.533149	3.12%	-10.20%	**-1.93%**
Farmland	0.212742	0.038250	0.250992	3.12%	0.00%	**2.63%**
M. Forest	0.354571	0.038250	0.392821	3.12%	0.00%	**2.81%**

During the 2021 budget process the tax levy increase was 3.38%, the municipal tax rate increase is 3.12%. This is as a result of the minimal real assessment growth that resulted in 2020.

The overall increase to residential is 2.81%, when no-changes to the education tax rate are factored in.

3. Property Tax Shifts and Tax Dollar Impacts:

The following chart demonstrates the effect on specific property classes when applying the 2021 Current Value Assessment, 2021 Tax Ratios and 2021 estimated total tax rates. Total taxes include Payment in Lieu of Taxes (PIL) properties.

Tax Class	Municipal Tax Increase (Decrease)	Education Tax Increase (Decrease)	Total Tax Increase (Decrease)	Properties increasing	Properties decreasing	Total Properties
Residential	$1,862,218	$0	$1,862,218	18,288	0	18,288
New Multi-Res.	$2,545	$0	$2,545	4	0	4
Multi-Res.	$234,202	$0	$234,202	153	0	153
Commercial	$734,193	($793,209)	($59,016)	64	1197	1,261
Industrial	$66,026	($111,978)	($45,952)	28	260	288
Pipeline	$37,176	($74,249)	($37,073)	0	2	2
Farmland	$45	$0	$45	7	0	7
M. Forest	$302	$0	$302	67	0	67
Total	$2,936,707**	($979,436)	$1,957,271**	18,611	1,459	20,070

*** Totals may vary slightly from computer generated reports due to rounding Levy shifts are less than Levy change of $3,166,243 because of assessment related changes such as growth.*

The following chart reflects the projected tax impact to the residential class.

$ Impact	Increasing Properties	Decreasing Properties
$ 0 - $100	11,325	0
$100 - $200	6,192	0
$200+	771	0
Total	18,288	0

Current Value Assessment Change Analysis and Tax Dollar Impacts

Residential Properties – Municipal & Education Taxes

For comparative purposes the BMA Study defines a single family detached dwelling as a detached three-bedroom single story home with 1.5 bathrooms and a one car garage. Total area of the house is approximately 1,200 sq. ft. and the property is situated on a lot that is approximately 5,500 sq. ft.

The median assessment of this home in North Bay for 2020 based on OPTA (Online Property Tax Analysis) data is $217,000. The recommended tax ratios and estimated 2021 municipal tax rates and the education tax rates have been used in the calculations.

The following is an illustration of 0% change in CVA, and an increase in assessment due to a $15,000.renovation.

	Scenario 1 - No change in CVA	**Scenario 2 - $15,000 Increase in CVA due to Renovation Assessment**
2020 Median CVA	**217,000**	217,000
2021 CVA	**217,000**	**232,000**
CVA Change	$0	$15,000
Percentage Change	0%	6.91%
*2020 Taxation	$3,316.47	$3,316.47
*2021 Taxation	$3,409.68	$3,645.37
Percentage Change	2.81%	9.92%
Dollar change	$93.21	$328.90
Monthly Dollar Change	$7.77	$27.41

**2020 and 2021 Taxation include both municipal and education taxes*

Please refer to Appendix E which outlines specific tax implications under each scenario.

Scenario 1: if a property's assessment remained constant year over year, the taxes would increase by 2.81% which is the tax rate increase from 2020.

Scenario 2: if a property's assessment were to increase by $15,000 due to an assessed renovation, taxes would increase by 9.92% from 2020.

Note: The specific impact on individual tax payers within each class will depend on their assessment valuation results.

4. Mandatory Tax Capping and Clawback Program:

In 2021, the Commercial tax capping program will have no capping adjustments; as was the case in 2019 and 2020. The City has now completed the phase out program.

Effective 2021 the City is completely out of the capping program for all classes.

5. Tax Reductions for Mandated Subclasses of Vacant Land/Units:

Municipalities must pass by-laws to reduce the tax burden on vacant commercial and industrial land. The by-law identifies the reduction as a percentage discount of the occupied tax rate.

Bill 70, Building Ontario up for everyone Act (Budget measures, 2016) provided municipalities with significant flexibility with respect to vacancy subclass rates being in the range of 0%-100%. As part of O. Reg 6/20 the province has also phased out the education portion of vacant and excess land sub-classes over two years (2019-2020).

The vacant and excess land subclass only applies to commercial or industrial property. Vacant land is land that has no buildings or structures. Excess land is land that is not needed to serve or support the existing development.

Any change to the vacant and excess land subclass reductions would not change the amount of revenue raised through taxation; rather it would only change the distribution of taxes between all property classes.

The commercial and industrial subclasses are assessed at a lower value by the Municipal Property Assessment Corporation by virtue of their status as vacant or excess land. The current principle of applying a discounted tax rate against these subclasses by municipalities could be viewed as a double discount effect. The lower tax rate for vacant and excess land may also be a deterrent to the development of the property.

During the 2020 tax policy process questions were raised with respect to eliminating the vacant subclass. The analysis demonstrated that the financial impact of reducing the discounts to 15% (rather than the current 30%) would only result in a shift equal to a 0.1% reduction in taxes to the residential taxpayer (from 3.12% to 3.01%). However this change would result in a 22% increase (from 3.12% to 25.08%) in taxes for those properties currently classified in the vacant and excess classes.

At this time, Administration is recommending retaining its uniform rate of 30% for both vacant commercial and industrial classes and pass a by-law to adopt the discount rates.

Administration recommends a uniform rate of 30% for the commercial and industrial vacant and excess classes.

6. Optional Small Business Propert Tax Subclass:

Report to Council CORP 2021-36 Optional Small Business Property Tax Subclass which was tabled for council's information on April 20th, 2021 provided a summary of both the opportunities and challenges that need to be considered in evaluating a small business subclass.

At the time of the writing of this report, the release of the regulation has not yet occurred. Therefore, to properly consult and define a "small business" prior to the final Tax Bill date of June 7th, 2021 is not feasible. Further, implementation in 2021 may result in an in-year budget impact, given that the assessment roll for 2021 has been finalized and delivered. More details will be explored further once the regulation has been published.

Recommendation

That Council adopts the 2021 Tax Policy recommendations as follows:

1. **Tax Ratios:**

Tax Class	*Ratio*	*Tax Class*	*Ratio*
New Multi-Residential	1.0000	Pipeline	1.1656
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2. **Tax Reductions for Mandated Subclasses of Vacant Land (Commercial/Industrial):**

   That the 2021 Vacant Commercial and Industrial Subclass Reduction By-Laws be prepared with the uniform rate of 30%.

Respectfully submitted,

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Marc A. Gauthier, CPA, CMA
Manager of Revenues and Taxation

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Margaret Karpenko, CPA, CMA
Chief Financial Officer / Treasurer

I concur in this report and recommendation.

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David Euler, P.Eng., PMP
Chief Administrative Officer

Personnel designated for continuance:
Manager of Revenues & Taxation
Chief Financial Officer/Treasurer

Attachments:
Appendix A – Definitions
Appendix B – Long Term Tax Policy
Appendix C – Tax Ratio Background Information
Appendix D – Assessment Phase-In Impacts
Appendix E – CVA Change and Tax Dollar Impacts