



City of North Bay Report to Council

Report No: CORP-2022-055

Date: April 8, 2022

Originator: Marc A. Gauthier

Business Unit:
Corporate Services

Department:
Financial Services Department

Subject: 2022 Tax Policy Review

Closed Session: yes ☐ no ☒

Recommendation

That Council adopts the 2022 Tax Policy recommendation as follows:

1. Tax Ratios:

<i>Tax Class</i>	<i>Ratio</i>	<i>Tax Class</i>	<i>Ratio</i>
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 Ratio and Rates By-Laws:

Council authorize Staff to prepare necessary By-Laws to establish the 2022 tax rates as described within Report to Council No. CORP 2022-055 dated April 8, 2022.

3. That Council continue to support the Long Term Tax Policy as enclosed in Appendix B to Report to Council No. CORP 2022-055 dated April 8, 2022.

Background

Long-Term Tax Policy

The purpose of the Long-Term Tax Policy is to establish a framework for tax

ratios and tax policy goals. The current policy provides for the reduction 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 Meeting held January 11, 2022 passed Clause No. 2 of General Government Committee Report No. 2022-01, which authorized the 2022 Tax Levy of \$101,099,611, an increase of \$4,137,927.

The 2022 municipal tax rates are estimated to increase by 3.60% assuming the 2022 Tax Policy recommendation is adopted by Council. During the 2022 Budget deliberations revenue from assessment growth was reported to be \$267,924. Upon receiving the 2022 assessment roll, an additional \$357,486 of assessment growth was added by MPAC through year-end adjustments. Therefore, the 2021 assessment growth of \$625,410 impacts the calculation of the tax rates for 2022. The analysis contained within this report is reconciling to a levy increase of \$3,512,517 in comparison to the \$4,137,927 reported in General Government Committee Report No. 2022-01. The overall tax rate increase including the prescribed education tax rates is estimated at 3.25%.

As in 2021, 2022 is another unique year in that the next re-assessment cycle which was scheduled to begin on January 1, 2021 was further deferred to 2024 as outlined in both the 2021 Spring Provincial Budget, and Fall Economic Update. This has resulted in no phase in values for 2022.

The following steps will guide Council in making the necessary Tax Policy decisions to finalize the 2022 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
4. Mandatory Capping

Financial/Legal Implications

See Options/Analysis for Financial Implications.

Corporate Strategic Plan

- | | |
|---|--|
| <input type="checkbox"/> Natural North and Near | <input type="checkbox"/> Economic Prosperity |
| <input checked="" type="checkbox"/> Affordable Balanced Growth | <input type="checkbox"/> Spirited Safe Community |
| <input checked="" type="checkbox"/> 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:

The assessment of all property in Ontario is carried out by the Municipal Property Assessment Corporation (MPAC), under the Province's Assessment Act. Reassessments are conducted on a four-year cycle with Current Value Assessment (CVA) increases being phased-in in equal increments in each year of the four year phase-in period. The current reassessment cycle, reflecting a January 1, 2016 valuation date was intended to apply for the period 2017-2020, with increases phased in over each year of the four year cycle. 2020 was the last year of the phase-in and prior to COVID-19 was intended to be the first year of the new reassessment cycle. As a result of the postponement of the planned property tax reassessment by the Province, assessments for the 2022 property tax year will be the same as 2021; unless the property experienced changes that affected the assessed value (e.g. renovations, improvements, demolitions or changes in the use of the property). MPAC has continued to maintain the assessment roll and ensured that it is updated to reflect those changes.

As can be seen from the Assessment Distribution table in Appendix D, the overall distribution of assessment in each of the classes has not fluctuated more than +/- 2% since the beginning of the last re-assessment cycle (2016).

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 passed regulation 334/21 giving municipalities the option to adopt “Revenue Neutral”. Due to the deferral of the re-assessment cycle, “Revenue Neutral” ratios are the same as the 2021 starting ratios.

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 (2021 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	2021 Tax Ratios	2021 BMA Study Average
Residential	1.0000	1.0000	1.0000	1.0000
Multi-Res.	1.0000-1.1000	2.3556	1.9900	1.7413
Commercial	0.6000-1.1000	2.0326	1.8800	1.6811
Industrial	0.6000-1.1000	3.2920	1.4000	2.1278

Part of the Long-Term Tax Policy goals is to reduce the tax ratios for the Multi-Residential and Commercial classes. This goal was based on the rationale that lower tax ratios would stimulate economic development and, reduce rental housing rates as well as, facilitate competitiveness. However, it should be noted that reducing ratios of the commercial class may also create shifts in the tax burden if there is insufficient growth in the other classes.

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. The City of North Bay New Multi-Residential ratio was set at 1.0 in 2017.

As part of our analysis, we have reviewed the impact of reducing the commercial tax ratio in order to attempt to assist organizations in recovering from the economic impact of the pandemic as well as to continue to help foster a competitive business environment.

The table below highlights the impact from a small change in the commercial ratio. Scenario 1 uses status quo ratios and the increase levy burden to the commercial class is \$877,554. Moving the commercial tax ratio half-way towards the BMA average of 1.6811 (from the current 1.88 down to 1.78055) would provide savings of \$138,199 to the Commercial class. However, the savings in the commercial class is contrary to Tax Policy goals since the majority of tax levy burden is shifted to the residential class who shifts from absorbing \$2,223,065 of the increase levy burden to \$3,079,988.

Allocation of 2022 Tax Levy increase

Tax Class	<u>Scenario 1</u>	<u>Scenario 2</u>
	2021 Tax Ratios (Status Quo)	Reduced Commercial Ratio
	\$	\$
Residential	\$2,223,065	\$3,079,988
New - Multi-	\$4,195	\$5,812
Multi-Res.	\$279,042	\$386,602
Comm.	\$877,554	(\$138,199)
Industrial	\$83,767	\$116,055
Pipelines	\$44,485	\$61,633
Farmland	\$53	\$74
M. Forest	\$388	\$538
Total Impact	\$3,512,549**	\$3,512,503**

*** Totals may vary slightly from computer generated reports due to rounding. Includes Real Growth and Year End assessment related changes.*

Administration is recommending Scenario 1 –2021 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 modelled out because the ranges of fairness and range of flexibility rules have too many limiting factors.

2022 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	1.466120	0.153000	1.619120	3.60%	0.00%	3.25%
New Multi-Res.	1.466120	0.153000	1.619120	3.60%	0.00%	3.25%
Multi-Res.	2.917579	0.153000	3.070579	3.60%	0.00%	3.41%
Commercial	2.756306	0.880000	3.636306	3.60%	0.00%	2.76%
Industrial	2.052568	0.880000	2.932568	3.60%	0.00%	2.50%
Pipelines	1.708909	0.880000	2.588909	3.60%	0.00%	2.35%
Farmland	0.219918	0.038250	0.258168	3.60%	0.00%	3.04%
M. Forest	0.366530	0.038250	0.404780	3.60%	0.00%	3.25%

During the 2022 budget process the Tax Levy increase was set at 4.27% for a total of \$4,137,927. As mentioned in the background of this report, once both Real Assessment Growth of \$267,924 and the growth resulting from Year-End assessment adjustments of \$357,486 are taken into consideration, the resulting 2022 municipal tax rate increase is 3.60%.

The overall increase to residential tax rate is 3.25%, including the prescribed education tax rate.

3. Property Tax Shifts and Tax Dollar Impacts:

The following chart demonstrates the effect on specific property classes when applying the 2022 Current Value Assessment, 2022 Tax Ratios and 2022 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	\$2,223,065	\$0	\$2,223,065	18,350	0	18,350
New Multi-Res.	\$4,195	\$0	\$4,195	5	0	5
Multi-Res.	\$279,042	\$0	\$279,042	152	0	152

Tax Class	Municipal Tax Increase (Decrease)	Education Tax Increase (Decrease)	Total Tax Increase (Decrease)	Properties increasing	Properties decreasing	Total Properties
Commercial	\$877,554	\$0	\$877,554	1260	0	1260
Industrial	\$83,767	\$0	\$83,767	291	0	291
Pipeline	\$44,485	\$0	\$44,485	2	0	2
Farmland	\$53	\$0	\$53	7	0	7
M. Forest	\$388	\$0	\$388	74	0	74
Total	\$3,512,549**	\$0	\$3,512,549**	20,141	0	20,141

*** Totals may vary slightly from computer generated reports due to rounding. Includes Real Growth and Year End assessment related changes.*

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

\$ Impact	Increasing Properties	Decreasing Properties
\$ 0 - \$100	7,365	0
\$100 - \$200	9,432	0
\$200+	1,553	0
Total	18,350	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 2021 based on OPTA (Online Property Tax Analysis) data is \$218,000. The recommended tax ratios and estimated 2022 municipal tax rates and the education tax rates have been used in the calculations.

The following illustrations demonstrate (1) 0% change in CVA, and (2) 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
2021 Median CVA	218,000	218,000
2022 CVA	218,000	233,000
CVA Change	\$0	\$15,000
Percentage Change	0%	6.88%
*2021 Taxation	\$3,418.64	\$3,418.64
*2022 Taxation	\$3,529.68	\$3,772.55
Percentage Change	3.25%	10.35%
Dollar change	\$111.04	\$353.91
Monthly Dollar Change	\$9.25	\$29.49

**2021 and 2022 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 3.25% which is the overall tax rate increase from 2021.

Scenario 2: if a property's assessment were to increase by \$15,000 due to an assessed renovation, taxes would increase by 10.35% from 2021.

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:

Effective 2021 the City was completely out of capping programs for all classes.

Recommended Option

That Council adopts the 2022 Tax Policy recommendation as follows:

1. Tax Ratios:

<i>Tax Class</i>	<i>Ratio</i>	<i>Tax Class</i>	<i>Ratio</i>
New Multi-Residential	1.0000	Pipeline	1.1656
Multi-Residential	1.9900	Farmland	0.1500
Commercial	1.8800	Managed Forest	0.2500

<i>Tax Class</i>	<i>Ratio</i>	<i>Tax Class</i>	<i>Ratio</i>
Industrial	1.4000		

2. Tax Ratio and Rates By-Laws:

Council authorize Staff to prepare necessary By-Laws to establish the 2022 tax rates as described within Report to Council No. CORP 2022-055 dated April 8, 2022.

- 3.** That Council continue to support the Long Term Tax Policy as enclosed in Appendix B to Report to Council No. CORP 2022-055 dated April 8, 2022.

Respectfully submitted,

Name: Marc A. Gauthier, CPA, CMA
Title: Manager, Revenues & Taxation

Name: Margaret Karpenko, CPA, CMA
Title: Chief Financial Officer /Treasurer

I concur with this report and recommendation

Name David Euler, P.Eng., PMP
Title: Chief Administrative Officer

Personnel designated for continuance:
Marc A. Gauthier, CPA, CMA
Manager, Revenues & Taxation

Margaret Karpenko, CPA, CMA
Chief Financial Officer /Treasurer

Attachments:

- Appendix A – Definitions
- Appendix B – Long Term Tax Policy
- Appendix C – Tax Ratio Background Information
- Appendix D – Assessment Patterns and Distribution by Class
- Appendix E – CVA Change and Tax Dollar Impacts