

Report FR-CS-09-16

To: Chair and Members, Corporate Services Committee
From: Kevin Wepler, Director of Finance
Meeting Date: February 9, 2016
Subject: **2016 Property Tax Policies**
Status: Recommendation adopted by Committee as presented per Resolution CS23-16; Endorsed by County Council March 1, 2016 per Resolution CC33-16;

Recommendation(s)

WHEREAS the County of Grey has in place established tax policies;

NOW THEREFORE BE IT RESOLVED THAT Report FR-CS-09-16 regarding 2016 property tax policies be received;

AND THAT the 2015 tax policies remain the same for 2016 for:

- **Tax Ratios**
- **Tax Reductions for Mandated Subclasses of Vacant Lands**
- **Tax Reductions for Farmland Awaiting Development Subclasses**
- **Lower Limit for New Construction Properties**
- **Optional Classes of Property**

AND FURTHER THAT the necessary By-laws be drafted for Council's consideration and approval;

AND THAT a future report be provided to the Corporate Services Committee regarding the proposed additional options to Business Property Tax Capping Program for 2016 with a recommendation on the capping tools to be utilized by the County of Grey for 2016.

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 as set out below were shared with the local municipal treasurers and staff to receive their input and endorsement for the items in this report.

Tax Ratios

County Council establishes the relative tax burden on each property class by setting tax ratios. 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, a commercial property would pay twice the amount of municipal property tax as a similar valued residential property.

The Province established prescribed tax ratios and the range of fairness for municipalities. The County can maintain the prescribed tax ratios, or adjust tax ratios closer to or within the range of fairness. It should be noted that ratios above the range of fairness cannot be increased but can only be reduced. Ratios that are within the range of fairness can be moved within the range.

Updates in assessment values are being made as part of a four year phase-in, with 2016 being year four of the phase-in. 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 in order to prevent some of the tax shift onto the Residential property class as a result of the 2012 reassessment.

The reason for the shift in tax dollars onto the residential property class is simply the case of the residential property class property values appreciating at a much higher rate than those properties in the business classes.

By retaining the 2015 Tax Ratios and applying these ratios to the new assessment values for 2016, a shift in taxation to the residential class of \$26,121 or .06% and \$75,474 or 5.28% to the farm class occurs, with the commercial and industrial classes seeing reductions. If Council decided to adopt new Revenue-Neutral Ratios, for neutrality by property class, a tax shift of \$77,388 from the residential class would occur and this would then result in a number of tax shifts to other property classes with the biggest shift being a tax shift of \$70,500 to the commercial class.

The Province has provided municipalities the availability of this flexibility for 2016. However in considering the use of tax ratios, revenue-neutral by class, it is being recommended that for 2016 the use of tax ratios, revenue-neutral by class not be used and that the tax ratios for 2016 remain as adopted for 2015.

Recommendation – County of Grey adopt the 2015 year’s actual tax ratios for use in setting the 2016 tax rates.

Tax Reductions for Mandated Subclasses of Vacant Land/Units

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

Recommendation - County of Grey continues to use the legal default reductions of 30% for commercial and 35% for industrial vacant lands/units in 2016.

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.

Lower Limit for New Construction Properties

Municipalities are able to place a lower limit, or floor, on the starting tax level eligible to new construction properties in the commercial, industrial and multi-residential property classes. A lower limit of up to 100% may be set for properties that become eligible within the 2016 taxation year.

Recommendation - County of Grey sets the threshold for 2016 new construction at the 100% minimum tax level and that all new commercial, industrial and multi-residential property class construction be taxed on their full (CVA) value.

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 other optional property classes.

Tax Rates

By-law No. 4917-15, a By-law to Adopt the Estimates of Revenue and Expenditures for the Year 2016 was adopted by Council on November 24, 2015

Recommendation - the Director of Finance prepare a general rating by-law, for 2016 Tax Rates, for approval by County Council.

Tax Capping

Since 2005 the Province has provided municipalities with a number of optional tools that can be used to modify the mandatory limits and alter the amount of tax protection provided, as well as the rate at which these business properties are moved to their full Current Value Assessment (CVA) tax level.

By County Council adopting these optional capping tools, this has resulted in a greater number of properties to be billed at their CVA tax. It is recommended that County Council should continue to use all of the optional capping tools available in order to try and move as many properties as possible towards full CVA based taxation.

Beginning in 2016, the Province is now proposing additional enhancements to the capping program through Bill 144, the *Budget Measures Act, 2015*. The proposed enhancements are to provide a framework for increased municipal flexibility to accelerate progress to current value assessment level taxes and to exit or phase-out from the program under certain conditions.

The resulting impact of the use of these additional tools has not been quantified at this time as the pending legislation only provides the broad framework for the changes, and the details need to be ratified via regulation. Once these details are known an analysis needs to be undertaken to determine the best utilization of these tax capping tools to best suit local circumstances.

Recommendation – That a future report be provided to the Corporate Services Committee regarding the proposed additional options to Business Property Tax Capping Program for 2016 with a recommendation on the capping tools to be utilized by the County of Grey for 2016.

Financial / Staffing / Legal / Information Technology

Considerations

The 2016 Budget has been developed using these recommended tax policies and therefore no budget impacts will be incurred unless changes to these tax policies are recommended.

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.

Respectfully submitted by,

Kevin Wepler
Director of Finance