Grey County

Committee Report

To:	Warden Halliday and Members of Grey County Council
Committee Date:	March 22, 2018
Subject / Report No:	FR-CW-11-18
Title:	2018 Tax Policy
Prepared by:	Kevin Weppler, Director of Finance
Reviewed by:	Kim Wingrove, CAO
Lower Tier(s) Affected:	All Local Municipalities
Status:	Recommendation adopted by Committee as presented per Resolution CW90-18; Endorsed by County Council April 12, 2018 per Resolution CC38-18;

Recommendation

1. **That Report FR-CW-11-18 regarding 2018 property tax policies be received; and**

2. **That the 2017 tax policies remain the same for 2018 for:**
   - **Tax Ratios**
   - **Tax Reductions for Mandated Subclasses of Vacant Lands**
   - **Tax Reductions for Farmland Awaiting Development Subclasses**
   - **Optional Classes of Property; and**

3. **That the County utilize all of the optional capping tools available in order to move as many commercial properties towards full current value assessment (CVA) based taxation; and**

4. **That the necessary By-laws be drafted for Council's consideration and approval; and**

5. **That future reports be provided to Council on any recommended changes and/or updates to the current Tax Relief and Rebate Programs, and any recommended changes to the current vacant unit rebate program for Council consideration.**

Executive Summary

- Report provides background and advice to Council to establish annual tax policy decisions.
- Responsibility of upper-tier municipality to pass by-laws relating to tax policy decisions.

Background and Discussion

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 set out below were discussed on February 23rd with the local municipal treasurers and staff to receive their input and endorsement of the items in this report.

Tax Ratios

County Council establishes the relative tax burden for multi-residential, commercial, industrial and pipeline classes annually. 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 2.0, a commercial property would pay twice the amount of municipal property tax as a similar valued residential property. The farm tax class and managed forest tax class have a prescribed ratio of 0.25. Municipalities have the flexibility to set a tax ratio for the farm tax class below 0.25, however, this reduction would only apply to the municipal portion of the tax bill.

In setting tax ratios for all other property classes, municipalities must do so within the guidelines prescribed by the Province. Council may choose to adopt:

1. Either the current tax ratio for any class,
2. Establish a new tax ratio for the year that is closer to or within the Range of Fairness, as shown in Table 1 – Tax Ratio Summary,
3. Utilize restated revenue neutral transition ratios to mitigate reassessment related tax shifts between classes in accordance with the regulated calculations.

Table 1 – Tax Ratio Summary

Realty Tax Class	2017 Ratios	Ranges of Fairness		Threshold Ratios	
		Lower Limit	Upper Limit	Threshold	Subject to Levy Restriction
Residential	1.000000	1.00	1.00	-	N/A
Farm	0.250000	0.00	0.25	-	N/A
Managed Forest	0.250000	0.25	0.25	-	N/A
New Multi-Residential	1.000000	1.00	1.10	-	N/A
Multi-Residential	1.441197	1.00	1.10	2.00	No
Commercial	1.306940	0.60	1.10	1.98	No
Resort Condominium	1.000000	1.10	1.10	-	N/A
Industrial	1.858187	0.60	1.10	2.63	No
Landfill	1.000000	0.60	1.10	25.00	N/A
Pipeline	0.906848	0.60	0.70	-	N/A

The Municipal Property Assessment Corporation (MPAC) updates property values in Ontario every four years. The 2016 assessment update reflects the current values of properties as of January 1, 2016, versus the values used for the 2013 through 2016 taxation years, which were based on a valuation date of January 1, 2012.

Updates in assessment values are being made as part of a four year phase-in, with 2018 being year two of the phase-in. Reassessment changes will not affect the municipal revenue because tax rates must be restated (revenue-neutral tax rate).

However the reassessment will affect the overall distribution of the tax burden as there are differences in the rate of value appreciation and/or depreciation, which vary between individual properties, tax classes, and between local municipalities in a two-tier jurisdiction.

In order to mitigate the inter-class tax shifts associated with reassessment, the County would need to adjust tax ratios in other classes. By doing so it would likely be possible to approximate the balance of taxation realized in 2017, but not mirror it precisely. By retaining the 2017 tax ratios the following revenue neutral tax levy upper-tier tax shifts occur:

Table 2 - Revenue Neutral Tax Levy Upper-Tier Inter-Class Shifts

Realty Tax Class	County General Levy		Inter-Class Shifts	
	2017 as Revised	2018 Notional Levy	$	%
Residential	$45,457,800	$45,254,100	($203,700)	-0.45%
Farm	$1,875,500	$2,110,000	$234,500	12.50%
Managed Forest	$110,800	$121,400	$10,600	9.59%
New Multi-Residential	$14,100	$14,400	$300	2.57%
Multi-Residential	$1,221,700	$1,234,400	$12,700	1.04%
Commercial	$4,563,400	$4,519,700	($43,700)	-0.96%
Resort Condominium	$866,700	$849,300	($17,400)	-2.01%
Industrial	$1,004,000	$1,010,300	$6,300	0.63%
Landfill	$5,600	$5,700	$100	2.56%
Pipeline	$137,400	$137,600	$200	0.15%
Total (Taxable + PIL)	**$55,257,000**	**$55,256,900**	**($100)**	**0.00%**

Small differences due to rounding.

Shifts in tax levy dollars between classes occur when the market values of some properties increase, while others remain the same, or decrease, as compared to what their value in 2012.

As previously stated, as well as tax shifts between classes, shifts also occur between local municipalities within a two-tier structure.

Table 3 - Revenue Neutral Tax Levy Inter-Municipal Shifts

Local Municipality	County General Levy		Inter-Municipal Shifts	
	2017 as Revised	2018 Notional Levy	$	%
Chatsworth	$2,879,600	$2,894,400	$14,800	0.52%
Georgian Bluffs	$6,034,800	$6,002,500	($32,300)	-0.54%
Grey Highlands	$6,441,700	$6,502,900	$61,200	0.95%
Hanover	$2,798,400	$2,772,600	($25,800)	-0.92%
Meaford	$6,324,500	$6,292,100	($32,400)	-0.51%
Owen Sound	$7,916,600	$7,823,200	($93,400)	-1.18%
Southgate	$3,017,500	$3,075,400	$57,900	-1.92%

Local Municipality	County General Levy		Inter-Municipal Shifts	
	2017 as Revised	2018 Notional Levy	$	%
Blue Mountains	$14,467,400	$14,440,400	($27,000)	-0.19%
West Grey	$5,376,600	$5,453,400	$76,800	1.43%
Total (Taxable + PIL)	**$55,257,100**	**$55,256,900**	**($200)**	**0.00%**

Small differences due to rounding.

Farm Tax Class Ratio

As illustrated in the Inter-Class Shifts Table 2 above, the farmland tax class is seeing a shift of $234,500 in taxation in 2018. This is the result of the farmland tax class incurring a greater rate of change in market value updates. On a County-wide basis, the overall increase in Full CVA is in excess of 70%.

Table 4 - Farmland – Reassessment Trends and Impacts

Local Municipality	Full CVA (Destination) Farm Values		Market Value Update	
	Jan. 1, 2012	Jan. 1, 2016	$	%
Chatsworth	$183,445,600	$304,602,200	$121,156,600	66.04%
Georgian Bluffs	$139,921,400	$229,108,200	$89,186,800	63.74%
Grey Highlands	$363,447,500	$655,091,600	$291,644,100	80.24%
Hanover	$2,526,100	$3,009,900	$483,800	19.15%
Meaford	$195,231,400	$292,419,400	$97,188,000	49.78%
Owen Sound	$2,196,400	$3,289,700	$1,093,300	49.78%
Southgate	$315,655,600	$590,157,300	$274,501,700	86.96%
Blue Mountains	$121,928,000	$152,465,400	$30,537,400	25.05%
West Grey	$417,586,800	$746,861,100	$329,274,300	78.85%
County Wide	**$1,741,938,800**	**$2,977,004,800**	**$1,235,066,000**	**70.90%**

The farm property class is considered to be a special tax incentive class and inclusion is based on ownership, use and occupancy criteria. Looking at farmland, captured by the farm property class only, is not sufficient to fully consider how the bottom line taxes are changing for farms and farmers. A proportion of a farms property tax is made up of portions that fall into other tax classes. It is important to consider this and to understand how farm taxes are changing.

The most common combination of a farm property is a farm mixed with a residential portion associated with a farm house or other non-farm related improvements. The home and barn are valued on a replacement cost model derived from comparable farms. One acre of land along with the farmhouse is classified and taxed as residential. This one acre under a farmhouse is assessed significantly less than what a 1 acre residential lot typically sells for. The remainder of the land and all farm related out buildings are classified and taxed in the farm property class and subject to tax rates that are 25% of those of the residential property tax class.

The assessment roll as returned for 2018 taxation indicates there are 7,713 roll numbers (properties) in the County that fall in the farm property class. Approximately 68% of all properties that make up the farm class have at least one other portion on the same roll number that is captured by another property class. Further, 81% of farm property portions within the County are part of multi-portion farms.

Table 5 – Farm Class versus Whole Farm Property

Municipality	Farm Class Rolls	Farm Property Portions	Farm Class Only			Multi-Portion Farms		
			Count	Share of Farm Rolls	Share of Farm Portions	Count	Share of Farm Rolls	Share of Farm Portions
Chatsworth	952	1,676	281	29.52%	16.77%	671	70.48%	83.23%
Georgian Bluffs	797	1,368	275	34.50%	20.10%	522	65.50%	79.90%
Grey Highlands	1,524	2,729	464	30.45%	17.00%	1,060	69.55%	83.00%
Hanover	13	22	6	46.15%	27.27%	7	53.85%	72.73%
Meaford	985	1,663	348	35.33%	20.93%	637	64.67%	79.07%
Owen Sound	26	36	16	61.54%	44.44%	10	38.46%	55.56%
Southgate	1,309	2,222	469	35.83%	21.11%	840	64.17%	78.89%
Blue Mountains	457	772	161	35.23%	20.85%	296	64.77%	79.15%
West Grey	1,650	2,884	494	29.94%	17.13%	1,156	70.06%	82.87%
County-Wide	**7,713**	**13,372**	**2,514**	**32.59%**	**18.80%**	**5.199**	**67.41%**	**81.20%**

Since farm properties are not only impacted by the assessment change of the farm tax class alone, as there are multiple portions to these properties, a further analysis of these properties is required.

Table 6 – Typical Farm Property Changes – All Farm Rolls: Single Portion and Multi-Portion Farms

Municipality	Average Phased CVA			2017 Tax		2018 Tax		2018 Tax Shift			
	2017	2018	% Change	County	Local	County	Local	County	Local	Combined	
Chatsworth	325,258	361,608	11.18%	$576	$985	$608	$1,034	$32	$49	$81	5.19%
Georgian Bluffs	304,538	338,005	10.99%	$560	$828	$592	$880	$32	$52	$84	6.05%
Grey Highlands	412,303	466,327	13.10%	$762	$1,115	$811	$1,176	$49	$61	$110	5.86%
Hanover	317,827	328,382	3.32%	$657	$1,452	$653	$1,457	-$4	$5	$1	0.05%
Meaford	328,225	357,343	8.87%	$584	$1,251	$607	$1,308	$23	$57	$80	4.36%
Owen Sound	147,757	161,261	9.14%	$253	$919	$300	$963	$47	$44	$91	7.76%
Southgate	397,187	453,976	14.30%	$681	$1,332	$728	$1,398	$47	$66	$113	5.61%
Blue Mountains	431,761	453,122	4.95%	$809	$845	$821	$859	$12	$14	$26	1.57%
West Grey	405,430	459,928	13.44%	$656	$1,139	$701	$1,201	$45	$62	$107	5.96%
County-Wide	**375,753**	**420,716**	**11.97%**	**$660**	**$1,113**	**$698**	**$1,169**	**$38**	**$56**	**$94**	**5.30%**

Average assessment and corresponding taxes for all properties with a farm classification.

Considers single portion farms and all elements of multi-portion farm properties.

Table 7 – Median or Typical Residential and Farm Value and County Taxes

RTC/ RTQ	Description	Property Code	2017 CVA	2018 CVA	% CVA Change	2017 County Tax	2018 County Tax	$ Tax Change
RT	Single Family Home	301	$236,500	$239,000	1.06%	$866	$858	($8)
RT	Seasonal Recreational Dwelling	392	$344,000	$351,000	2.03%	$1,259	$1,260	$1
RT	Farm House	211	$128,050	$135,800	6.05%	$469	$486	
FT	Farmland	211	$314,625	$362,050	15.07%	$288	$325	
	Average Total Farm		$442,675	$497,850	12.46%	$757	$811	$54

Medium or typical property in each group represents a property with an assessed value at or near the midpoint or median for the group and a percent change in assessment for the year or near the median for the group. Assessment data provided in Table 7 by Online Property Tax Analysis (OPTA) website on behalf of the Ministry of Finance.

Table 8 – Scenario of Reducing Farm Ratio to 0.220000

Realty Tax Class	2018 Revenue Neutral		Inter-Class Shifts	
	Status Quo	Scenario 0.220000	$	%
Residential	$45,254,024	$45,462,343	$208,319	0.46%
Farm	$2,110,032	$1,865,378	($244,654)	-11.60%
Managed Forest	$121,409	$121,969	$560	0.46%
New Multi-Residential	$14,443	$14,509	$66	0.46%
Multi-Residential	$1,234,404	$1,240,088	$5,684	0.46%
Commercial	$4,519,669	$4,540,480	$20,811	0.46%
Resort Condominium	$849,270	$853,180	$3,910	0.46%
Industrial	$1,010,407	$1,015,051	$4,644	0.46%
Landfill	$5,698	$5,724	$26	0.46%
Pipeline	$137,617	$138,251	$634	0.46%
Total (Taxable + PIL)	**$55,256,973**	**$55,256,973**	**$0**	**0.00%**

Reducing Farm ratio from 0.25 to 0.22

The tax ratio illustrated in Table 8, is based on a Farm tax ratio 0.22 for 2018 as per the Grey County Federation of Agriculture's presentation on January 25, 2018. This ratio change would result in a tax shift back to the residential class in the amount of $208,319.

Farming is an important sector to the County's local economy; however changes in tax ratios have an impact on all other tax classes. Whenever reassessment occurs, tax shifts are inevitable as there are different rates of change in market values.

The Ontario Government implemented Current Value Assessment (CVA) in 1998 with the intent of bringing consistency in property assessments across the province and fair tax treatment to all taxpayers. Adjusting tax ratios to maintain tax burden percentages by tax class undermines this principle.

Tax policy decisions should be made based on a strategic policy objective of the County and not based on shifts in assessment. 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.

Recommendation – County of Grey adopt the 2017 year's actual tax ratios for use in setting the 2018 tax rates.

Tax Reductions for Mandated Subclasses

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

The percentage set for a sub-class applies to any vacant unit rebates granted to properties within the class. As of 2017, Municipalities have been given the opportunity to consider more significant changes to the treatment of these sub-classes, including but not limited to:

- Altering discount percentages outside the 30-35% range;
- Eliminating reductions for municipal purposes; and
- Disconnecting the sub-class discounts from those applied to vacancy rebates.

What the Province has not done, is provide any specific menu of options to pick from. It is up to each municipal jurisdiction to craft their own local policies. Municipalities interested in pursuing policy refinements and enhancements must take on the policy making task locally and submit their desired program designs to the Province for review and consideration. It is recommended that a planned approach be developed:

- Determine Policy Interests
- Develop Policy
- Engage Stakeholders
- Prepare Provincial Submission
- Council Endorsement and Submission

This item has been discussed with the Local Treasurers and staff. Direction was given that at this time the treatment of vacant land and excess land and the vacant unit rebate program be continued, but that policy development be commenced in order to refine general eligibility in order to improve the clarity and correctness of the vacant unit program.

Once policy elements and objectives have been agreed upon by the Local Treasurers, County Council endorsement, stakeholder engagement, and a provincial submission will be required. The deadline to submit a notification to the Minister for changes for 2018 is March 1, 2018 and August 1, 2018. The County intends to work with its tax consultant MTE and the Local Treasurers in developing changes to the current vacant unit rebate and possibly make a submission to the Minister in 2018.

Recommendation – County of Grey continue to use reductions of 30% for commercial and 35% for industrial vacant lands/units in 2018. As well, that in 2018 the County of Grey pursues policy changes to the current vacant unit rebate program for Council and Stakeholder consideration, and that any desired program changes, if endorsed by Council, be submitted to the Province for review and consideration.

New Agri-Food Business Sub-Classes for Farms

As part of the Province's *2017 Ontario Economic Outlook and Fiscal Review (Fall Budget)*, the Minister of Finance announced new property sub-classes. These new sub-classes will be *optional for municipal purposes* and are intended to give municipalities a means of incenting/supporting small scale Agri-Food enterprises. As of the date of drafting this report, the details regarding these new sub-classes have not been set out in regulation. Therefore it is difficult to incorporate these new classes into a tax policy model.

The newly announced sub-classes will be a component of the commercial and industrial classes but distinct from existing sub-classes in a number of ways. They will be optional for municipal purposes and will not apply unless adopted. They will only apply to commercial or industrial portions of rolls that also include a portion included in the farm property class.

Rather than applying to a physical identifiable property, or portion of a property, they apply to a portion of the property's value and will exist only for taxation purposes. These sub-classes with have a uniform class specific reduction of 75% and will attract larger discounts than the current sub-classes, which default at 30% and 35% for commercial and industrial sub-classes.

If adopted, the first 50,000 of commercial or industrial assessment attached to a farm property will be taxed at 25% of the rate that would otherwise be applied. These new property sub-classes are to promote and support small-scale agri-food businesses, and improvements valued at greater than 1,000,000 will not be eligible.

The following simplified illustration shows how the new sub-class option might impact a farm property with a small commercial component.

Table 9 – Agri-Food Business Sub-Classes for Farms Illustration (County Tax)

Retail Property	**Current**	**With Sub-Class**		
Classification	CT	CT	Sub-Class	Total
CVA	125,000	75,000	50,000	125,000
Tax Ratio	1.306940	1.306940	1.306940	
Discount	0.00	0.00	0.75	
County Tax Rate	.00469319	.00469319	.00117330	
County Tax Levy	**$587**	**$351**	**$59**	**$410**

The Minister has indicated that these new sub-classes will be available for 2018 taxation, however, the necessary updates and regulations still need to be finalized. Once the sub-classes are created, it will then be necessary for the Municipal Property Assessment Corporation (MPAC) to classify any eligible properties and issue amended assessment notices.

It is not believed that these new sub-classes will be available in time to implement into actual 2018 tax levy or tax rate calculations. Therefore, if the County of Grey were to consider implementing these new sub-classes for 2018, the County and Local Municipalities would then need to plan for these discounts as tax write-offs in 2018.

Without the actual regulations and having these eligible properties being identified by MPAC, it is difficult to calculate the potential tax implications. It is being recommended that the County not adopt these optional sub-classes for 2018 and this option be reviewed in 2019. These properties will still incur tax relief in 2018 with the discount in provincial education taxes being implemented.

Recommendation – County of Grey not adopt these optional sub-classes for 2018 for

these commercial and industrial agri-food business sub-classes on farm properties. That these optional sub-classes be considered for municipal purposes in 2019 once regulations have been finalized and these properties have been classified by MPAC.

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.

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 new optional property classes.

Tax Rates

By-law No. 5002-18, a By-law to Adopt the Estimates and Revenue and Expenditures for the Year 2018 was adopted by Council on January 25, 2018.

Recommendation – the Director of Finance prepare a general rating by-law, based on the recommended 2018 tax policy items, for 2018 Tax Rates, for approval by County Council.

Other Policies

The following policies have been adopted by Council in the past and legislation does not require ratification or reconsideration on an annual basis. They are mentioned here as information to Council. These by-laws are planned to be reviewed and any proposed changes and/or updates to these current tax relief and rebated programs will be brought to Council in a future report.

Tax Relief to Certain Elderly and Disabled Persons who are Owners of Real Property in the County of Grey – This by-law provides for deferral of the annual eligible amount for the eligible property.

Tax Rebate Program for the purposes of Providing relief from taxes on Eligible Property Occupied by Eligible Charities **–** This by-law provides a tax rebate program for the purposes of providing relief from taxes or amounts paid on taxes on eligible property owned by eligible charities or similar organizations.

Tax Rebate Program for the purposes of Providing relief from taxes on Eligible Property Used and Occupied by Branches of the Royal Canadian Legion and Similar Organizations **–** This by-law provides rebates in the amount of 100 per cent of taxes levied for veterans' clubhouses, athletic grounds, and legion halls for the taxation years 2011 to 2020.

Business Class Tax Capping Options

As of the 2016 tax year, the Province provided municipalities with enhancements for additional flexibility in the business property tax capping program. Municipalities were provided with additional flexibility to manage the business tax capping program by adjusting capping parameters to increase progress towards Current Value Assessment (CVA) tax levels.

These enhancements provided municipalities with the option to exit or phase-out from the capping program, if doing so would have a limited impact on business properties. A municipality would be eligible for a four-year phase-out from the capping program once the municipality has no capped properties beyond 50% of the CVA level taxes in the property class. Municipalities with no properties currently remaining in the capping program were eligible to exit the program immediately.

In addition to the continuation of the opt-out and phase-out options, the Province introduced a new calculation option for 2017 capping. The option allowed the municipality to limit protection levels to any outstanding capping protections related to prior reassessment cycles, while flowing through any tax increases resulting from the current reassessment.

For 2017 County Council endorsed using all of the optional capping tools available in order to move as many properties as possible towards full CVA based taxation, including the 2017 provision to flow-through current reassessment cycle increases.

Preliminary estimates for 2018 indicate that the County's tax capping parameters will permit the County to be eligible to adopt the four-year phase-out program for the commercial class, without a net class shortfall. If any funding shortfall was to exist it would be funded from general revenues of each of the municipalities including the County. The County portion would be expensed to the tax write off account in 2018.

Recommendation – That the County utilize all of the optional capping tools available in order to move as many commercial properties towards full current value assessment (CVA) based taxation.

Legal and Legislated Requirements

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

Municipal Act, 2001, and the various supporting regulations

Financial and Resource Implications

The information and recommendations contained in this report has no impact on the County's 2018 budget instead it reflects how the County and Local Municipality's tax levies will be distributed among the various property tax classes.

The Director of Finance has prepared this report with consultation with Local Municipal Treasurers and with the services of the County's tax consultant Municipal Tax Equity (MTE).

Relevant Consultation

☒ Internal CAO Kim Wingrove

☒ External Local Municipal Treasurers and Staff, and the County's tax consultant Municipal Tax Equity (MTE).

Appendices and Attachments

None