Committee Report

Report FR-CS-12-14

To: Chair Pringle and Members, Corporate Services Committee
From: Kevin Weppler, Director of Finance
Meeting Date: January 14, 2014
Subject: **2014 Property Tax Policies**
Status: Recommendation endorsed by Committee as presented per Resolution CS11-14 January 14, 2014; Endorsed by County Council February 4, 2014 per Resolution CC24-14;

Recommendation(s)

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

NOW THEREFORE BE IT RESOLVED THAT Report FR-CS-12-14 regarding 2014 property tax policies be received;

AND THAT the 2014 tax policies remain the same for 2014 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**
- **Tax Capping**

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

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 effect 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.

In 2009 municipalities were able to adopt class-neutral transition ratios to mitigate inter-class tax shifts resulting from the 2008 phased-in reassessment. This permitted municipalities to increase the tax ratio of one or more business property classes to the extent to maintain existing tax burdens between residential and business classes.

With 2012 being a reassessment year, updates in assessment values are being made as part of a four year phase-in, with 2014 being year two 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 2013 Tax Ratios and applying these ratios to the new assessment values for 2014, a shift in taxation to the residential class of $34,329 and $86,073 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 $90,946 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 $83,499 to the commercial class. The farm class would receive a reduction of $2,861.

The tax ratio for the residential class is legislated at 1.0, while the farm and managed forest classes have a prescribed tax ratio of 0.25. Municipalities do have the flexibility to set a tax ratio for the farm class that is below 0.25. If the County was to reduce the farm ratio for the farm class with a modest reduction (from 0.25 to 0.24), this would result in county tax relief of $55,044. As with any rate change, altering this ratio will require other classes to pick up a larger portion of the burden, with the residential tax class realizing a tax shift increase of $44,250.

The Province has yet to provide municipalities the availability of this flexibility for 2014, but it is assumed that this will be made available again. However in considering the use of tax ratios, revenue-neutral by class, it is being recommended that for 2014 the use of tax ratios, revenue-neutral by class not be used and that the tax ratios for 2014 remain as adopted for 2013.

Recommendation – County of Grey adopt the 2013 year's actual tax ratios for use in setting the 2014 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 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 2014.

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 with the 2014 taxation year.

Recommendation - County of Grey sets the threshold for 2014 new construction, as was done in 2008 through to 2013, 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 Capping

Since 2005 the Province has provided municipalities 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.

The final capping calculation for 2014 will be completed later this year and will be the subject of another report to the Corporate Services Committee in regards to Decrease Limits to recover foregone revenue as a result of the application of the capping process.

Recommendation – In accordance with Section 329.1 of the Municipal Act regarding Tax Capping, the following tax capping policies be approved:

1. **THAT the maximum increase threshold shall be the greater of:**
   - i) **10% of the previous year's annualized capped tax, and**
   - ii) **5% of the previous year's annualized Current Value Assessment (CVA) tax for eligible property;**
2. **THAT an increase threshold adjustment be imposed for capped properties where the required billing adjustment is within $250 of the properties' Current Value Assessment tax; in this instance, no capping credit would be applied, and the affected property would be billed at their full CVA tax level;**
3. **THAT a decrease threshold adjustment be imposed for capped properties where the required billing adjustment is within $250 of the properties' Current Value Assessment tax; in this instance, no capping claw-back would be applied, and the affected property would be billed at their full Current Value Assessment tax level; and**
4. **THAT measures be instituted to exclude properties from the capping program once they;**
   - i) **reach their Current Value Assessment tax destination, or**
   - ii) **cross over it.**

AND THAT this capping scenario be the County's choice of tax capping for each property class for 2014;

AND FURTHER THAT the cost of funding the tax capping relief be recovered from the same tax class (claw-back) from decreasing properties.

Tax Rates

By-law No. 4826-13, a By-law to Adopt the Estimates of Revenue and Expenditures for the Year 2014 was adopted by Council on November 26, 2013.

Recommendation - the Director of Finance prepare a general rating by-law, for 2014 Tax Rates, for approval by County Council.

Financial / Staffing / Legal / Information Technology Considerations

The 2014 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 Weppler
Director of Finance