Subject: 2021 Property Tax Policy, Ratios and Rates

Report to: Corporate Services Committee

Report date: Wednesday, April 14, 2021

Recommendations

1. That Regional Council **APPROVE** the following tax ratios and sub-class reductions for the 2021 taxation year:

Property Classification	Tax Ratio	Sub-Class Reduction
Residential	1.000000	
New Multi-Residential	1.000000	
Multi-Residential	1.970000	
Commercial	1.734900	
Commercial – Excess Land	1.734900	22.5%
Commercial – Vacant Land	1.734900	22.5%
Industrial	2.630000	
Industrial – Excess Land	2.630000	22.5%
Industrial – Vacant Land	2.630000	22.5%
Pipeline	1.702100	
Farmland	0.250000	
Managed Forest	0.250000	
Farmland Awaiting Development 1	1.000000	25%
Farmland Awaiting Development 2	Class Ratio	
Landfill Sites	2.940261	

2. That the necessary by-laws **BE PREPARED** and **PRESENTED** to Council for consideration and **BE CIRCULATED** to the Councils of the Area Municipalities for information; and

3. That Report CSD 23-2021 **BE CIRCULATED** to the Councils of the Area Municipalities for information.

Key Facts

- The purpose of this report is to set the tax policy for 2021 which includes tax ratios, rates and other policy considerations. Tax policy accounts for property assessment changes and affects the actual taxes paid by property owners or classes.

- The recommended tax policy for 2021, supported by Regional staff and Area Treasurers, is to maintain the status quo tax ratio adopted for the 2020 taxation year and to continue the previous Council approved phase-out schedule of the commercial/industrial vacant/excess land subclass discounts from 30% to 22.5%.
- In order for the Area Municipalities to complete final tax billings in June, Regional bylaws should be established no later than April.
- The Region approved a 2021 levy increase of 1.80%. Area Municipal increases range from 0.32% to 2.64% for those that have approved budgets.
- Under the proposed tax policy the residential class in aggregate will see a tax increase of 1.7% (see Table 1).
- The Province for 2021 has also adopted a policy to standardize business education tax rates across the province resulting in education tax savings for Niagara commercial and industrial properties totaling $6.6M and $2.8M, respectively.
- The proposed tax policy and approved Regional tax levy will result in an increase of approximately $27 to the typical residential property with a CVA of $278,764 in 2021 for an annual Regional property tax of $1,638.

Financial Considerations

There are no direct costs to the Region as a result of setting 2021 tax policy. There are however, taxpayer impacts as a result of tax shifts between property classes due to assessment growth and tax ratio/discount decisions. Detailed analysis of these impacts are included in the Tax Policy Study attached as Appendix 1 to Report CSD 23-2021.

Regional staff engaged the Area Treasurers in the review of the tax study as completed by the Region’s external tax consultant as well as reviewed various options and scenarios for 2021. Based on the feedback provided, both Regional staff and Area Treasurers are recommending to maintain the status quo tax ratio for the 2021 taxation year including the commercial/industrial vacant/excess land subclass discount phase-out from 30% to 22.5%, which results in a reduction in residential taxes shifted to other classes of 0.11%, or $331,000.

The follow are the key factors that support the recommendation, these are expanded on in the Analysis section of this report:

- Preliminary assessment data for the next assessment cycle indicates that there will be a significant pressure on the residential tax base. It is estimated that there could be a shift onto the residential class of approximately 1.74% or $5 million before incorporating any impacts generated from future levy changes.

- The BMA study demonstrates that all residential taxation categories are above the BMA study average and data provided by the Region's Affordable Housing Strategy Steering Committee indicates that many of the households in core housing need currently reside in single detached homes (included in the residential tax class),
- Education tax rates for commercial and industrial classes have been reduced for 2021, these reductions in education tax rates will generate savings for commercial and industrial properties totaling $6.6M and $2.8M, respectively.
- The Region and local area municipalities offer many incentive programs including tax increment and development charge related grants that reduce the actual tax burden experienced by some property classes in Niagara including industrial.

Staff did consider alternate scenarios, these are found in the Alternatives Reviewed section, but none of these were supported by Regional staff or the Area Treasurers.

Analysis

The Municipal Act provides the Region with the responsibility to establish tax policy to raise levy requirements. Reassessment impacts, assessment growth and provincial legislation can create tax shifts in burden across all property classes. These factors are outside the control of Niagara Regional Council and the budget process. The only opportunity to affect these is through a thorough analysis of options available for ratios and resulting impacts. Staff with the use of a third party consultant undertook an analysis of a number of options to arrive at the recommendations presented in this report.

Analysis of Current State

1. Assessment Growth

The overall real assessment growth that occurred in 2020 for the Region was 1.44% (as included in the approved 2021 tax supported operating budget), equivalent to $5.7 million in tax dollars from new taxpayers. Table 1 summarizes the overall assessment growth that occurred in 2020 (column (2)) as well as the impacts affecting each of the tax classes based on maintaining the status quo tax ratios with the adjustment to the vacant/excess land subclass discounts from 30% to 22.5% as per the Council approved phase-out schedule (column (3)). Note this phase-out schedule was approved by the Province and has been written into Provincial legislation

Table 1 – 2021 Tax Levy Impacts by Property Class (Status Quo Policy)

Property Class	2020 Approved Levy (1)	Growth Impacts (2)	Inter-Class Shift (3)	2021 Levy Impacts (4)	2021 Approved Levy (5)	Avg. % Increase
Residential	$285,569,439	$5,456,643	$(331,315)	$5,158,042	$295,852,809	1.7%
New Multi-Res	1,006,093	40,202	(1,191)	$18,544	$1,063,648	1.7%
Multi-Residential	15,628,351	(2,151)	(17,786)	$276,958	$15,885,372	1.7%
Farm	3,432,522	19,409	(3,917)	$61,179	$3,509,193	1.7%
Managed Forest	22,687	(189)	(26)	$399	$22,871	1.6%
Commercial	70,887,201	(61,524)	194,016	$1,260,211	$72,279,904	2.1%
Industrial	13,508,620	182,039	163,301	$245,835	$14,099,795	3.0%
Pipelines	2,453,164	30,320	(2,827)	$44,018	$2,524,675	1.7%
Landfill	61,314	-	(70)	$1,087	$62,331	1.7%
Total	**$392,569,391**	**$5,664,749**	**$185**	**$7,066,273**	**$405,300,598**	1.8%
% Increase		**1.44%**	**0%**	**1.80%**	**3.25%**	

** Represents a tax shift away from residential of 0.11% as a result of the decrease in vacant/excess land subclass discount from 30% to 22.5% as per Council approved phase-out schedule.*

2. Re-Assessment Phase-In and Tax Shifts

Reassessments of all properties is mandated by the Province every four years across Ontario to ensure that current value assessments (CVA) relied upon for property tax purposes are reflective of current market conditions. Increases in assessment based on 2016 values have been phased in over 2017-2020. As a result of COVID-19, the Province announced that they are delaying the proposed new assessment cycle that was to be effective for the taxation years of 2021-2024. The Province has not provided any guidance as to when the next assessment cycle will take place, therefore the destination values from 2020 taxation year will continue into 2021 resulting in no tax shift impacts caused by assessment phase-in changes.

MPAC had released preliminary figures for the 2021 new assessment cycle and based on the preliminary analysis that was prepared during the 2020 tax policy review, Niagara was anticipated to experience significant residential assessment increases. The residential tax class in Niagara was anticipated to experience a 50% increase in average assessed values while all other non-residential classes would experience an approximate 20% assessment value increase. This increase for the residential tax class was approximately 20% higher than the MPAC average for the Regions of Peel and

Halton, Cities of Hamilton and Brantford, and the Counties of Haldimand, Norfolk and Brant. Niagara's anticipated residential assessments represent one of the highest increases across the Province. It is important to note that these values were preliminary and are subject to change until finalized by MPAC in advance of the next assessment cycle. More information on the residential assessment impacts can be found in Appendix 4 to Report CSD 23-2021.

Staff previously completed an estimate of the impacts of the aforementioned new assessment cycle during the preparation of the 2020 tax policy report. It was estimated that there could be a shift onto (i.e., increase in) the residential tax class burden of approximately 1.74% or $5 million as a result of shifts from (i.e., decreases in) other tax class burdens primarily commercial and industrial. Shifts would also be experienced on an Area Municipality level but may vary as a result of different assessment trends that may occur on a more granular level.

Based on the recommended tax policy for 2021 there is a decrease in the residential class' proportionate share of taxes (0.11% or $331,000) as a result of reducing the subclass discount for commercial/industrial vacant/excess lands from 30% to 22.5% (see Table 1 Column 3). This will result in minor municipal shifts. These impacts have been summarized in Appendix 1 to Report CSD 23-2021, Table 6 and range from -0.09 (Pelham and Wainfleet) to 0.11% (Niagara Falls). A negative number represents a decrease in the relative total municipal burden while a positive number represents an increase.

Table 2 shows the relative tax share of each tax class from 2020 to 2021. The 2021 amounts are based on the recommended tax policy. The table represents a starting point for any further ratio analysis. The residential increase noted previously of 1.70% (which is below the 2021 Regional levy increase of 1.80%) is as a result of the subclass discount reduction (See Appendix 1 to Report CSD 23-2021, Table 5).

Table 2 – Multi-Year Tax Distribution by Tax Class

Realty Tax Class (Taxable)	2020 Year End (As Revised)	% Share	2021 Levy (As Returned)	% Share
Residential	$291,026,081	73.08%	$295,852,809	73.00%
New Multi-Residential	1,046,295	0.26%	1,063,648	0.26%
Multi-Residential	15,626,200	3.92%	15,885,372	3.92%
Farm	3,451,930	0.87%	3,509,193	0.87%
Managed Forest	22,498	0.01%	22,871	0.01%
Commercial	70,825,677	17.78%	72,279,904	17.83%
Industrial	13,690,659	3.44%	14,099,795	3.48%
Pipeline	2,483,484	0.62%	2,524,675	0.62%
Landfill	61,314	0.02%	62,331	0.02%
Total Taxable	**$398,234,138**	**100%**	**$405,300,598**	**100%**

3. Education Rates

The education tax rates are established by the Province to meet their revenue targets for the year. Typically the education tax rates decrease from one year to the next as the Provincial policy is to maintain revenue neutrality. In prior years, this Provincial policy has created savings in Niagara which generally assist in offsetting municipal increases. For 2021 however, the Province has maintained the education tax rates from 2020 for all classes except the commercial and industrial, which have been reduced. The Province has identified this as a priority as a result of the COVID-19 pandemic specifically indicating that this change will eliminate variations in business education taxes reducing tax inequalities and improve business competitiveness.

Table 4 summaries select education tax rates including the changes to the commercial and industrial classes. In aggregate for Niagara, the reduction in business education tax rates will generate savings for commercial and industrial properties totaling $6.6M and $2.8M, respectively.

Table 4 – Select Education Tax Rates for Niagara Region

Realty Tax Class	2021 Education Rate	2020 Education Rate	Change
Residential	0.00153	0.00153	0.0000
Multi-Residential	0.00153	0.00153	0.0000
New Multi-Residential	0.00153	0.00153	0.0000
Commercial Occupied	**0.0088**	**0.0098**	**-0.0010**
Commercial Occupied - New	**0.0088**	**0.0098**	**-0.0010**
Industrial Occupied	**0.0088**	**0.0125**	**-0.0037**
Industrial Occupied - New	**0.0088**	**0.0098**	**-0.0010**

4. Waste Management Rates

Waste management tax rates are also set based on the Regional tax ratios. The waste management requisition by municipality was approved through Report CSD 66-2020; however the by-law setting for the waste management rates for the 2021 requisitions are brought forward with the 2021 general tax levy by-law as the rates are based on each municipality's assessment and are dependent on the tax ratios (with the exception of Niagara-on-the-Lake).

Tax Policy Considerations

The Region utilizes several BMA tax related performance metrics as seen in Appendix 3 to Report CSD 23-2021. These metrics were considered in the evaluation of tax policy options and discussed with Area Treasurers which helped inform the policy decisions proposed.

- *Residential taxpayer* - The residential class is responsible for 73% of the overall tax levy. Under the recommended tax policy the tax shift away from the residential class will mitigate the overall levy increase on the class from 1.8% to 1.7% (see Table 1). In previous years, the Region utilized the tax shifts away from the residential class to provide relief to multi-residential and commercial tax classes through reduced tax ratios (see Appendix 2 to Report CSD 23-2021). As identified in the most recent BMA study, Niagara's average residential property taxes (including water and wastewater) payable as a percentage of household income is above the BMA study average (2020 - Niagara 5.2% verses BMA average 4.8%). This gap between Niagara and the survey average has increased from prior years (2019 - Niagara 5.0% verses BMA average 4.9%). The tax shift caused by reducing the subclass discount for commercial/industrial vacant/excess lands from 30% to 22.5% will assist with narrowing the gap between Niagara and the BMA average.

In addition to this, the Region's Affordable Housing Strategy Steering Committee also provided information regarding the distribution of housing need in Niagara. The information demonstrated that the majority (approximately 85%) of households with modest incomes live in traditional residential buildings (i.e., residential tax class) as opposed to multi-residential structures.

- *Multi-Residential Tax Class* – the multi-residential tax category consists of two property tax classes. The multi-residential class is responsible for 3.9% of the overall tax levy while the new-multi-residential category (which includes multi-residential structures constructed after 2003) is responsible for 0.3%. Under the recommended tax policy the multi-residential and new-multi-residential classes will see an increase of 1.7% over 2020 as a result of the 2021 levy increase and the anticipated tax shifts. In previous years, the Region utilized the tax shift away from the residential class to provide relief to multi-residential through reduced tax ratios from 2.0 to 1.97.

  Appendix 3 to Report CSD 23-2021, provides BMA metrics related to two multi-residential structure types (Walk-up and Mid/High-Rise). The walk-up style structure was identified as above the survey average by $209 and the high-rise structure types are below the average by $5 for 2020.

- *Industrial Tax Class* – per Table 2, under the recommended tax policy, the Industrial property class will be responsible for 3.48% of Regional taxes which includes a tax shift away from the industrial class in 2021 of 0.11%. As a result of significant reassessment and appeal reductions in this property class in the recent past, the Industrial class share of taxation is down from 3.3% in 2016 to 3.0% in 2021 (when excluding the vacant/excess land subclasses). Despite this, the relative tax burden averages for standard industrial for the Region is higher than the BMA survey average as provided in Appendix 3 to Report CSD 23-2021. This however is partially offset by the many incentive programs currently offered by the Region including tax increment and development charge related grants that reduce the actual tax burden experienced by some industrial properties in Niagara.

- *Commercial Tax Class* - properties pay the second largest share (after residential) of Regional taxes at 17.83%. Appendix 3 to Report CSD 23-2021 illustrates that Niagara taxation of office buildings is low and that shopping centres and motels are moderately above the BMA average while hotels are classified as high. It should be noted that a significant number of hotel appeals that were previously outstanding have been settled which will decrease the overall burden experienced by those properties. It is also important to note that the current assessment practice for hotels is the net rental income approach. A higher potential income per night from a higher concentration of hotels in Niagara Falls tourist areas helps explain the higher Niagara hotel taxes relative to neighbouring municipalities. For the 2018 taxation year Council approved a reduction in the commercial tax ratio from 1.7586 to 1.7349. The Region's tax ratio for the commercial class approximates the BMA average of 1.6747. The current tax ratio has been in effect since 2018 when it was reduced from 1.7586.

2021 Property Tax Levy Impacts

Table 4 shows the Regional tax increases for status quo tax ratios plus the commercial/industrial vacant/excess land subclass discount adjustment from 30% to 22.5%. Since there was no phase-in impacts for 2021, the levy increase on all classes under the proposed tax policy is 1.7%.

Table 4 – Regional Tax Increases for Status Quo Tax Policy

Taxation Class	2020 Avg. CVA	2020 Regional Taxes	2021 Avg. CVA	2021 Regional Taxes*	$ Increase	% Increase
Residential	278,764	1,611	278,764	1,638	27	1.7%
Multi-Res.	2,543,766	28,964	2,543,766	29,444	480	1.7%
Commercial	814,152	8,164	814,152	8,299	135	1.7%
Industrial	786,286	11,952	786,286	12,151	198	1.7%
Farmland	400,452	579	400,452	588	10	1.7%

* Based on draft rates utilizing the recommended 2021 tax policy.

Alternatives Reviewed

A number of scenarios were reviewed for the 2021 tax policy. All scenarios considered utilizing a portion of the tax shift away from the residential class to benefit other tax classes (i.e., commercial and multi-residential). Staff did not feel that these scenarios would achieve the desired outcomes for the reasons cited below. This coupled with the anticipated impacts of the future assessment cycle update on the residential tax class resulted in staff **RECOMMENDING** a status quo tax ratio option for 2021.

Staff analyzed an alternative which utilized a portion of the tax shift away from the residential class (0.11% to 0.06%) to reduce the tax ratio of the commercial tax class from 1.7349 (status-quo) to 1.729135. This alternative was **NOT RECOMMENDED** as a result of the analysis discussed under the Tax Policy Considerations section of this report. Many of the Region’s existing and future incentives will focus on the employment sectors. The Region currently offers grants to these property types in the form of tax increment and development charge grants which effectively reduces the burden experienced by some of the existing property owners in the industrial tax class.

Through report CSD 12-2021 - *Optional Small Business Tax Subclass Overview*, staff also reviewed the opportunities and challenges that exist with the implementation of new optional small business tax subclass. While the anticipated challenges with implementation were significant, staff committed to continue to monitor and report back to Council in advance of 2022 tax policy.

Given the strong emphasis on affordable housing, staff also analyzed an alternative that utilized the full tax shift away from the residential class (0.11% to 0.00%) to reduce the tax ratio of the multi-residential tax class from 1.97 (status-quo) to 1.91275. While this alternative was explored it is **NOT RECOMMENDED.** Under the Residential Tenancy Act, tenants are entitled to an automatic rent reduction when landlord’s property taxes have been reduced by more than 2.49% from one year to the next. Based on current levy requirements for the Region and the anticipated levy requirements for the Area Municipalities coupled with the Province maintaining the education tax rate from 2020 for multi-residential properties for 2021, it is not anticipated that a significant number of properties (if any) would be eligible for the mandatory rent reduction as outlined in the Act. This means that there would be no legislated requirement for the landlords to pass any of the property tax savings as a result of a ratio reduction to the tenant.

Further to this, Regional Council approved a multi-residential tax class ratio reduction for 2018 which also utilized the tax shift away from the residential class 2018. It is important to note, that the new-multi-residential tax class has a legislated tax ratio of 1 (same as residential tax class). The intent behind the new class as legislated in 2017 (adopted by Region in 2003) is to assist in rental affordability of newly constructed multi-residential properties. Any reduction to the multi-residential tax class would also increase the tax burden on the new-multi-residential tax class.

Relationship to Council Strategic Priorities

This tax policy report is aligned to Sustainable and Engaging Government.

Other Pertinent Reports

- CSD 3-2019 - Vacancy Program Revisions Submission to Ministry of Finance
- CSD 12-2021 Optional Small Business Tax Subclass Overview

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Appendices

Appendix 1	2021 Tax Policy Study
Appendix 2	History of Regional Tax Ratios
Appendix 3	Performance Measures
Appendix 4	MPAC Preliminary Market Trends – 2021 Assessment Cycle