Subject: 2023 Property Tax Policy, Ratios and Rates

Report to: Corporate Services Committee

Report date: Wednesday, April 5, 2023

Recommendations

1. That Regional Council **APPROVE** the following tax ratios and sub-class reductions for the 2023 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	7.50%
Commercial – Vacant Land	1.734900	7.50%
Industrial	2.630000	
Industrial – Excess Land	2.630000	7.50%
Industrial – Vacant Land	2.630000	7.50%
Pipeline	1.702100	
Farmland	0.250000	
Managed Forest	0.250000	
Farmland Awaiting Development 1	1.000000	25.00%
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 22-2023 **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 2023, which includes tax ratios, rates and other policy considerations. Tax policy accounts for property assessment changes and affects the distribution of actual taxes paid by property owners or classes.

- The recommended tax policy for 2023, supported by Regional staff and Area Treasurers, is to maintain the status quo tax ratio adopted for the 2023 taxation year.
- This is the last year of the Council approved phase-out schedule of the commercial/industrial vacant/excess land subclass discounts from 15.00% to 7.50%.
- In order for the Area Municipalities to complete final tax billings in June, Regional by-laws need to be established no later than April.
- The analysis in Appendix 1 to Report CSD 22-2023, is based on the actual General Levy for 2022 being $422 million. The 2023 Budget presentation excluded transit costs in the adjusted 2022 Levy of $406 million for a consistent comparison therefore the $7.4 million assessment growth dollars are 1.74% on approved 2022 Levy rather than 1.85% on the adjusted Levy.
- Area Municipal budgets range from decreases of 3.05% to increases of 8.46% for those that have approved budgets at this time.
- The proposed tax policy and approved Regional tax levy will result in an increase of approximately $123 for the typical residential property with a current value assessment (CVA) of $278,764 in 2022, for an annual Regional property tax of $1,743.

Financial Considerations

There are no direct costs to the Region as a result of setting 2023 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 22-2023.

Some of the analysis will differ in format from that presented with the 2023 budget as the 2023 budget, for transparency and consistency, reflected comparisons to similar base services as the 2022 budget which required the exclusion of transit costs which have been transferred to the NTC Special Levy budget.

Readjusted 2022 Tax rates

For illustration purposes only, the 2022 tax rate calculations have been readjusted from $422 million to $406 million, to account for the removal of transit services. These rates do not reflect the true 2022 notional tax rates however have been provided to reconcile the information provided in the 2023 budget to this Tax Policy report (See Table 1). Tax policy has been prepared on the unadjusted 2022 general levy as this represents the actual levy dollars collected by the Region for the 2022 year.

Table 1 – Comparison of Budget By-law to Tax Policy (in millions)

	2022 General Levy (A)	**Assessment Growth $**	**2023 Levy Impacts (B)**	**2023 Approved Levy**	**2023 Levy Increase (B/A)**
Per 2023 Budget Presentation (excludes Transit)	$406.1	$7.4 or 1.85%	$30.9	$444.4	7.58%
Per Tax Policy (see Table 2)	$422.3	$7.4 or 1.74%	$14.7	$444.4	3.51%
Difference	**($16.2)**	**$ -**	**$16.2**	**$ -**	**4.07%**

Table 1 above, provides a summary comparing the information per the 2023 Budget including the removal of $16.2 million for Transit services to the information provided in this Tax Policy report. Assessment Growth (AG) used in the Budget By-law of 1.85% is on the revised 2022 Base Budget (excluding Transit) whereas the AG per Tax Policy of 1.74% is based on the actual unadjusted 2022 General Levy. This has resulted in the difference in tax impact of 3.51% versus 7.58% as noted above.

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 (see Table 2). 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.

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 discussed potential scenarios for 2023. Based on the feedback provided, both Regional staff and Area Treasurers are recommending to maintain the status quo tax ratio for the 2023 taxation year including the commercial/industrial vacant/excess land subclass discount phase-out from 15.00% to 7.50%, as recommended and approved by Council in 2019 (Report CSD 3-2019). This report included recommendations on amendments to the commercial/industrial vacant unit rebate, which went from 30% to 0% between 2018 and 2021, as well as vacant/excess land subclass property tax rate reduction programs which went from 30% in 2018 to 0% by 2024. See Appendix 4 to Report CSD 22-2023 for additional details. The 2023 impact results in a benefit to the residential taxes class of 0.11%, or $0.3 million.

The following are the key factors that support the recommendation; these are expanded on further in this report:

- The most recent update from MPAC identifies that reassessment increases could be greater for residential properties than non-residential which will shift taxes onto the residential properties.
- 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).
- 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.

Analysis of Current State

1. Assessment Growth

The overall assessment growth that occurred in 2022 for the Region was $7.4 million in tax dollars from new taxpayers equivalent to 1.74% of the $422 million General Levy for 2022. The overall assessment growth is net of reduction in assessment due to property assessment appeals.

Table 2 summarizes the overall assessment growth that occurred in 2022 (column 3) as well as the impacts affecting each of the tax classes based on maintaining the status quo tax ratios and the adjustment to the vacant/excess land subclass discounts from 15.00% to 7.50% as per the Council approved phase-out schedule (column 4). Note this phase-out schedule was approved by the Province and has been written into Provincial legislation. Any subsequent changes to the phase-out schedule would require Council to lobby the Province to amend the Ontario regulations 325/01. This will result in minor municipal shifts. These impacts have been summarized in Appendix 1, Table 6 and range from -0.08% (Wainfleet) to 0.09% (Niagara Falls). A negative number represents a decrease in the relative total municipal burden while a positive number represents an increase.

The residential increase noted previously of 3.41% (which is below the 2023 Regional levy impact of 3.51%) is net of the shift due to the subclass discount reduction (See Appendix 1, Table 5).

Table 2 – 2023 Tax Levy Impacts by Property Class (Status Quo Policy**)**

Property Class	2022 Approved Levy	Assessment Growth (AG) Impacts	Inter-class Shift*	2023 Levy Impacts (net of AG)	2023 Approved Levy (before AG)	Avg. tax % Increase
Residential	$309,408,552	$6,233,521	$(332,612)	$10,877,162	$326,186,623	3.41%
New Multi-Res	$1,175,386	423,470	(1,685)	$55,130	$1,652,301	4.55%
Multi-Residential	$16,364,700	(261,635)	(16,956)	$555,252	$16,641,361	3.29%
Farm	$3,664,646	27,338	(3,890)	$133,894	$3,821,988	3.55%
Managed Forest	$25,068	(155)	(26)	$860	$25,747	3.33%
Commercial	$74,469,603	771,921	203,979	$2,598,607	$78,044,110	3.76%
Industrial	$14,523,388	129,748	153,965	$491,467	$15,298,568	4.44%
Pipelines	$2,613,127	17,516	(2,773)	$90,708	$2,718,578	3.37%
Landfill	$55,944	-	(59)	$1,929	$57,814	3.34%
Total	**$422,300,414**	**$7,341,724**	**(57)**	**$14,805,009**	**$444,447,090**	**3.51%**
% Increase		**1.74%**	**0.00%**	**3.51%**	**5.24%**	

* Represents a tax shift away from residential of 0.11% as a result of the decrease in vacant/excess land subclass discount from 15.00% to 7.50% as per Council approved phase-out schedule.

2. Re-Assessment Phase-In and Tax Shift

Reassessments of all properties is mandated by the Province every four years, however, as a result of COVID-19, the 2020 re-assessment has been delayed and the Province has not provided any guidance as to when the next assessment cycle will take place. Therefore, the destination values for the 2023 tax year will remain the same resulting in no tax shift impacts caused by assessment phase-in changes.

Table 3 shows the relative tax share of each tax class from 2022 to 2023. The 2023 amounts are based on the recommended tax policy. The table represents a starting point for any further ratio analysis.

Table 3 – Multi-Year Tax Distribution by Tax Class

Realty Tax Class (Taxable)	**2022 Year End (As Revised)**	**% Share**	**2023 Levy (As Revised)**	**% Share**
Residential	$315,642,073	73.47%	$326,186,623	73.39%
New Multi-Residential	1,598,856	0.37%	1,652,301	0.37%
Multi-Residential	16,103,065	3.75%	16,641,361	3.74%
Farm	3,691,984	0.86%	3,821,988	0.86%
Managed Forest	24,913	0.01%	25,747	0.01%
Commercial	75,241,524	17.51%	78,044,110	17.56%
Industrial	14,653,136	3.41%	15,298,568	3.44%
Pipelines	2,630,643	0.61%	2,718,578	0.61%
Landfill	55,944	0.01%	57,814	0.01%
Total	**$429,642,138**	**100%**	**$444,447,090**	**100%**

3. Education Rates (no change)

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 2023 however, the Province has maintained the education tax rates from 2022 for all classes. The Province has identified this as a priority as a result of the COVID-19 pandemic and has left the education tax rates unchanged since 2020. What this means is that with no changes in property assessment due to reassessment properties will typically pay the same dollars in education taxes as in the prior year.

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 2-2023; however the by-law setting for the waste management rates for the 2023 requisitions are brought forward with the 2023 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). The household impacts reported with the budget were net of assessment growth and based on status quo policy so remain unchanged.

5. Transit Rates

Similar to Waste Management, Transit tax rates are also set based on the Regional tax ratios. The Transit requisition by municipality was approved through Report CSD 10-2023; however, the by-law setting for transit rates for the 2023 requisitions are also brought forward with the 2023 general tax levy by-law as the rates are based on each municipality's assessment and are dependent on the tax ratio. The household impacts reported with the budget were net of assessment growth and based on status quo policy so remain unchanged.

Tax Policy Considerations

The Region considers council priorities, the current environment, as well as utilizing several BMA tax related performance metrics as seen in Appendix 3 of Report CSD 22-2023 to assess policy options.

- Residential taxpayer - The residential class is responsible for 73.39% 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 3.51% to 3.41% (see Table 2). In previous years, the Region has considered utilizing the tax shifts away from the residential class to implement other policy objectives such as reductions to multi-residential and commercial tax classes through reduced tax ratios (see Appendix 2). As identified in the most recent BMA study, Niagara's average household income was slightly below the BMA average (2022 – Niagara $104,320 versus BMA average $110,000), while Niagara's average residential property taxes (including water and wastewater) payable as a percentage of household income is above the BMA study average (2022 - Niagara 5.33% versus BMA average 4.90%). This gap between Niagara's average residential property taxes payable and the BMA average has increased from last year (2021 - Niagara 5.20% versus BMA average 4.90%). The benefit of reducing the subclass discount for commercial/industrial vacant/excess lands from 15.00% to 7.50% will assist with narrowing the gap between Niagara and the BMA average.

- Multi-Residential Tax Class - the multi-residential tax category consists of two property tax classes. The multi-residential class is responsible for 3.74% of the overall tax levy while the new-multi-residential category (which includes multi-residential structures constructed after 2003) is responsible for 0.37%. It is important to note that new construction of purpose built rental would be in the new multi-residential class, which is taxed at the same rate as residential.

  Appendix 3 to Report CSD 22-2023, 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 $253 and the high-rise structure types are below the average by $36 for 2022.

- Industrial Tax Class - The relative tax burden averages for standard industrial for the Region is higher than the BMA survey average as provided in Appendix 3 (Niagara is taxing $1.89/square foot, while the BMA average is $1.59/square foot). However, this is partially offset by the many incentive programs currently offered by the Region including tax increment and development charge related grants, specifically under the Employment and Brownfield pillars, that reduce the actual tax burden experienced by some industrial properties in Niagara.
- Commercial Tax Class - This property class has the second largest share (after residential) of Regional taxes at 17.56%. Appendix 3 illustrates that Niagara taxation of office buildings is lower than the BMA average ($2.95 tax/square foot vs. $3.11 tax/square foot), while Niagara’s taxation of motels ($1,157 tax/unit vs. $1,223 tax/unit) and shopping centres ($4.17 tax/square foot vs. $3.78 tax/square foot) are moderately below/above the BMA average, respectively. Niagara taxation of hotels ($1,935 tax/unit) is higher than the BMA average ($1,636 tax/unit). The Region has seen an increase in new appeals related to COVID-19 in the Commercial Tax Class which once settled may increase the overall burden experienced by properties in other classes. This property class is also eligible for Employment and Brownfield related tax increment grant programs.

2022 Property Tax Impacts

Table 4 – Regional Tax Increases for Status Quo Policy

Taxation Class	2022 Avg. CVA	2022 Adjusted Taxes	2023 Avg. CVA	2023 Regional Taxes*	$ Increase
Residential	$278,764	$1,620	$278,764	$1,743	$123
Multi-Residential	$2,543,766	$29,120	$2,543,766	$31,256	$2,136
Commercial - Occupied	$814,152	$8,208	$814,152	$8,810	$602
Industrial - Occupied	$786,286	$12,017	$786,286	$12,898	$881
Farmland	$400,452	$582	$400,452	$624	$42

*Based on draft rates utilizing the recommended 2023 tax policy.

Alternatives

Regional staff considered alternatives to the recommendations proposed in this report. After engaging with the Area Treasurers and reviewing the tax study and historical Regional tax ratios, it was determined to maintain the status quo tax ratio for the 2023 taxation year.

Relationship to Council Strategic Priorities

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

Other Pertinent Reports

- Bill 2023-18 – 2023 Operating Budget and Tax Levy
- CSD 3-2019 – Vacancy Program Revisions to Ministry of Finance
- CSD 2-2023 - Waste Management Services Operating Budget and Requisition
- CSD 10-2023 – NTC 2023 Operating Budget Additional Information

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Appendices

Appendix 1	2023 Tax Policy Study
Appendix 2	History of Regional Tax Ratios
Appendix 3	Performance Measures
Appendix 4	History of Rebate/Subclass Reductions