Subject: 2020 Property Tax Policy, Ratios and Rates

Report to: Regional Council

Report date: Thursday, April 23, 2020

Recommendations

1. That Regional Council **APPROVE** the following tax ratios and sub-class reductions for the 2020 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	30%
Commercial – Vacant Land	1.734900	30%
Industrial	2.630000	
Industrial – Excess Land	2.630000	30%
Industrial – Vacant Land	2.630000	30%
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 by having no properties subject to capping adjustments in 2019 in the commercial class, Regional Council **OPT OUT** of the capping program for the commercial tax class for the 2020 and subsequent taxation years;

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

4. That this report **BE APPROVED** and **CIRCULATED** to the Councils of the Area Municipalities for information.

Key Facts

- The purpose of this report is to set the tax policy for 2020 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 2020 is status quo based on the tax policy decision adopted for the 2019 taxation year and is being recommended by Regional staff and Area Treasurers.
- 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 2020 levy increase of 5.92%. Area Municipal increases are projected to range from 1.55% to 13.40%.
- Under the status quo tax policy the residential class in aggregate will see a tax increase of 5.74% for the Regional levy as a result of the reassessment shift reducing residential taxes by 0.20% (see Table 1).
- The reassessment impacts, proposed tax policy and approved Regional tax levy will result in an increase of approximately $85 to the typical residential property with a CVA of $277,044 in 2020 for an annual Regional property tax of $1,601.
- This report recommends the complete exit of tax capping for 2020 and future years as there are no longer any capped properties.
- 2020 is the fourth and final year of the four year assessment phase-in period meaning that 2021 will be the first year of the new assessment cycle. The Municipal Property Assessment Corporation (MPAC) has provided preliminary assessments for the 2021 assessment cycle. Based on this information, the residential tax class is anticipated to experience assessment increases of approximately 50% which may create a substantial shift of taxes onto the residential class.

Financial Considerations

There are no direct costs to the Region as a result of setting 2020 tax policy. There are however, taxpayer impacts as a result of tax shifts between property classes due to reassessment phase-in, assessment growth and tax ratio decisions. Detailed analysis of assessment growth, reassessment and phase-in changes and tax ratios are included in the Tax Policy Study attached as Appendix 1.

As will be discussed under the Other Policy Consideration section of this report, Council approved the phase-out of the commercial/industrial vacant unit rebate program starting in 2019 through CSD 3-2019. As part of the same report, Council approved the phase-out of the vacant/excess land subclass discount, which does not have an impact on tax policy until 2021.

Analysis

The Municipal Act provides the Region with the responsibility to establish tax policy to raise levy requirements. These tax policy decisions are reviewed and discussed with the Area Treasurers. Regional staff met with the Area Treasures and discussed options for the 2020 tax policy and the Area Treasurers unanimously supported the recommendations in this report.

Due to the 2016 reassessment, assessment growth and provincial legislation, tax shifts will occur 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.

Region staff presented Area Treasurers with a draft copy of the tax study as completed by the Region’s external tax consultant as well as reviewed various options and scenarios for 2020. Based on the feedback provided, both Regional staff and Area Treasurers are recommending a status quo tax policy for the 2020 taxation year. This recommendation is guided by the discussion contained under the Tax Policy Considerations section of this report. Due to the expected impact that 2021 reassessment will have on the residential tax class, the BMA study showing that all residential taxation categories are above the BMA study average, coupled with data provided by the Region’s Affordable Housing Strategy Steering Committee, that many of the households in the core housing need currently reside in single detached homes (included in the residential tax class), Regional staff and Area Treasurers support the recommendation that the reduction in residential taxes shifted to other classes in 2020 of 0.20% be maintained.

In previous years, the Region utilized the tax shift away from the residential class to benefit commercial and multi-residential property owners. In addition, the Region also created a new multi-residential tax class in 2003 which carries the same ratio as residential properties which provides greater relief to newly constructed multi-residential buildings. See Appendix 2 for historical Regional tax ratios.

Analysis of Current State/Status Quo

1. Assessment Growth

The overall real assessment growth that occurred in 2019 for the Region was 1.42% (as included in the approved 2020 operating budget), equivalent to $5.2 million in tax dollars from new taxpayers. Table 1 summarizes the overall assessment growth that occurred in 2019 as well as the impacts affecting each of the tax classes based on maintaining the status quo tax ratios for 2020.

Table 1 – 2020 Tax Levy Impacts by Property Class (Status Quo Policy)

Property Class	2019 Approved Levy	Growth Impacts	Phase-In Impacts	2020 Levy Impacts	2020 Approved Levy	Avg. % Increase
Residential	$ 265,269,922	$5,084,359	$ (536,036)*	$ 15,751,193	$ 285,569,438	5.74%
New Multi-Res	815,906	130,479	4,216	55,493	$1,006,094	7.32%
Multi-Residential	15,025,478	(204,665)	(54,469)	862,021	$15,628,365	5.37%
Farm	3,113,063	(59,446)	189,577	189,328	$3,432,522	12.17%
Management Forest	19,688	970	777	1,251	$22,686	10.30%
Commercial	67,237,042	(749,744)	490,011	3,909,962	$70,887,271	6.54%
Industrial	11,865,167	965,090	(66,738)	745,094	$13,508,613	5.72%
Pipelines	2,320,511	23,923	(26,578)	135,310	$2,453,166	4.69%
Landfill	58,884	-	(953)	3,382	$61,313	4.13%
Total	**$ 365,725,661**	**$ 5,190,966**	**$ (193)**	**$ 21,653,034**	**$ 392,569,468**	**5.92%**
% Increase		**1.42%**	**0%**	**5.92%**	**7.34%**	

** Represents a tax shift away from residential of 0.20%*

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 are phased in over 2017-2020. As identified above in Table 1, there is a decrease in the residential class' proportionate share of taxes (0.20%) as a result of phase-in changes which has been consistent over the current reassessment cycle. Table 2 shows the relative tax share of each tax class from 2019 to 2020. The 2020 amounts in Table 2 are based on the proposed status quo ratios from 2019. The table represents a starting point for the ratio analysis.

The residential increase noted above of 5.74% (below the total Regional levy increase of 5.92%) is as a result of the residential class phase-in assessment growth being 3.49% which is lower than the overall average of phase-in assessment changes of 3.83% (See Appendix 1, Table 13). Classes with assessment increases greater than the 3.83% average will experience tax increases greater than the Region's levy increase of 5.92% and classes with assessment less than the 3.83% average will see increases less than 5.92%.

Table 2 – Multi-Year Tax Distribution by Tax Class

Realty Tax Class	2019 Year End (As Revised)	Share	2020 Levy (As Returned)	Share
Taxable	**$**	**%**	**$**	**%**
Residential	$ 270,354,281	72.89%	$ 285,569,438	72.74%
Farm	3,053,617	0.82%	3,432,522	0.87%
Managed Forest	20,658	0.01%	22,686	0.01%
New Multi-Residential	946,385	0.26%	1,006,094	0.26%
Multi-Residential	14,820,813	4.00%	15,628,365	3.98%
Commercial	66,487,298	17.93%	70,887,271	18.06%
Industrial	12,830,257	3.46%	13,508,613	3.44%
Landfill	58,884	0.02%	61,313	0.02%
Pipeline	2,344,434	0.63%	2,453,166	0.62%
Total Taxable	**$ 370,916,627**	**100%**	**$ 392,569,468**	**100%**

3. Municipal Impacts of Tax Shifts

Similar to interclass shifts noted above, there will also be shifts between municipalities. Table 3 below provides a summary of the tax burden shifts across municipalities for the residential tax class as well as all tax classes overall. Appendix 1, Table 14 shows the municipal tax levy impacts of status quo tax policy recommendations overall.

Table 3 – Regional Tax Levy Shifts (2019 Revised to 2020 Notional)

Area Municipality	Residential	Total (Includes All Tax Classes)
Fort Erie	-1.40%	-1.42%
Grimsby	1.64%	1.90%
Lincoln	0.75%	0.72%
Niagara Falls	0.13%	0.24%
NOTL	0.17%	0.69%
Pelham	-0.73%	-0.61%
Port Colborne	-1.14%	-0.95%
St. Catharines	-0.67%	-0.32%
Thorold	-0.91%	-0.78%
Wainfleet	0.13%	0.57%
Welland	-0.93%	-0.94%
West Lincoln	0.99%	1.08%
Region Average	**-0.20%**	**0.00%**

- Six Municipalities (Fort Erie, Pelham, Port Colborne, St. Catharines, Thorold and Welland) see a tax shift away from the residential class above the Region average of 0.20% under the status quo scenario due to the residential reassessment increase being below the average increase for other municipalities.
- The remaining six municipalities (Grimsby, Lincoln, Niagara Falls, NOTL, Wainfleet and West Lincoln) will still see a positive tax shift on the residential class under a status quo scenario ranging from 0.13% to 1.64%.

4. Education Rates

The education tax rates are established by the Province and the decrease in the Provincial rate is greater than Niagara’s average assessment phase-in increase therefore the average property in Niagara will benefit from a reduction in education taxes paid which may assist in offsetting municipal tax increases.

5. 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 70-2019; however the by-law setting for the waste management rates for the 2020 requisitions are brought forward with the 2020 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. 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 status quo tax policy the tax shift away from the residential class will mitigate 0.20% the overall levy increase for the year of 5.92% to 5.74% (see Table 1). This decrease in the residential class' proportionate share of taxes has been observed in previous years of the current assessment cycle. In those previous years, the Region utilized the tax shift away from the residential class to provide relief to multi-residential and commercial tax classes through reduced tax ratios (see Appendix 2). As identified in the most recent BMA study, the weighted average residential property taxes (including water and wastewater) payable as a percentage of household income is above the BMA study average (i.e., Niagara 5.0% [5.2% weighted average] verses BMA average 4.9%). The tax shift from the reassessment 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.

- *Anticipated Impact of 2021 Re-Assessment* – as indicated previously, 2020 represents the final year of the current assessment cycle. 2021 will be the first year of the new assessment cycle which will start the phase-in of assessment values based on a January 1, 2019 valuation date. MPAC has released preliminary figures for the 2021 new assessment cycle and based on this preliminary analysis, Niagara will experience significant residential assessment increases. The residential tax class in Niagara is anticipated to experience a 50% increase in average assessed values while all other non-residential classes will experience an approximate 20% assessment value increase. This increase for the residential tax class is approximately 20% higher than the MPAC average for the Regions of Niagara, Peel and Halton, Cities of Hamilton and Brantford, and the Counties of Haldimand, Norfolk and Brant. Niagara residential assessments represents one of the highest increases across the Province. It is important to note that these values are still preliminary and are subject to change until finalized by MPAC later in 2020. More information on the residential assessment impacts can be found in Appendix 4.

Staff have completed an estimate of the impacts that this assessment change will have on the residential class in comparison to the estimated changes for other tax classes. It is estimated that there could be a shift onto the residential class of approximately 1.74% or $5 million. This means that the residential class as a whole would pick-up $5 million in Regional taxes in comparison to 2020. 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.

- *Multi-Residential Tax Class* – the multi-residential tax category consists of two property tax classes. The multi-residential class is responsible for 4.0% 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 status quo tax policy the multi-residential and new-multi-residential classes will see an increase of 5.37% and 7.32% over 2019 as a result of the 2020 levy increase and reassessment 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 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 $191 and the high/mid-rise structure types are below the average by $12 for 2019.

- *Industrial Tax Class* – per Table 2, under the status quo tax policy, the Industrial property class will be responsible for 3.44% of Regional taxes which includes a tax shift away from the industrial class in 2020 of 0.52%. Due to significant reassessment and appeal reductions in the property class in the recent past, the Industrial class share of taxation is down from 3.62% in 2016 and remains below or at the BMA relative tax burden averages for standard industrial provided in Appendix 3. The Region also offers many incentive programs including tax increment and development charge related grants that reduce the actual tax burden experienced by some industrial properties in Niagara. The current tax ratio has been in effect since 2007.

- *Commercial Tax Class* - properties pay the second largest share (after residential) of Regional taxes at 18.06%. Appendix 3 illustrates that Niagara taxation of shopping centres and hotels are moderately above the BMA average while office buildings and motels are below. 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 BMA study also compares commercial tax ratios for all participating municipalities which can be found in Appendix 5. The Region's tax ratio for the commercial class approximates the BMA average of 1.6785. The current tax ratio has been in effect since 2018 when it was reduced from 1.7586.

2020 Property Tax Levy Impacts

Table 4 shows the Regional tax increases for status quo tax policy. As per Appendix 1 Table 13, reassessment impacts increased the overall Region taxable assessment by an average of 3.83% for all tax classes. Properties that are reassessed with increases greater than the average of 3.83% will see tax increases greater than the Region's budget increase of 5.92% and conversely properties reassessed less than the 3.83% average will see increases (or decreases) of less than 5.92%.

Table 4 – Regional Tax Increases for Status Quo Tax Policy

Taxation Class	2019 Avg. CVA	2019 Regional Taxes	2020 Avg. CVA	2020 Regional Taxes*	$ Increase	% Increase
Residential	267,711	1,516	277,044	1,601	85	5.6%
Multi-Res.	2,533,468	28,262	2,617,326	29,802	1,540	5.4%
Commercial	772,380	7,588	806,828	8,090	502	6.6%
Industrial	735,909	10,960	761,371	11,574	614	5.6%
Farmland	363,311	514	400,114	578	64	12.4%

* Based on draft rates utilizing the 2019 status quo tax ratios.

Other Policy Considerations

- *Changes in discounts to commercial and industrial classes for excess and vacant land*

  In 2019, Regional Council reviewed and approved report CSD 3-2019 which recommended the elimination of this subclass discount over a 4 year phase-out starting 2021. As per the Council approved phase-out schedule, there are no impacts for 2020 for the commercial/industrial subclass property discounts.

  As discussed, the 2021 assessment cycle is anticipated to create a significant shift onto the residential tax class for each year of the cycle. The current Provincial approved vacant/excess land subclass phase-out for the Region is over a four year period starting in 2021. Staff have also reviewed the impacts in 2021 if the subclass discount was removed completely in 2021. If this occurred, it would reduce the shift onto the residential class by approximately $1 million. This analysis has been included in report CSD 9-2020 for Council's consideration as well.

- *Tax Capping Program*

  There were no properties capped in 2019 and no properties projected for 2020 and as a result, the Region is eligible for opting out the commercial tax class in 2020. It is therefore recommended that the necessary steps be completed to fully opt out of the capping program. The Region opted out of the capping program for multi-residential properties in 2017 followed by industrial in 2019.

Alternatives Reviewed

A number of scenarios were reviewed for the 2020 tax policy. All scenarios considered utilizing a portion of the tax shift away from the residential class to benefit other tax classes (i.e., industrial 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 2021 assessment cycle update on the residential tax class resulted in staff **RECOMMENDING** a status quo option for 2020.

Given the strong emphasis on affordable housing, staff analyzed an alternative that utilized half of the tax shift away from the residential class (0.10% of 0.20%) to reduce the tax ratio of the multi-residential tax class from 1.97 (status-quo) to 1.921. 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, 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, meaning 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.

Staff also analyzed an alternative which utilized half of the tax shift away from the residential class t (0.10% of 0.20%) to reduce the tax ratio of the industrial tax class from 2.67 (status-quo) to 2.554. 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 (industrial) 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.

Relationship to Council Strategic Priorities

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

Other Pertinent Reports

- CSD 7-2019 - 2019 Budget-Waste Management Services Operating Budget and Requisition
- CSD 3-2019 - Vacancy Program Revisions Submission to Ministry of Finance

Prepared by:
Rob Fleming, MBA
Senior Tax & Revenue Analyst
Corporate Services

Recommended by:
Todd Harrison, CPA, CMA
Commissioner/Treasurer
Corporate Services

Submitted by:
Ron Tripp, P.Eng.
Acting, Chief Administrative Officer

This report was prepared in consultation with Margaret Murphy, Associate Director, Budget Planning & Strategy, and reviewed by Helen Chamberlain, Director, Financial Management & Planning/Deputy Treasurer.

Appendices

Appendix 1	2020 Tax Policy Study
Appendix 2	History of Regional Tax Ratios
Appendix 3	Performance Measures
Appendix 4	MPAC Preliminary Market Trends – 2021 Assessment Cycle
Appendix 5	BMA Commercial Tax Ratio Comparison