

The Corporation of the City of Kawartha Lakes

Council Report

Report Number CORP 2017-005

Date: April 4, 2017
Time: 2:00 p.m.
Place: Council Chambers

Ward Community Identifier:

Subject: 2017 Tax Policy Decisions

Author/Title: Christine Norris
Manager, Revenue & Taxation/Deputy Treasurer

Signature: 
Deputy Treasurer

Recommendation(s):

RESOLVED THAT Report CORP2017-005, **2017 Tax Policy Decisions**, be received; and

THAT optional property classes for the 2017 tax year are not adopted; and

THAT for 2017 the tax rate reduction for vacant and excess land be set as follows:

Commercial:	30%
Industrial:	35%

and

THAT for 2017 the tax rate reduction First Class Undeveloped Farm Land be set at 45%;

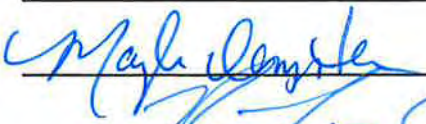
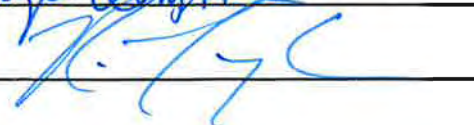
and

THAT staff investigates the impact of eliminating, or reducing, the tax reduction factor for vacant and excess land in the commercial and industrial property classes effective 2018, reporting back to Council on the results in the Q4 2017;

Department Head: _____

Corporate Services Director / Other: _____

Chief Administrative Officer: _____

And

THAT the City of Kawartha Lakes implements capping and threshold parameters as shown below:

Commercial	Industrial	
10%	10%	Annualized Tax limit
10%	10%	Prior Year's CVA Tax Limit
500	500	CVA Tax Threshold for protected properties (Increasers) (\$0 to \$500) and/or
500	500	CVA Tax Threshold for clawed back properties (Decreasers) (\$0 to \$500)
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Properties that were at CVA Tax in 2016 or that would cross over CVA Tax in 2017 are to be excluded from capping.

And

THAT the decrease clawback parameters for 2017 be set as shown below:

Multi-Residential: 0%
 Commercial: 0%
 Industrial: 0%

And

THAT the commercial tax ratio be applied to the landfill property class; and

THAT revenue neutral tax ratios for the multi-residential, commercial, industrial and pipeline broad property classes be adopted for 2017; and

THAT the necessary By-laws be forwarded to Council for adoption.

Background:

The Municipal Act, 2001 and the Assessment Act provide Council with the authority to make decisions concerning property taxation.

These decisions include:

1. adoption of optional property classes;
2. tax rate reductions for commercial and industrial properties where the land is in the property subclass of vacant land, or excess land;
3. capping and threshold parameters for properties in the multi-residential, commercial, and industrial property classes;
4. limiting the decrease for commercial, industrial, and multi-residential property classes subject to "clawback" provisions; and
5. revising tax ratios to mitigate tax shifts between the broad property classifications.

This Report will also provide recommendations for changes in tax policy for the City of Kawartha Lakes for 2017.

Rationale:

1. Optional Property Classes

The *Assessment Act* provides for the implementation of optional property classes allowing Council to apply different tax ratios to different property classes within the "main" property classes of commercial and industrial. Optional property classes include:

- Shopping Centre (included in the Commercial Broad Class)
- Parking Lots (included in the Commercial Broad Class)
- Office Building (included in the Commercial Broad Class)
- Large Industrial (included in the Industrial Broad Class)
- New Multi-Residential (included in the Multi Residential Broad Class)

Different tax ratios may be implemented if optional property classes are adopted however the tax ratios must fall within the legislated ranges of fairness shown in Figure 1:

Figure 1: Range of Fairness

Property Class	Range of Fairness (times the residential tax rate)
Commercial	0.6 to 1.1
Industrial properties	0.6 to 1.1
Pipeline properties	0.6 to 0.7
Multi-residential properties:	1.0 to 1.1
Farm	0.01 to 0.25

The range of fairness is below the tax ratios used for the existing property classes and would result in further tax shifts to the other property classes. The City of Kawartha Lakes has not adopted optional property classes ensuring that all properties within a defined “broader” property class are taxed at the same level.

As the assessment values associated with optional property classes is not significant as compared to the overall assessment base for the City staff does not recommend the use of optional property classes.

Recommendation 1:

That Council does not adopt optional property classes for the 2017 tax year.

2. Tax Rate Reduction Factors

Subsection 313(1) of the *Municipal Act, 2001* provides that tax rates levied for property in the commercial and industrial classes that are not classed as “occupied” be reduced.

Options available to the municipality are:

- 1) vacant and excess land in the commercial property class is taxed at 70% of the fully occupied commercial tax rate and in the case of vacant or excess land in the industrial property class the legislated rate is 65% of the fully occupied industrial tax rate; or
- 2) municipalities have the option to have a blended reduction rate. In order to implement that option, it would result in vacant and excess land in the industrial property class paying a higher level of taxation than is currently in place. Conversely, it would result in commercial vacant and excess land paying a lower rate; or
- 3) effective with the 2017 taxation year, if authorized by regulations, the municipality may pass a by-law where the reduction referenced above does not apply – in other words all vacant and/or excess land would be taxed at the same level as fully occupied properties.

Staff does not recommend introducing a blended rate at this time however does recommend during 2017 staff review the impact of eliminating or reducing the reduction on vacant and/or excess commercial and industrial property.

The other property class where Council has the option of changing a tax rate reduction factor is in the Farmland Awaiting Development property class. Council approved increasing the reduction factor from .45 of the residential tax rate in 2008 to .55 of the residential tax rate. At this time staff recommends no further changes for the 2017 taxation year.

Recommendation 2:

The tax rate reduction by-law for 2017 provide for reductions as follows:

Commercial:	30%
Industrial:	35%
First Class Undeveloped Farm Land:	45%

and

That staff investigates the impact of eliminating, or reducing, the tax reduction factor for vacant and excess land in the commercial and industrial property classes effective 2018 and report back to Council on the results in the Q4 2017.

3. 2017 Capping and Threshold Parameters

For taxation years 2006 through 2016 Council approved full use of the tools provided by the Province to move as many properties as possible to “**current value assessment times tax rate**” taxes.

The tools allowing for the movement of properties out of the capping calculation were updated in 2016 however too late for the City to implement the changes for 2016. The updated limits are reflected below:

- 5 - 10% of prior year capped taxes, or
- 0 - 10% of the prior year CVA taxes, and
- If the property is within \$500 of paying CVA taxes (either capped or claw backed).

In 2008 the Province announced the ability to exclude properties from capping and clawback calculations if they were at CVA taxes in 2008 or if the taxes were previously a capped property and became a property subject to a clawback of taxes or vice versa. Council adopted this option starting in 2009.

Table 1 shows in 2016 there were 4 properties subject to capping adjustments. At the time this Report was prepared the 2017 information was not available as the Ministry of Finance has not finalized 2017 education tax rates. The number

of properties will not increase, and should the information be available prior to this Report being presented to Council, staff will provide an updated chart.

Table 1

	Multi-Residential	Commercial	Industrial
Subject to Capping/Clawback:			
Capped	0	3	1
Clawed Back	0	0	0
Total Subject to Capping/Clawback	0	3	1
At CVA due to exclude options; or CVA Tax	92	1,524	309
Total Properties	92	1,527	310

The total dollar value of capping protection provided to these properties was \$4,467. It is expected that 1 if not 2 properties will be eliminated from capping with the \$500 threshold being increased from \$250 of prior years and capping protection will be less in 2017.

There is no impact on the Multi-Residential property class as all properties are now at the full level of taxation and the class has been removed from capping protection.

Staff is recommending Council continue approving the maximum options available to move as many properties to CVA tax as possible once again this year.

Recommendation 3:

The City of Kawartha Lakes implements the capping and threshold parameters as shown below:

Commercial	Industrial	
10%	10%	Annualized Tax limit
10%	10%	Prior Year's CVA Tax Limit
500	500	CVA Tax Threshold for protected properties (Increasers) (\$0 to \$500) and/or
500	500	CVA Tax Threshold for clawed back properties (Decreasers) (\$0 to \$500)
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Properties that were at CVA Tax in 2016 or that would cross over CVA Tax in 2017 are to be excluded from capping.

4. Clawback

Each year a by-law is required to provide the percentage of the tax decrease that is retained by the municipality (clawed back) in order to fund the properties that receive capping protection. The purpose of this by-law is to allow staff to apply these provisions to subsequent adjustments to the tax roll after the final tax bills are calculated.

As referenced in Section 3 – Capping and Threshold Parameters, information for the current tax year is not available pending the release of the education tax rates. For reference purposes the 2016 the decreases retained (clawed back) were as follows:

	Multi-Residential	Commercial	Industrial
Clawback Percentage	0%	0 %	0 %
Retained Percentage	0%	100%	100%
Total	100%	100%	100%
Tax Adjustment – Increases	\$0	(\$3,936)	(\$531)
Tax Adjustment – Decreases	\$0	\$0	\$0
Net class Impact	\$0	(\$3,936)	(\$531)

The funding for the commercial and industrial property classes will be realized through subsequent capping adjustments to accounts as a result of assessment appeals and minutes of settlement, therefore having no impact on the overall 2017 operating budget.

Recommendation 4:

That a by-law detailing the decrease clawback parameters as shown below be prepared:

Multi-Residential: 0%
Commercial: 0%
Industrial: 0%

5. Tax Ratios

Section 308 of the Municipal Act, 2001 requires municipalities to pass a by-law establishing tax ratios for each taxation year. Municipalities have the opportunity to decrease tax ratios, moving the ratios closer to the “range of fairness” (Figure 1 above) or in the case of a reassessment year adopt revenue neutral tax ratios in order to maintain the property tax burden as assessment values do not change equally between property classes resulting in some property classes potentially paying a larger share of the overall tax burden. In the situation where Council adopts revenue neutrality, tax ratios may be increased.

There are two ratios that cannot be changed – the residential tax ratio is the benchmark and is always 1, and the managed forest property class is 0.25.

This section will provide Council with the impact on property taxes if it is decided to:

- ✓ continue with 2016 tax ratios; or
- ✓ implement revenue neutral tax ratios.

Another option is to move the commercial and industrial tax ratios to the same as the residential tax ratio of 1 however that will create an even greater shift to the broader residential property class so this option will not be explored.

- *New Landfill Property Class*

A new property classification was introduced in 2017 to address the assessment of landfills across Ontario. Previously, landfills in the City were included in the Commercial tax class and now are in a Landfill property tax class. As of the writing of this Staff Report the tax ratios for the new property class have not been regulated and based upon the fact that the assessment for the Landfill property class is only 0.1% of the total commercial assessment staff is recommending the same tax ratio for the commercial property class applies to these properties as long as it is lower than the regulated ratio.

- *Tax Ratios*

Scenario 1 – using 2016 Tax Ratios:

Based upon preliminary information Table 1 shows the impact of the 2016 reassessment on the various property classes if the 2017 tax ratios remain the same as in 2016.

Table 1¹:

Class	2016 Starting Ratio	Assessment Related Tax Shift ²	
Residential	1	118,819	
Farmland Awaiting Development 1	.55	-1,265	
Farm	0.25000	225,342	
Managed Forests	0.25000	2,305	
Residential Class Shift³		345,201	↑
Multi-residential	1.979653	35,737	↑
Commercial Occupied	1.277500	-349,924	
Commercial Excess Land	0.894250	-1,610	
Commercial Vacant Land	0.894250	111	
Commercial Class Shift		-351,423	↓
Industrial Occupied	1.277500	-28,504	
Industrial Excess Land	0.830375	668	
Industrial Vacant Land	0.830375	801	
Industrial Class Shift		-27,035	↓
Pipelines	1.967203	-2,509	↓

Under this scenario the residential property class will see a significant shift in the tax burden while the commercial property class will realize a significant decrease and the industrial property class will see a marginal decrease. Staff does not recommend adopting 2016 tax ratios.

Scenario 2 – using Revenue Neutral Tax Ratios:

The second alternative available to Council is to adopt what is termed “revenue neutral” tax ratios. This means the tax burden of each property class for the previous year, is maintained in the current year, by adjusting tax ratios.

¹ All calculations are based on the General Levy requirements only and based upon information obtained from OPTA on March 17, 2017 @ 2:15 pm.

² Amounts are based upon 2016 year-end municipal levy only

³ Residential, Commercial and Industrial are the “broad” classes and include the other property classes in the grouping

Table 2:

Class	2012 Revenue Ratio	Assessment Related Tax Shift
Residential	1	-218,922
Farmland Awaiting Development 1	.55	-1,319
Farm	0.25000	218,216
Managed Forests	0.25000	2,007
Residential Class Shift		-19
Multi-residential	1.956823	-1
Commercial Occupied	1.379305	-9,918
Commercial Excess Land	0.965514	1,948
Commercial Vacant Land	0.965514	7,969
Commercial Class Shift		-1
Industrial Occupied	1.346448	-4,869
Industrial Excess Land	0.875191	2,521
Industrial Vacant Land	0.875191	2,347
Industrial Class Shift		0
Pipelines	2.001314	0

Scenario 2 provides the results should council adopt revenue neutral tax ratios. Both the commercial and industrial property classes would see an increase in the respective ratios. The ratio for the multi residential property class would decrease slightly while the pipeline property class would see an increase.

The tax ratios may change slightly before the by-law is presented to Council as staff is still awaiting regulations from the Province to finalize property taxes for 2017. However, the ratios will still result in revenue neutral taxation between the property classes.

Recommendation 5:

That the commercial tax ratio be applied to the landfill property class.

Recommendation 6:

That a by-law adopting revenue neutral tax ratios be prepared.

Other Alternatives Considered:

Farm Property Class Tax Ratio

The 2016 base year reassessment resulted in increases in the farm property classification that are 74% higher than 2012 base year assessment. As with previous years the increases in assessment are phased in over a 4 year assessment cycle and decreases are immediately realized by the property

owners. This results in the farm property class experiencing an increase of 18.31% in 2017 over 2016.

Based upon preliminary municipal tax levy information⁴ through the Ontario Property Tax Analysis tool the increases to farm property taxes are as follows:

Properties with Increases						Properties with Decreases					
Dollar Increase	Number of Properties	% of Total	% of Grand Total	Average Change	Total Dollar Increase	Dollar Decrease	Number of Properties	% of Total	% of Grand Total	Average Change	Total Dollar Decrease
0 -100	2462	66.87	66.67	51	126144	0 -100	9	81.82	0.24	12	106
100 -200	1014	27.54	27.46	137	138719	100 -200	1	9.09	0.03	126	126
200 -300	153	4.16	4.14	245	37489	200 -300	1	9.09	0.03	266	266
300 -500	45	1.22	1.22	361	16224	300 -500	0	0	0	0	0
500 -700	7	0.19	0.19	567	3969	500 -700	0	0	0	0	0
700 -1,000	1	0.03	0.03	869	869	700 -1,000	0	0	0	0	0
1,000 -1,500	0	0	0	0	0	1,000 -1,500	0	0	0	0	0
1,500 -2,000	0	0	0	0	0	1,500 -2,000	0	0	0	0	0
2,000 -3,000	0	0	0	0	0	2,000 -3,000	0	0	0	0	0
3,000 -Over	0	0	0	0	0	3,000 -Over	0	0	0	0	0
Total	3682	100	99.7	88	323,414	Total	11	100	0.3	45	498
Grand Total	3693			87	322,917						

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As with residential properties, farms are assessed based upon a willing seller to a willing buyer, and using verified farmer to farmer sales. The value of farm properties has increased as evidenced by MPAC data and Farm Credit Canada statistics. Farmers have the opportunity to have the assessed value of their property reviewed by MPAC by filing a Request for Reconsideration (RFR) (deadline was mid-February 2017) and if the property owner is not satisfied with the result of the RFR may appeal to the Assessment Review Board. Currently staff have identified there are 377 RFR's with MPAC of which 110 deal with farm property of which 38 are closed or pending close. There is one property that has filed an appeal to the Assessment Review Board.

As there has been considerable interest throughout the Province for Council's to lower the farm tax ratio to less than 25% of the residential tax ratio staff wanted to ensure Council had the necessary information to assist in decision making should the request to reduce the farm tax ratio be received.

Staff is not recommending a reduction in the farm tax ratio based upon the following:

- Property owners have the right to verify the assessed value of the property through AboutMyProperty©; complete an RfR, and file an assessment appeal to the ARB if they are not satisfied with the result of an RfR.

⁴ 2017 revenue neutral tax ratios with 2017 municipal levy

- If the assessed value is reduced the property owner will receive a reduction in the property taxes.
- If the tax ratio is reduced and there is a significant reduction in farm assessments through the RfR or appeal process it will create increased burdens on the other property classes.
- Once a tax ratio is reduced if there is a shift where the farm property class increase is lower than the average it will be very difficult for Council to increase the ratio.
- Any reduction on the farm tax ratio will create a shift onto the other property classes. As staff is recommending increasing the commercial and industrial tax ratio to avoid shifts, reducing the farm tax ratio is counterintuitive to the philosophy the City is using.
- Residential property owners do not have the ability to ask for their tax ratio to be decreased when the percentage increase in assessment is larger than the average for the municipality.
- Farmers can deduct the farm related portion of property taxes as a business expense on their annual income tax return.

Staff does not recommend decreasing the farm tax ratio below 25% of the residential tax ratio.

Financial Considerations:

With the existing recommendations there are no financial implications for the municipality.

Relationship of Recommendation(s) To The 2016-2019 Strategic Plan:

Tax Policy recommendations do not directly impact or align with a specific Strategic Priority.

Review of Accessibility Implications of Any Development or Policy:

Not applicable

Servicing Comments:

Not applicable

Consultations:

Not applicable

Attachments:

Not applicable

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