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2009 - 2012 PROPERTY TAX RATIOS

The Finance and Administration Committee recommends that:

1. the report from the Commissioner of Finance dated February 6, 2009, be referred back to staff for a report to the April 9, 2009 meeting of the Committee that incorporates the area municipalities' comments on the proposed property tax ratios, as well as options and the financial implications of adjusting the ratio for multi-residential properties from 1.0000 to 1.1000; and
2. the Regional Clerk forward a copy of this report to the area municipalities immediately following the Committee meeting, requesting their comments.

1. RECOMMENDATIONS

It is recommended that:

1. The property tax ratios for the taxation years 2009, 2010, 2011 and 2012 be established as follows:

Broad Property Class	2009 Tax Ratios	2010 Tax Ratios	2011 Tax Ratios	2012 Tax Ratios
Residential/Farm	1.0000	1.0000	1.0000	1.0000
Multi-Residential	1.0000	1.0000	1.0000	1.0000
Commercial	1.1803	1.1535	1.1268	1.1000
Industrial	1.3520	1.3303	1.3086	1.2869
Pipelines	0.9190	0.9190	0.9190	0.9190
Farmlands	0.2500	0.2500	0.2500	0.2500
Managed Forests	0.2500	0.2500	0.2500	0.2500

2. The Regional Solicitor be authorized to prepare the necessary by-laws to give effect to the above recommendation.

2. PURPOSE

This report recommends property tax ratios for the 2009, 2010, 2011 and 2012 taxation years. The report also provides an analysis of tax shifts arising from the 2008 general property assessment and provides options to mitigate the tax shift.

3. BACKGROUND

Tax ratios represent the amount of taxation to be borne by each property class in relation to the Residential class. The ratios reflect how the tax rate of a property class compares to the residential tax rate, with the Residential class tax ratio being equal to “one”.

Subsection 308(5) of the *Municipal Act, 2001* requires that Regional Council establish tax ratios through a by-law in each year for the upper-tier and lower-tier municipalities. The by-law must be passed on or before April 30 in each year, unless otherwise specified by the Province.

Unless otherwise approved by the Province, municipalities may only move their ratios within or closer to the “Ranges of Fairness”. Table 1 below illustrates Council’s policy of moving tax ratios towards the Ranges of Fairness. The 2003 reassessment created a significant tax shift to the Residential property class with the result that Council, with the approval of the Minister of Finance, sought to mitigate this shift by adjusting the Commercial and Industrial tax ratios away from the Ranges of Fairness.

The 2005 reassessment did not create a significant enough shift that Council felt a change in tax ratios was warranted.

Table 1
Historical Adopted Tax Ratios and the Ranges of Fairness

Broad Property Class	Ranges of Fairness	1999 - 2000	2001	2002	2003	2004 - 2008
Residential	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Multi-Residential	1.0 to 1.1	2.0875	2.0875	1.3000	1.0000	1.0000
Commercial	0.6 to 1.1	1.1190	1.1190	1.1000	1.1000	1.2070
Industrial	0.6 to 1.1	1.3427	1.3427	1.3000	1.3000	1.3737
Pipelines	0.6 to 0.7	0.9190	0.9190	0.9190	0.9190	0.9190
Farmland	0.2500	0.2500	0.2500	0.2500	0.2500	0.2500
Managed Forests	0.2500	0.2500	0.2500	0.2500	0.2500	0.2500

While the tax ratios for the Multi-Residential, Commercial, Industrial and Pipelines classes are determined by Council, the tax ratio for Managed Forests is prescribed by the Province at 25% of the Residential tax rate. The Region has the option to use the provincially prescribed tax ratio for Farmlands set at 0.25, which the Region has adopted, or apply a tax ratio of less than this amount.

In addition, certain sub-classes are subject to discounts under the *Municipal Act, 2001* which prescribes these reductions unless Council chooses to pass a bylaw prescribing other rates. In 2004, as part of a review of its long term tax policy, Council approved maintaining the discounts on vacant land and excess land subclasses in the Commercial

class at 30% and in the Industrial class at 35%. Discounts for the first and second subclasses for farmland awaiting development were maintained at 75% and 0% respectively.

3.1 The Province Introduces Phased-in Assessment for 2009

In response to the Ombudsman's report, the Province's 2007 Ontario Budget announced changes to the property assessment system to enhance the fairness and predictability of assessments for property owners. These changes included the following:

- A four year reassessment cycle;
- A mandatory phase-in of residential assessment increases spread equally over four years; and
- Enhancements to the fairness and effectiveness of the assessment appeal system.

In the 2008 Ontario Budget, the phase-in program was extended to all property classes for any assessment increases. The Region had advocated for this amendment in the Report of the Commissioner of Finance received by Council on January 24, 2008 and through correspondence from the Regional Chair to the Premier of Ontario. *Bill 44, the Budget Measures and Interim Appropriation Act, 2008* passed the extension with the first of the 4 year cycle beginning in the 2009 taxation year (based on a January 1, 2008 valuation date).

Under the four-year phase in cycle, if assessed value increases because of general reassessment, the annual current value increase is 25% of the total increase to reach its destination value or 100% of the reassessed value by 2012. However, decreases in a property's assessed value due to reassessment will be fully realized in 2009.

4. ANALYSIS AND OPTIONS

While the Region's assessment base has increased due to reassessment, this does not result in an increase in overall property tax revenue received. Those properties for which the increase of assessment value is greater than the average will generally be subject to a property tax increase, while those with an increase less than the average will generally be subject to a decrease in the tax bill from the effect of reassessment.

4.1 Reassessment May Create Tax Shifts between Property Classes

Whenever reassessment is undertaken, three types of tax shifts are possible:

1. between property types within property tax classes
2. among property tax classes
3. among local municipalities within the Region

A tax shift occurs when the assessed value of one property type increases more than that of another property type thereby redistributing the tax burden between property types. Similarly, when a property tax class experiences overall valuation increases more than another property tax class, this reallocates a greater burden of taxes from one class to another. In addition, local municipalities within the Region that have reassessment increases on a property class greater than that of other municipalities of the same property class are likely to experience a shift in tax burden.

The Region can use tax ratio policy to offset or mitigate reassessment related tax shifts. However, the Region's ability to adjust tax ratios and redistribute the tax burden between the property classes is limited by statutory provisions. As indicated in the background section of the report, the Region is restricted in moving tax ratios closer to or within the "Ranges of Fairness" established by the Province without the specific permission of the Minister of Finance.

4.2 The 2008 Reassessment Will Shift Taxes to the Business Property Classes

If tax ratios remain at the status quo, business properties will experience additional tax impacts arising from the tax shift from the residential class to primarily the commercial and industrial classes. Table 2 illustrates the dollar and percentage magnitude of the reassessment changes and shift in taxation by broad property class to demonstrate the significance of mitigating such a tax shift to the business properties after the full phase in of the changes in 2012.

Table 2
2012 Destination Assessment Impact

Broad Property Class	Reassessment Increase (\$)	Reassessment Increase (%)	Shift in Taxation (\$)	Shift in Taxation (%)
Residential	\$21,548,337,740	19.50%	\$(12,154,698)	-2.13%
Multi-Residential	\$216,836,610	21.80%	\$(13,807)	-0.27%
Commercial	\$5,573,354,857	33.20%	\$10,703,602	10.44%
Industrial	\$1,555,280,226	28.60%	\$1,368,677	3.75%
Pipelines	\$25,513,000	12.90%	\$(71,047)	-7.60%
Farmland	\$335,907,941	41.30%	\$166,519	15.88%
Managed Forests	\$7,188,745	24.70%	\$754	2.01%

4.3 Adjusting Tax Ratios Can Mitigate the Tax Shift

A tax ratio adjustment is required to mitigate shifts in taxation resulting from the reassessment of properties in order to restore the relative portion of taxes collected from each property class to the level prior to reassessment. As a first step, the tax ratios would be adjusted assuming there are no constraints and which would result in little or no shift

in taxation after reassessment. This step is referred to as achieving revenue neutrality with no tax ratio limitations.

Table 3 summarizes the adjusted tax ratios or revenue neutral tax ratios and its corresponding impact on shifts in taxation:

Table 3
Revenue Neutrality

	Revenue neutral tax ratios	Shift in Residual Taxation (%)
Residential	1.0000	-0.01%
Multi-Residential	0.9817	0.03%
Commercial	1.0700	0.03%
Industrial	1.2963	0.03%
Pipelines	0.9737	0.03%
Farmland	0.2112	0.03%
Managed Forests	0.2399	0.03%

Although full revenue neutrality can be attained by implementing the full revenue neutral tax ratios, Council has maintained policy precedents on certain property classes as follows:

- The multi-residential class was maintained at the same tax level as the residential tax class.
- The pipelines class has been set at 0.9190 since 1999. Therefore increasing the tax ratio away from the Ranges of Fairness would require the approval of the Minister of Finance.
- The farmland class has historically being set at the provincially prescribed tax ratio of 0.25, although the Region does have options to set another tax ratio.
- The managed forests class is prescribed by the Province at 25% of the residential tax rate.

Given Council's precedents, a hybrid revenue model is recommended to mitigate, at least in part, the tax shifting between property classes.

4.4 Proposed Tax Ratios Results in Moving Towards the Ranges of Fairness

The recommended hybrid tax ratios result in the commercial tax ratio reaching the upper limit of the Ranges of Fairness, i.e. 1.1000 from 1.2070, and the industrial tax ratio moving to 1.2869 from 1.3737. Table 4 summarizes the analyses from the currently adopted tax ratios of 2008 to revenue neutral tax ratios and lastly to the proposed hybrid tax ratio option.

Table 4
Proposed tax ratios – 2012

Property Classes	Current	Revenue Neutral	Recommended Hybrid Option
Residential	1.0000	1.0000	1.0000
Multi-Residential	1.0000	0.9817	1.0000
Commercial	1.2070	1.0700	1.1000
Industrial	1.3737	1.2963	1.2869
Pipelines	0.9190	0.9737	0.9190
Farmland	0.2500	0.2112	0.2500
Managed Forests	0.2500	0.2399	0.2500

The proposed tax ratios will also reduce the capping protection by reducing the tax shift to the commercial and industrial property classes, a portion of which would be capped under the current legislation.

4.5 Tax Ratio Adjustment Should Follow the Assessment Phase In

Analysis indicates that a one time change in tax ratios for the period 2009 through to 2012 would create a substantial tax burden shift onto the residential property class that would be gradually reversed by 2012 using the proposed hybrid tax ratio option. To avoid this particularly large burden on the residential property class, it is recommended that the proposed tax ratios be phased in consistent with the assessment phase in.

Adjusting tax ratios in equal portions, i.e. 25% annually, to attain the destination tax ratios in 2012 will bring the relative portion of taxes collected from each property class close to the level prior to reassessment as well as return the industrial class to revenue neutrality and leave a residual benefit to the residential and pipeline property tax classes.

4.6 Path to Achieving the Proposed Tax Ratios in 2012

Table 5 shows the proposed path of business class tax ratios annually in order to attain the recommended hybrid tax ratio option with comparison drawn to the approved 2008 tax ratios and the Ranges of Fairness.

Table 5
Phase In of Tax Ratios

Property Class	Approved 2008 Ratios	Proposed 2009 Ratios	Proposed 2010 Ratios	Proposed 2011 Ratios	Proposed 2012 Ratios	Ranges of Fairness
Residential	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Multi-Residential	1.0000	1.0000	1.0000	1.0000	1.0000	1.0 to 1.1
Commercial	1.2070	1.1803	1.1535	1.1268	1.1000	0.6 to 1.1
Industrial	1.3737	1.3520	1.3303	1.3086	1.2869	0.6 to 1.1
Pipelines	0.9190	0.9190	0.9190	0.9190	0.9190	0.6 to 0.7
Farmland	0.2500	0.2500	0.2500	0.2500	0.2500	0.2500
Managed Forests	0.2500	0.2500	0.2500	0.2500	0.2500	0.2500

4.7 York Region's Tax Ratios Are the Lowest in the GTA

Table 6 following provides an illustration of current or proposed property tax ratios for the GTA municipalities. The recommended hybrid option will make York Region's tax ratios the lowest in the GTA and among the lowest in the province.

Table 6
Comparison of Property Tax Ratios for 2009

Broad Property Class	York (proposed)	Peel¹	Halton²	Durham³	Toronto⁴
		Mississauga	Brampton/ Caledon		
Residential	1.0000	1.0000	1.0000	1.0000	1.0000
Multi-Residential	1.0000	1.7788	1.7050	2.2619	3.4689
Commercial	1.1803	1.4098	1.2971	1.4565	3.5216
Industrial	1.3520	1.5708	1.4700	2.3599	3.7412
Pipelines	0.9190	1.1512	0.9239	1.0617	1.9236
Farmland	0.2500	0.2500	0.2500	0.2000	0.2500
Managed Forests	0.2500	0.2500	0.2500	0.2500	0.2500

¹ No changes are expected on tax ratios

² Currently under review, it is expected that there will be no changes to tax ratios

³ No changes are expected on tax ratios

⁴ Currently under review, it is expected that a decision will be made at the end of March/09

5. FINANCIAL IMPLICATIONS

There are no direct financial impacts as a result of the recommendations contained in the report. However, the indirect financial impacts would be that a tax shift burden is mitigated leaving a nominal benefit to the Residential and Pipeline property tax classes.

6. LOCAL MUNICIPAL IMPACT

Indirectly, each of the municipalities within the Region will observe tax shifts unique to their composition of property tax classes.

7. CONCLUSION

This report recommends the tax ratios for approval by Council.

As a result of the January 1, 2008 property reassessment, a tax shift occurs to business property classes using the adopted 2008 tax ratios. To mitigate this tax shift, an adjustment of the tax ratios is recommended. Consistent with Council's earlier direction, a hybrid tax ratio option is proposed that returns the Commercial tax ratio to the 2002 level and achieves revenue neutrality on a Regional basis for the Industrial property class. It is recommended that the proposed business tax ratios be phased in consistent with the assessment phase in and by doing so results in the most efficient process to achieve the hybrid tax ratio option.

For more information on this report, please contact Brian Parrott, Manager, Fiscal Policy at extension 1667.

The Senior Management Group has reviewed this report.