MANAGEMENT REPORT

Date: April 24, 2023
To: Finance and Labour Relations Sub-committee
From: Karmen Krueger, CPA, CA, Director of Corporate Services
Report #: FIN23-014
Attachments: 1. Draft By-law Tax Rates and Ratios for 2023; 2. Tax Rate Calculation 2023; 3. Vacant Home Tax Newsletter (MTAG)

Title: 2023 Tax Rates and Tax Policy Matters

Objective: To provide the Finance and Labour Relations Sub-Committee with further analysis regarding the 2023 tax rates as initially provided during budget and to include background information on the City's tax policies and discretionary tax policy options. Some background regarding Vacant Home Tax is also included, strictly for information at this time.

Background: Through the 2023 budget process, Council was provided with information on the anticipated increase on an average property owner for illustration purposes to provide context for the proposed budget impacts to ratepayers. The primary reason for this information, in advance of the budget being fully adopted and formalized was to demonstrate the difference between the increase to the tax dollars levied, and the increase to a property owner's tax rate. As it was for illustration and used a residential property example, it did not really speak to how the calculation works for all property classes.

As Council is aware, the revenues for the City are comprised of user fees, service charges, provincial and federal grants, contributions from other municipalities, licenses, permits, rents, fines and penalties, investment income and sometimes donations or asset sales (land and used equipment). The residual revenues required to provide services are derived from the tax levy.

Excerpts are provided below from a prior report that came before Council in 2019 and again in 2022, containing much of the background for the tax process as a refresher.

Beginning in 1998, tax reforms introduced the valuation principal of Current Value Assessment (CVA) using a common date of valuation for all properties in the Province, with updates now being generated every four years. The last update was intended to occur in 2020, however, due to the impacts of the Covid-19 pandemic, this has been deferred, with eventual dates still to be announced. (The earliest anticipated is 2024). The tax reforms in 1998 also established new property tax classes (i.e., residential, multi-residential, commercial, industrial) and allowed municipalities to set different tax rates for different types of property within a range of parameters.

The current method of property assessment divides properties into nine mandatory classes and seven optional property classes.

Mandatory Property Classes

1. Residential (RT)
2. Multi-Residential (MT)
3. New Multi-Residential (2017) (NT)
4. Commercial (CT)
5. Industrial (IT)
6. Pipelines (PT)
7. Farm (FT)
8. *Managed Forests (none in City of Stratford) (TT)*
9. Landfill (2017) (HF)

Optional Property Classes

1. Office Building
2. Shopping Centre
3. Parking Lot & Vacant Land
4. Residual Commercial
5. Large Industrial
6. *Professional Sports Facility (none in City of Stratford)*
7. *Resort Condominium (none in City of Stratford)*

Further, the mandatory and optional sub-classes of properties were established to allow for the application of discounted tax rates due to the special nature of some properties.

Optional Subclasses

1. Small-scale on-farm business for the Commercial Property Class (since 2018)
2. Small-scale on-farm business for the Industrial Property Class (since 2018)

Properties in different classes are taxed at different ax rates due to historical differences in tax burdens that were present prior to the 1998 reform of the property tax system and reflected in the initial transition ratios set by the Province.

Typically, commercial, industrial, and multi-residential properties have higher tax rates than residential properties.

The different relative tax burdens among properties are based on the **tax ratios** set by municipalities. Changing the tax ratios would result in a shift of the tax burden between classes.

Based on provincial legislation, the tax ratio for the residential class is set at 1.00. Because the residential class assessment represents the largest class, this is the 'baseline' ratio, upon which the other classes are established.

Initially, the Farm and Managed Forest property class ratios were set at 0.25 of the residential rate. Municipalities were granted the authority to lower the farm ratio starting in 2003. Many municipalities came under a lot of pressure to do so in last decade due to the rapidly escalating CVA of farmland in comparison to other types of property. The latest real estate market information indicates that this escalation is no longer just in the farm classes. If a ratio is reduced in one class, the result is a shift of property taxes from the reduced class to the other classes. Since the residential property tax class is the largest, it bears most of the impact of any shift.

Municipalities can change the tax ratios for the commercial, industrial, multi-residential and pipeline property classes. As these classes typically have a tax ratio higher than the residential class, the province permits municipalities to change tax ratios towards established "ranges of fairness." The ranges ensure that taxes are not shifted onto properties that are already subject to relatively higher taxes.

The ranges of fairness ratios are noted in this table, with Stratford's current ratios. The classes noted by an asterisk indicate which classes exceed these ranges.

Property Class	Range Of Fairness	2023 City of Stratford
Residential	1.00	1.000000
Farm	0 - 0.25	0.250000
Multi-residential *	1.00 - 1.10	2.000000
New Multi-residential	1.00 - 1.10	1.000000
Commercial *	0.60 - 1.10	1.975937
Industrial *	0.60 - 1.10	2.542033
Pipeline *	0.60 - 0.70	1.509000
Managed Forest	0.25	0.25

That some ratios are outside the ranges established by the Province, just means that for these, the options available to change the ratios has an opposite effect on the other classes. For example, if one classes ratio is increased, there may be forced reductions in other classifications, shifting the shift tax burden.

Analysis: The province also enacted Threshold Ratios which limit a municipality's ability to levy municipal tax increases on commercial, industrial, and multi-residential properties if their respective class ratios are above the provincial class average.

Within this, a municipality may pass on only 50% of the levy increase that would be applied to the residential class if they exceed the Threshold Ratio for a tax class.

In 2022 and previous years, the City of Stratford exceeded the threshold ratio for the Industrial property class, which had the effect of splitting the remaining 50% across the other property classes (mainly residential). This ratio has edged downwards over time so that now, the ratio is at 2.542033. This means that from now on, the industrial properties are paying the full effects of the tax rate increases and the other property classes are no longer subsidizing tax increases attributed to the industrial property class.

Property Class	Threshold Ratio	2022 City of Stratford
Multi-residential	2.000000	2.000000
Commercial	1.980000	1.975937
Industrial	2.630000	2.542033

This is a simplified description of property tax calculations and demonstrates that the impact of tax policy decisions can be complex. If a tax ratio change is contemplated by Council and permitted by legislation, the impact on all other tax classes is not a straightforward calculation and is complicated by restrictions in our ability to pass along changes to some other tax classes.

The most recent 2022 BMA Study shows a wide range of tax ratios between the 56 municipalities that participate in their study. Stratford's ratios fall in the middle of the provincial averages.

	Multi-residential	Commercial	Industrial
Stratford	**2.0000**	**1.9759**	**2.542033**
Average	1.7246	1.6689	2.1175
Median	1.8629	1.7042	2.0691
Minimum	1.0000	1.0820	1.1000
Maximum	2.3594	2.6374	4.4267
Range of Fairness	1.00 - 1.10	0.60 - 1.10	0.60 - 1.10
Threshold	2.0000	1.9800	2.6300

If tax ratios are not periodically reviewed and adjusted, property class assessed values that consistently increase at a faster rate than the residential class, may pay an increasing share of the overall tax levy.

Provincially, this has most prominently been the case for Farmland (FT) and also Multi-Residential (MT) in past years. But with the spike in the Residential real estate market in the past few years combined with the pause on reassessments undertaken by MPAC, this could have the effect of further shifting between classes once it is undertaken.

It has been a number of years since the City of Stratford performed a fulsome tax policy review, and it would be prudent to open the discussion to see if there is any interest by Council in:

- Shifting the tax burden between property classes, or
- Eliminating the impact of any reassessment related tax shifts that normally occur at the time of each assessment cycle.

Since MPAC has delayed the reassessment, staff strongly recommend that such analysis be undertaken when a new assessment cycle begins, as this would represent the most accurate reflection of the assessment information and the comparison between the classifications would be more reflective of actual market information. Adjusting ratios now, before a period of reassessment, could result in a shift that is temporary or has longer term impacts that cannot be reversed before the effects of reassessment are fully understood.

Tax Burdens and Tax Rates 2023

Due to additions to the assessment roll from growth and other individual reviews, plus the shifts noted to the industrial class, the amount of tax revenues raised from each class of property has remained relatively stable, changing by only a fraction of a percentage compared to each other.

Tax Class	2022	2022 %	2023	2023 %
Industrial	$4,796,207	7.03%	$5,213,558	7.14%
Residential	$44,501,933	65.19%	$47,625,081	65.22%
All Other Classes	$18,965,986	27.78%	$20,185,875	27.64%
Total	$68,264,126	100.00%	$73,024,514	100.00%

Attached to this report is the detailed calculation reflecting total initial current value assessment for each tax class and the corresponding ratios. The product of these two columns equates into the weighted CVA. To arrive at the 2023 taxation dollars for each class, the opening CVA is multiplied by the rate for each class.

The bottom of the table shows how the total levy required is determined by taking the previous year’s budget and adding the 2023 required increases. It is this calculator that assists with estimating the tax rate increase through the budget process. But without a fulsome analysis of the interclass relationships, this does end up only being an estimate through the budget process.

The final total tax rate is noted in the table attached is 0.1352611, which is slightly higher than the 4.66% reported during the budget process due to this shifting and the forced reduction to the industrial ratio because it previously exceeded 2.630000. Now that it is below 2.630000, in 2024 there will be no further adjustments required. Then, once the reassessment occurs province-wide, the ratios can be revisited. These complex allocations are not typically part of the initial budget process, but have been possible, and reasonably accurate due to the reassessment periods being delayed.

So, for a house valued at $350,000 means total taxes in 2023 of $5,269.64, or $245.77 more than 2022. Once these rates are implemented, the impact to property owners occurs in the final billing process so this increase is spread over the final two quarterly instalments, or if on a monthly payment plan, over the last six months of the year.

Another useful piece of information on this table is the comparison of the 2023 residential tax rate to the revenue neutral residential tax rate. The revenue neutral tax rate is the rate that would exist IF the City did not have any new budget requirements, AND factoring in all the shifting discussed, AND factoring in any new growth on the returned tax roll. There would have been a modest decrease to the 2023 tax rates. So, a couple of ways to summarize this concept:

1) If growth in assessment were sufficient to offset any budgetary requirements, there would not be a tax rate increase
2) If growth in assessment were greater than any budgetary requirements, the tax rates would decrease

This is being described to illustrate that increases to assessment values do not necessarily result in increases to the residential tax rates and that it is a complex calculation. When the provincial reassessment does occur, shifts between the classes may result in changes for property owners, with or without any increases to budget requirements.

Further updates regarding the provincial reassessment and impacts to Stratford property owners' assessment values will be provided as they become available.

Other Matters For Consideration

There have been some recent questions around whether the optional Vacant Home Tax (VHT) should be considered as a revenue stream for the City of Stratford.

The VHT was first introduced in April 2017 as a part of Ontario's Fair Housing Plan. Then on May 17, 2017, *Bill 127, Stronger, Healthier Ontario Act (Budget Measures), 2017* received Royal Assent and implemented measures contained in the 2017 Ontario Budget. This legislation change was first introduced in April 2017 as a part of Ontario's

Fair Housing Plan. The stated objective was initially to empower the City of Toronto and potentially other interested municipalities to introduce a vacant homes property tax to encourage property owners to sell unoccupied units or rent them out to address concerns about residential units potentially being left vacant by speculators. It was not originally conceived to be a sustainable revenue stream; rather a punitive measure to discourage buy-and-hold speculators from limiting the housing supply.

The *Municipal Act, 2001* now includes Part IX.1 Optional Tax on Vacant Residential Units, which provides a designated municipality the authority to impose a tax on the assessed value of vacant units that are classified in the residential property class and that are taxable under the *Assessment Act* for municipal purposes.

The Act sets out certain requirements and conditions relating to the imposition of a VHT, which are that:

- it must be a property tax applied to assessed value;
- the tax may apply only to the residential property class;
- the property must be taxable under the Assessment Act; and,
- it must be imposed by a by-law stating the tax rate, identifying the conditions of vacancy, and providing other necessary provisions.

The City of Toronto was provided with this authority in 2017 under the *City of Toronto Act*, *2006*, and just began moving towards implementation in 2022. Other municipalities wishing to pursue this route in Ontario must first become designated by the Province before they can impose this tax. The City, as single-tier municipality, could seek this designation from the Minister of Finance.

The *Municipal Act, 2001* sets out certain similar requirements and conditions relating to the imposition of a VHT. Should a review of a Vacant Home Tax be desirable by Council, a feasibility and public policy benefit study for potential introduction of the tax in Stratford would be required, needing staff resources dedicated from the appropriate departments such as Finance, Planning, Housing, and external legal counsel.

Other municipalities have used an analysis of water consumption reports to determine the extent of vacancies, looking at consistent low or zero consumptions by property. This may be a good indicator of the extent to which there *could* be properties available for occupancy in the City, but the very preliminary research and analysis performed indicates that the vacancies are not significant enough to pursue implementing a significant program. Staff will explore these types of reports and should there be an identified opportunity, would return for further discussion.

Tax policy discussions revolve around the "who pays what" after the City budget has been approved. Shifts in tax ratios rebalance the amounts paid by each property tax class. The overall financial impact to the City of approving the rates for each property class to the City's operating budget is nil.

Approving the tax ratio by-law and tax rate by-law is required in order to issue final tax billings for properties.

Financial Implications:

Financial impact to current and future year operating budgets: There are no financial implications to the City as a result of this report.

Alignment with Strategic Priorities:

Strengthening our Plans, Strategies and Partnerships
Partnering with the community to make plans for our collective priorities in arts, culture, heritage and more. Communicating clearly with the public around our plans and activities.

Developing our Resources
Optimizing Stratford's physical assets and digital resources. Planning a sustainable future for Stratford's resources and environment.

Alignment with One Planet Principles:

Not applicable: This report is not related to the One Planet principles as it is a financial report provided for information.

Staff Recommendation: THAT the report of the Director of Corporate Services dated April 24, 2023 regarding 2023 tax rates and tax policy matters (FIN23-014) be received;

AND THAT the 2023 Tax Ratios and Tax Rates By-law be adopted as presented.

Prepared by:	Karmen Krueger, CPA, CA, Director of Corporate Services
Recommended by:	Karmen Krueger, CPA, CA, Director of Corporate Services
	Joan Thomson, Chief Administrative Officer