

MANAGEMENT REPORT

Date: April 22, 2024
To: Mayor and Members of Council
From: Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer
Report Number: COU24-039
Attachments: 1. Draft By-law Tax Rates and Ratios for 2024;
2. Tax Rate Calculation 2024

Title: 2024 Tax Rates and Tax Policy Matters

Objective: To provide Council with further analysis regarding the 2024 tax rates as initially provided during budget and to include background information on the City's tax policies and discretionary tax policy options. To consider adopting the Tax Rates and Ratios for 2024 By-law.

Background: Through the 2024 budget process, Council was provided with information on the anticipated increase on an average property owner's assessment 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 speak to how the calculation works for all property classes and did not include all effects of shifts between the property classifications.

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 2023, 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 tax 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 had higher tax rates than residential properties.

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

The provincial legislation determines that 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.

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 reduce these 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	2.540330
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 ratio is decreased, there may be forced increases in other classifications, shifting the shift tax burden.

The province's 'Threshold Ratios' 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.

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. Stratford no longer has this issue as all ratios in these classes are below the Threshold Ratios as noted in the table below.

Property Class	Threshold Ratio	2022 City of Stratford
Multi-residential	2.000000	2.000000
Commercial	1.980000	1.975937
Industrial	2.630000	2.540330

Analysis: The most recent 2023 BMA Study shows a wide range of tax ratios between the 54 ration setting 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	2.540330
Average	1.6356	1.5423	2.0304
Minimum	1.0000	1.0820	1.1000
Maximum	2.2174	2.5818	4.3356
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.

It has been several 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 class 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 2024

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.

Class of Property	2022	2022	2023
Industrial	\$ 4,796,207	7.03%	\$ 5,213,558
Residential	\$ 44,501,933	65.19%	\$ 47,625,081
All other Classes	\$ 18,965,986	27.78%	\$ 20,185,874
Total	\$ 68,264,126	100.00%	\$ 73,024,514

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 2024 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 2024 required budget 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.

The final total tax rate is noted in the table attached is 0.1465717, which is slightly higher than the estimated increase reported during the budget process due to this shifting. 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 a reasonable estimate due to the reassessment being delayed.

So, for a house assessed at \$350,000 means total taxes in 2024 of \$5,665.51, or \$407.63 more than 2023 (7.75% higher than 2023). 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 2024 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 taxation dollars from growth in assessment were sufficient to offset any budgetary requirements, there would not be a tax rate increase required, as growth would offset the increases.
- 2) If taxation dollars from growth in assessment were greater than any budgetary requirements, the tax rates would decrease.

This is 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.

Financial Implications:

Financial impact to current and future year operating budgets:

There are no financial implications to the City because 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 a by-law be adopted to authorize the 2024 tax ratios and rates.

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