Staff Report

Report To: City Council

Report From: Kate Allan, Director of Corporate Services

Meeting Date: March 27, 2023

Report Code: CR-23-026

Subject: 2023 Tax Policy and Rate Calculation

Recommendations:

THAT in consideration of Staff Report CR-23-026 respecting 2023 Tax Policy and Rate Calculation, City Council directs staff to:

1. Reduce the multi-residential class ratio to 1.508425; and
2. Bring forward a by-law to authorize the collection of 2023 property taxes.

Highlights:

- Recommendation reduces tax ratio on multi-residential property tax classes by 9.57% before the levy increase.
- There are strong indicators that the Province is moving towards a legislated equalization of the multi-residential tax class supported by a joint report released by the Building Industry and Land Development Association and the Federation of Rental-Housing providers of Ontario.
- Lowering the multi residential ratio is identified as a strategic direction in the City's development of an Action Plan to Promote and Facilitate Attainable and Affordable housing.
- Once adjusting for the change in ratios and adding the 2023 total levy change, the average residential taxpayer is estimated to realize an annual increase of 1.36%.

Strategic Plan Alignment:

Strategic Plan Priority: Clear Direction - KR2 - Align total municipal levy to Council's directed threshold each year while maintaining capital increase of 1 per cent annually

Previous Report/Authority:

2023 Budget

Background:

The City of Owen Sound is unique in the province as we are a lower tier that is responsible for our own Tax Policy. Other lower-tier municipalities and specifically those in Grey County, rely on the upper tier to set their tax ratios. Generally, the County has not recently adjusted its ratios save for a reduction in the farm ratio in 2019.

In response to pressures and volatile real estate markets, the Province made the decision early in 2020 to delay the planned reassessment cycle scheduled for 2021, and it remains delayed for the 2023 tax year. Had the planned reassessment gone ahead, current value assessment (CVA) for all assessed properties in the province would have been adjusted from 2016 values to 2019 values. However, for the first time since 2008, the assessment remained the same due to reassessment or phase-in. At this point in time, it has not been stated when a new assessment cycle will commence or on which year the current values will be based.

Although we are not dealing with reassessment for 2023, we are in a circumstance where the CVA values we are taxing are further away from actual market values than has been the case since the 1990s. In other words, the basis on which we distribute the tax burden does not match the current distribution of market values. As such, it remains critical for those in both administrative and decision-making positions to understand how market value updates may impact the tax landscape when they do occur and equally how they will not. With a new Council, it is beneficial to have a clear understanding of these concepts ahead of the complexity of restarting reassessment after the longest pause in more than two decades.

This report aims to make recommendations in line with anticipated provincial changes as well as authorize the tax rates for 2023 utilizing the municipal levy approved earlier this year.

Growth vs. Market Value Changes

Tax rates are calculated by dividing the levy (Municipal and County) by the weighted assessment roll. Taxes are collected by applying the calculated tax rate to property assessment values. The assessment roll is a constantly changing data set. It changes in response to real-world market value and changes in property. Assessed values of properties can change for a number of reasons; however, for the purposes of impacts to the property tax system, we consider them as one of two categories: Real Growth and Market Value Changes.

Real Growth (both positive and negative) reflects the value increase or decrease associated with a change to a property's state or condition.

- Building a house or structure on a property previously vacant.
- Changes in use i.e., industrial to multi-residential. Industrial, in this case, experiences negative growth, whereas multi-residential growth is positive.
- Negative changes may result in Assessment Review Board (ARB) decisions about adjustments to the roll pending decisions of the board i.e., a write-down of commercial assessment.

Reassessment change is simply a matter of revaluing what a property's market value would be at a point in time.

- Reassessment changes do not represent new property or improved property.
- Generally, equate to inflation.
- Changes in assessed value will impact the proportional share of the levy.

As an analogy, consider sharing a dinner with three friends. The assessment value is analogous to the criteria that determine the proportional amount of the bill that each person will pay. It may be equal, but it may also be distributed based on some other criteria. Either way, between three people, the bill for the dinner will be paid. However, if a fourth person were to join the group, it would be analogous to growth. The fourth person would reduce the amount the other three must pay.

Similarly, if there were three friends and one friend left, leaving only two to pay the bill, there would be an increase in the amount that the remaining friends are responsible for.

Real growth within the municipality's assessment base means new revenue sources for the City. When reassessment occurs, the tax base doesn't grow. There is still the same number of taxpayers. What changes is their relative share of the tax levy…the proportional slice of the pie. Ultimately it is not the absolute value of a property that determines the liability for tax; it is the property's relative value or the share of the total tax base. In both cases, the City collects that same levy which is set by the budget.

Tax Ratios

Appendix A includes the Origin of Tax Ratios, as prepared by Hemson Consultants in their Property Taxation Guide, 2012.

Without tax ratios, properties would share the burden of taxation based on the unadjusted value of assessment. Essentially, ratios change the weight of CVA, and Weighted CVA changes the distribution of taxation. The higher the ratio on a property tax class, the greater the proportional share of taxation. It should be noted that decreasing ratios does not reduce the total revenues collected. When one ratio decreases, it results in a lower calculated tax rate on that tax class; in order to maintain the levy raised, the calculated rates on the other tax classes must increase to balance out the reduction.

Tax ratios augment the relative burden of taxation between tax classes. By applying a ratio greater than 1 to the assessment value of non-residential tax classes, we essentially increase their weighted CVA, which changes the distribution of tax.

There are several factors that may influence Council's decision to adjust ratios:

1. To protect against the volatility of market value changes and negative changes in real growth.

When a tax class has a ratio greater than 1, the impact of changes to assessment value is magnified by that amount. For example, consider a large commercial property that has submitted an appeal on assessment value to the Assessment Review Board (ARB). Should the ARB decide that the value should be decreased, the impact to the tax roll is equal to the adjustment determined by the ARB multiplied by the ratio for the relevant tax class. The greater the ratios are, the more significant these impacts will be. When there are negative changes in real growth, it results in a shift in tax burden onto the remaining tax base. By reducing ratios, we limit ourselves to the impacts of tax shifts as a result of volatility in market values and negative adjustments in real growth.

2. Legislative limits

Ratio setting is already limited by legislation to certain thresholds. In fact, other than to set revenue-neutral ratios, a municipality is not able to increase the ratio attached to any tax class that is already outside of the range of fairness. Currently, all non-residential ratios for the City of Owen Sound are outside of these thresholds, and as such, this limit applies.

RANGES OF FAIRNESS	
Property Class	**Range**
Residential	1.00
Multi-Residential	1.00 – 1.10
New Multi-Residential	1.00 – 1.10
Commercial	0.60 – 1.10
Office	0.60 – 1.10
Shopping Centre	0.60 – 1.10
Parking Lots/Vacant Land	0.60 – 1.10
Professional Sports Facility	0.001 – 1.10
Industrial	0.60 – 1.10
Large Industrial	0.60 – 1.10
Pipeline	0.60 – 0.70
Farm	up to 0.25
Managed Forests	0.25

More recently, the Province has put upper limits on the multi-residential tax class, limiting ratios to no greater than 2. Where ratios are greater than 2, the municipality is limited in its ability to pass on tax increases to the tax class, essentially manually shifting the burden of tax onto the remaining classes. While there are no formal indications, there have been signs that the Province will be looking to reduce that upper limit in future policy decisions with an ultimate goal of pairing multi-residential and new multi-residential ratios at 1, the same ratio as residential. If and when this occurs, in order to avoid a significant impact on the non-multi-residential tax classes, it’s proactive to move there gradually before reductions are mandated.

3. Economic Development and Financial Burden

Reducing the ratio on a tax class will reduce their weighted CVA, which in turn reduces their relative burden for taxation. While economic growth and prosperity depend on a multitude of factors, it is hard to argue that reducing the tax burden would not have a positive impact on both. That said, it cannot be overlooked that the reduction of the burden on one class results in an increased burden on the others. The goal with reductions is to see larger reductions to a smaller group of taxpayers resulting in increases to the remaining tax base that are more spread out and, therefore, much less significant.

4. To move closer to the County

Across the Province, ratio-setting policy is the responsibility of the upper tier. In 2002, when the City of Owen Sound joined the pre-existing Grey County, special permission was granted to allow Owen Sound to retain its own tax policy authority with the expectation that we would gradually work to merge the ratios over time. Had Owen Sound immediately moved to the lower ratios of the County, the residential taxpayer would have experienced a tax shift that was at the time considered to be unreasonable. In recent years the City eliminated a second ratio for large industrial and merged residual industrial ratio with the County. The recommendation in this report will move the multi-residential ratio closer to the County, even if the County reduces their ratio as well.

Realty Tax Class	City of Owen Sound	Grey County
Residential	1.0000000	1.0000000
Farm	0.2500000	0.2180000
Managed Forest	0.2500000	0.2500000
New Multi Res	1.0000000	1.0000000
Multi Res	1.6779000	1.4411970
Commercial	1.7154200	1.2969000
Industrial	1.8310000	1.8310000
Pipeline	2.9598250	0.9068480

Analysis:

Growth:

The City of Owen Sound has realized a real growth rate of 1.28% over 2022. This growth is slightly higher than that estimated at the time of budget approval as that estimate did not include the growth associated with property zoning changes which came into effect in January. The impact of real growth takes the total municipal aggregate levy increase of 1.81% and reduces it to 0.33% after growth. Once combined with the County, the total increase is estimated to be 0.55%. Appendix B to this report includes the summary of growth by tax class for the City of Owen Sound.

Tax Ratios:

In consultation with MTE (Municipal Tax Equity Consultants), staff is recommending that Council move forward with a reduction to the multi-residential tax ratio moving it ¼ of the way to 1, from 1.677900 to 1.508425. It's easy to confuse, but it must be reiterated that this is the ratio on multi-residential property, not the tax rate. This 10.10% ratio reduction to multi-residential will ultimately result in an 8.20% decrease to the multi-residential tax rate (for combined municipal, upper tier, and education, including the levy change) and would bring the overall residential tax rate increase to 1.48%. The County will be reviewing tax policy in April; should their Council support the matching multi-residential ratio decrease, the impact will be softened on the residential taxpayer, bringing the multi-residential tax rates to 8.30% and reducing the residential increase to 1.36%. This is due to the fact that the majority of multi-residential assessment is in Owen Sound, and therefore a reduction in the ratio at the County level, in turn, results in a tax shift away from Owen Sound and on to the other Grey County municipalities.

The rationale for this change is as follows:

- Protects the City's taxpayer from significant shift if and when the Province issues legislated reductions in multi-residential tax ratios.
- Softens the impact on property owners that undergo rezoning of commercial or industrial property ahead of a multi-residential development project.
- It may disincentivize future condo conversions by ensuring a more preferable tax bill on multi-residential properties.
- It will result in the issuance of mandatory rent reduction notices for residential complexes containing seven or more units. This concept is explained in greater detail in Appendix C. While it does not result in material reductions in expected rent charges, it should mitigate the potential for significant rent increases year over year as a result of non-taxation pressures.

The following tables provide **tax rates** (inclusive of the levy increase) for three scenarios:

1. Status Quo, no change to ratios
2. Scenario 1: City reduces multi-residential ratio; County does not.
3. Scenario 2: Both City and County reduce the multi-residential ratio.

The only difference between scenarios 1 and 2 is the County rates.

Table 8-A
City Levy Rates by Model

City Rates	Notional	Status Quo Policy		Scenario 1		Scenario 2	
		Full Rate	Vs. Notional	Full Rate	Vs. Notional	Full Rate	Vs. Notional
Residential	0.01314860	0.01319264	0.33%	0.01333270	1.40%	0.01333270	1.40%
Farm	0.00328715	0.00329816	0.33%	0.00333318	1.40%	0.00333318	1.40%
Managed Forest	0.00328715	0.00329816	0.33%	0.00333318	1.40%	0.00333318	1.40%
New Multi-Res.	0.01314860	0.01319264	0.33%	0.01333270	1.40%	0.01333270	1.40%
Multi-Residential	0.02206204	0.02213593	0.33%	0.02011138	-8.84%	0.02011138	-8.84%
Commercial	0.02255537	0.02263092	0.33%	0.02287118	1.40%	0.02287118	1.40%
Industrial	0.02407509	0.02415572	0.33%	0.02441217	1.40%	0.02441217	1.40%
Pipeline	0.03891755	0.03904791	0.33%	0.03946246	1.40%	0.03946246	1.40%

Table 8-B
Estimated County Requisition Rates by Model

County Rates	Notional	Status Quo Policy		Scenario 1		Scenario 2	
		Full Rate	Vs. Notional	Full Rate	Vs. Notional	Full Rate	Vs. Notional
Residential	0.00345260	0.00350323	1.47%	0.00354043	2.54%	0.00352001	1.95%
Farm	0.00086315	0.00087581	1.47%	0.00088511	2.54%	0.00088000	1.95%
Managed Forest	0.00086315	0.00087581	1.47%	0.00088511	2.54%	0.00088000	1.95%
New Multi-Res.	0.00345260	0.00350323	1.47%	0.00354043	2.54%	0.00352001	1.95%
Multi-Residential	0.00579312	0.00587807	1.47%	0.00534047	-7.81%	0.00530967	-8.35%
Commercial	0.00592266	0.00600951	1.47%	0.00607332	2.54%	0.00603830	1.95%
Industrial	0.00632171	0.00641441	1.47%	0.00648253	2.54%	0.00644514	1.95%
Pipeline	0.01021909	0.01036895	1.47%	0.01047905	2.54%	0.01041861	1.95%

In both scenarios, the Education tax rate is the same at 0.00153 with a 0% change.

The current recommendation does not propose adjustments to ratios of any other tax class.

Financial Implications:

Under the assumption that the County will participate in the reduction in multi-residential ratios, once all three levies are combined (City, County and Education), the multi-residential taxpayer will realize an 8.3% reduction in their tax bill. The 10% reduction in the multi-residential ratio has resulted in an additional 1% tax increase to the residential taxpayer over the 0.36% that is attributed to the levy increase. Although higher than the estimated 0.86% from budget, the increase to Commercial and Industrial is still well under 2% after the tax shift associated with the ratio adjustment. The shift due to changing ratios will mean the household assessed at $232,500 pays an additional $57 per year or $4.75 monthly.

Table 7-D
Total Year-Over-Year Change Under Scenario 2
(2022 Year-End vs. Scenario 2 – Inclusive of Levy Change)

Realty Tax Class	All (Mun + Ed) Levies *2022 Year-End*	All (Mun + Ed) Levies *2023 Scenario 2*	Difference *$*	Difference *%*
Taxable				
Residential	$28,364,122	$28,751,206	$387,084	1.36%
Farm	$14,923	$15,128	$205	1.37%
Managed Forest	$322	$327	$5	1.55%
New Multi-Residential	$337,092	$341,692	$4,600	1.36%
Multi-Residential	$4,517,281	$4,142,143	-$375,138	-8.30%
Commercial	$12,099,490	$12,237,262	$137,772	1.14%
Industrial	$1,227,211	$1,241,397	$14,186	1.16%
Pipeline	$347,285	$351,676	$4,391	1.26%
Sub-Total (Taxable)	**$46,907,726**	**$47,080,831**	**$173,105**	**0.37%**
Payment in Lieu				
Residential	$110	$111	$1	0.91%
Multi-Residential	$59,136	$54,225	-$4,911	-8.30%
Commercial	$679,701	$688,200	$8,499	1.25%
Industrial	$24,734	$24,996	$262	1.06%
Sub-Total (PIL)	**$763,681**	**$767,532**	**$3,851**	**0.50%**
Total (Taxable + PIL)	**$47,671,407**	**$47,848,363**	**$176,956**	**0.37%**

Communication Strategy:

Tax Rates are published on the City’s website. Final tax bills will be issued in May.

Consultation:

MTE Consultants

County Treasurers

Attachments:

Appendix A: History

Appendix B: Growth Report

Appendix C: Ratio Analysis

Recommended by:
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Submission approved by:
Tim Simmonds, City Manager

For more information on this report, please contact Kate Allan at kallan@owensound.ca or 519-376-4440 ext. 1238.