



AGENDA MATERIAL

NON-BUSINESS MEETING

(Property Tax and Assessment Orientation)

MEETING DATE: Monday, April 8, 2019

LOCATION: MCNAUGHTON ROOM

TIME: 4:30 PM



MEETING: Non-Business – Property Tax and Assessment Orientation

DATE: Monday, April 8, 2019

Reference No. NB – 5/50

OPEN SESSION in the McNaughton Room at 4:30 p.m.

Non-Business Meeting
Chair: Mr. N. Gale, City Manager

DISCUSSION ITEMS

Introduction to the Session (4:30 p.m.)

Ms. L. Evans, General Manager - Corporate Services & Long Term Care & City Treasurer, to provide introductory remarks.

Property Tax and Assessment Orientation

Handout entitled “MTE Workshop and Training Materials – Property Tax and Assessment Orientation” prepared by Municipal Tax Equity Consultants Inc.. **(Pages 1 – 32)**

Pre-recorded session presented by Municipal Tax Equity Consultants Inc. to be provided.

Ms. K. Cannon, Director – Revenue – Corporate Services & Long Term Care to respond to questions.

ADJOURNMENT

MTE WORKSHOP AND TRAINING MATERIALS

PROPERTY TAX AND ASSESSMENT ORIENTATION

PARTICIPANT PACKAGE

**PREPARED FOR:
THE NORTHERN SERVICE ALLIANCE MEMBERSHIP**

**PRESENTED BY:
MUNICIPAL TAX EQUITY (MTE) CONSULTANTS INC.**

March 2019



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MTE NSA MEMBER COUNCIL ORIENTATION



Prepared and Presented by:
Municipal Tax Equity (MTE) Consultants Inc.

Northern Service Alliance

Spring 2019

SESSION AGENDA

- Section One: System Overview
- Section Two: Property Assessment and Taxation
- Section Three: Understanding Assessment and Tax Change
- Section Four: Tax Policy Options and Analytical Strategies



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SECTION ONE

PROPERTY TAX ASSESSMENT OVERVIEW



PROPERTY TAX AS A FUNDING MECHANISM

- The property tax is provided to municipalities as their principle funding mechanism for a number of very specific reasons
- The attributes of this tax fit and compliment the nature, needs and challenges of local government extremely well

Property Tax Attributes	How it Fits
Visible & Transparent	<ul style="list-style-type: none"> • Municipalities are the most visible and accessible governments and they deliver the most visible services • Property taxpayers know exactly what they are paying and have a fairly good picture of how the money is being spent
Accountable & Autonomous	<ul style="list-style-type: none"> • Municipalities are the most accessible level of government; they are the most readily and directly held to account for decisions and outcomes • Leverages <u>property</u> not <u>taxpayer</u> circumstances (income, age, dependents, spending, etc.) it is extremely objective • This objectivity is important when those levying and paying the taxes are in such close proximity



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PROPERTY TAX AS A FUNDING MECHANISM

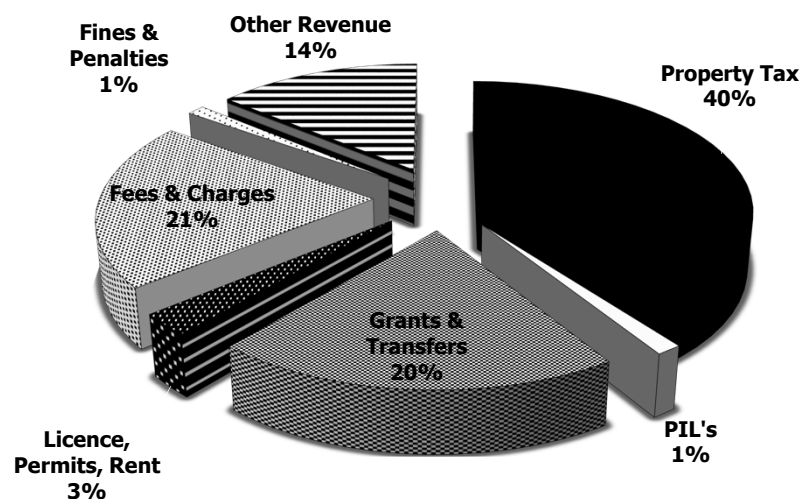
Property Tax Attributes	How it Fits
Immobile	<ul style="list-style-type: none"> A fixed geographically constrained tax base is essential for a level of government that cannot act extraterritorially and has no authority to control cross boarder economic activity
Predictable	<ul style="list-style-type: none"> Unlike HST or income tax where we set a rate and levy taxes by individual or transaction, municipalities set their end levy and then distribute it among the taxpayers <ul style="list-style-type: none"> Ie: We begin with what we want to raise and then decide how that will be shared among a fixed base Municipalities are not allowed to run a deficit, they must pass a balanced budget so it is critical to be able to quantify their tax revenue before they levy it
Stable and Reliable	<ul style="list-style-type: none"> Theoretically the property tax is one of the least volatile taxes Unfortunately loss and erosion in the assessment base has undermined this to some extent



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SOURCES OF MUNICIPAL REVENUE PROVINCE –WIDE



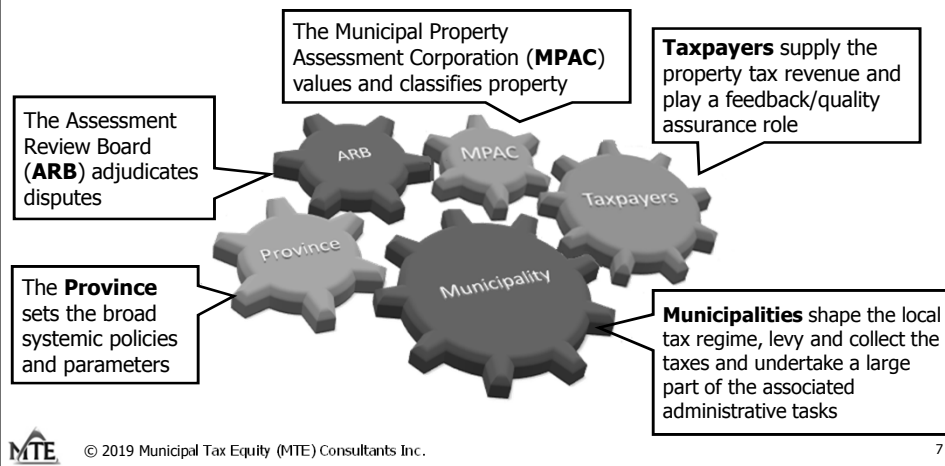
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Source: 2016 FIR

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MAIN PARTICIPANTS AND KEY FUNCTIONS

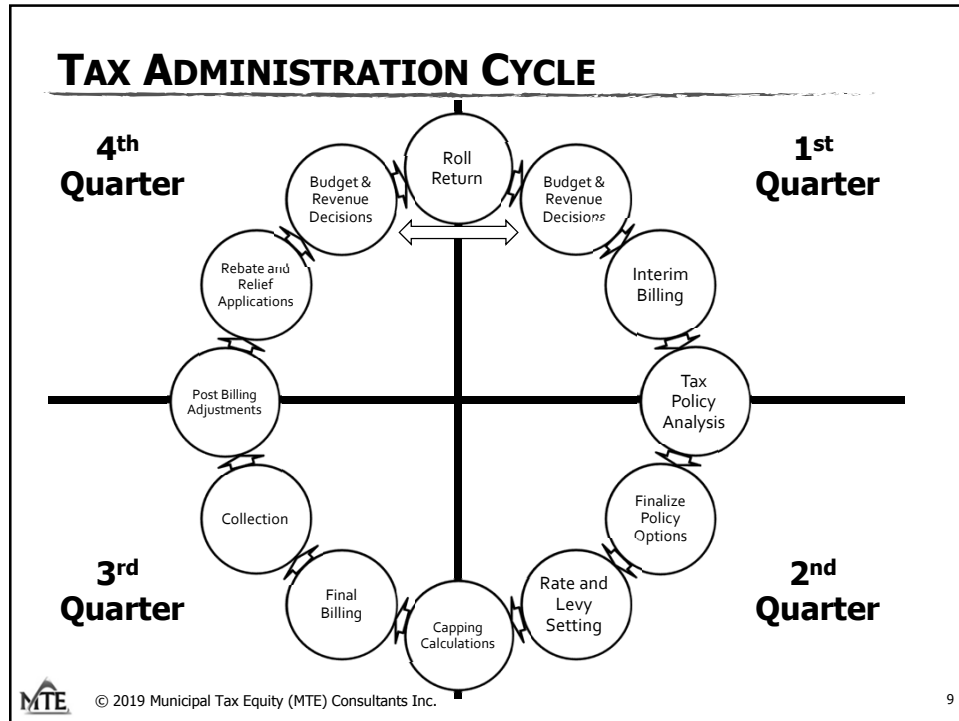
- Ontario's Property Tax System relies on a range of participants and stakeholders in order to function
- Each plays a distinct role and interprets the system from a unique perspective and set of interests



THE ROLE OF THE MUNICIPALITY

Key municipal responsibilities include:

- Establishing local tax policy
- Distribution of the tax burden
- Administration of the Business Tax Capping program
- Setting tax rates for local and upper-tier purposes
- Issuance of tax bills and collection of all property taxes for municipal and education purposes
- Administration of programs which provide rebates, deferrals, cancellations, etc., with respect to property taxes
- Accountability to the taxpayer for equity and fairness in taxation



SECTION TWO

PROPERTY ASSESSMENT AND TAXATION KEY CONCEPTS AND LANDSCAPE



PROPERTY ASSESSMENT THE BASIS OF TAXATION AND TAX DISTRIBUTION

- In Ontario, individual property tax liabilities are calculated by applying a tax rate against the property's assessed value
- Assessments are to be based on the "current value" or market value of the land and buildings as of a specific point in time
- Ideally, a property's assessment (CVA) is an accurate *estimate* of what the property would sell for valuation date in an arms length transaction between a willing seller and a willing buyer
- All values are updated every four years so that they reflect more relevant real estate market conditions
- If a property's CVA increases as a result of reassessment, the increase is phased-in over the next four years



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PROPERTY ASSESSMENT CRITICAL CONCEPT CLARIFICATION

- While we rely on property values for property taxation we are not taxing the sale or transaction price
- It is ultimately the **share** of all CVA (the assessment base) that determines each property's share of the tax
- If all four homes in this town were valued at the same amount, and the town needed \$1,000, they would each pay \$250
- If they all double in value but the Town still only needs \$1,000 they will all still pay \$250
- In reality each property carries a unique value, which represents its unique share of the assessment and tax base

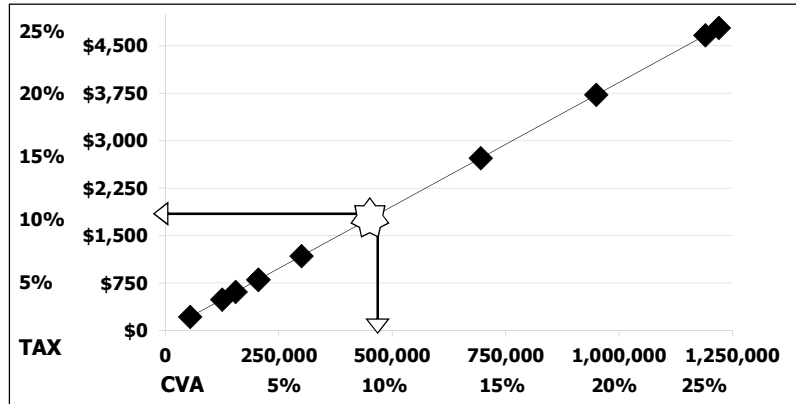


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CVA IS RELIED ON AS A PROPORTIONAL MEASURE

- Because tax rates are calculated to raise a pre-determined / finite levy, a property's relative share of that levy relates directly to its share of the assessment base



- In this example (which ignores tax classes) our highlighted property represents 10% of the assessment base so it carries 10% of the tax burden



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PROPERTY ASSESSMENT AS BASIS OF TAXATION AND TAX DISTRIBUTION

- A property's value is only half of its assessment picture
- Each property is also assigned to a property class based on its actual or intended (zoned) use
- It is the addition of this second variable that allows the tax burden to be distributed or shared on the basis of both:
 - 1. Relative Property Value;** and
 - 2. Property Use** (expressed as classification)
- Unlike market value, which is updated periodically, property classification is updated as needed to reflect real-time changes in a property's use



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PROPERTY CLASSIFICATION

- The classification of properties is based on a variety of factors, the primary determinants being:
 - Use for improved properties (properties with buildings); and
 - Zoning for vacant and unimproved land

Class	General Make-Up
Residential	<ul style="list-style-type: none"> • Residential properties with 1 to 6 self-contained living units • Special properties (dormitories, certain seniors' residences, etc...)
Multi-Residential	<ul style="list-style-type: none"> • Multi-unit properties with 7 or more self-contained residential units • (New Multi-Residential Class applies to any newly built/converted units)
Commercial	<ul style="list-style-type: none"> • Properties used by a commercial enterprise (retail, office, etc....)
Industrial	<ul style="list-style-type: none"> • Properties used in conjunction with manufacturing and/or processing (Automotive plant, electricity generating)
Farm	<ul style="list-style-type: none"> • A farm (and farmer) must meet the criteria set by the Ministry of Agriculture, Food and Rural Affairs (OMAFRA) to be classified as farm
Managed Forest	<ul style="list-style-type: none"> • Application based class for certain forest properties 4 hectares and larger • Inclusion is determined by Ministry of Natural Resources and Forestry
Landfill	<ul style="list-style-type: none"> • New specialty class for specified fill areas of landfill sites



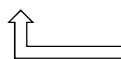
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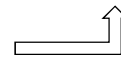
TAX CLASSES AND RATIOS

- We rely on Tax Ratios to weight the assessment for each class to achieve a more targeted distribution of the tax burden by value and use

	Assessment Base		Tax Ratios	Property Tax Levy		
	CVA	CVA Share		Tax Rate	Tax	Tax Share
Residential	950,000	18.63%	1.00	0.25%	\$2,414	12.07%
	695,000	13.63%	1.00	0.25%	\$1,766	8.83%
Farm	205,000	4.02%	0.25	0.06%	\$130	0.65%
	300,000	5.88%	0.25	0.06%	\$191	0.95%
Commercial	55,000	1.08%	1.44	0.37%	\$201	1.01%
	125,000	2.45%	1.44	0.37%	\$458	2.29%
Multi-Res	1,190,000	23.33%	2.00	0.51%	\$6,047	30.24%
	1,220,000	23.92%	2.00	0.51%	\$6,200	31.00%
Industrial	205,000	4.02%	2.83	0.72%	\$1,477	7.38%
	155,000	3.04%	2.83	0.72%	\$1,117	5.58%
Sum	5,100,000	100%			\$20,000	100%



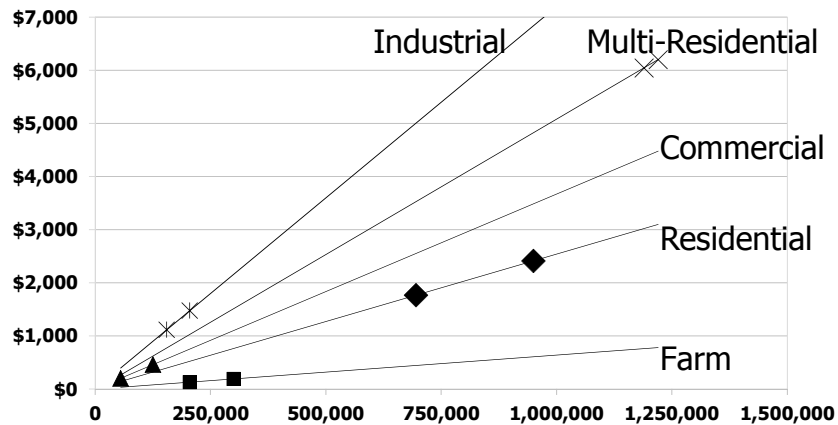
The system of classes & ratios allow us to adjust the distribution of the burden based on property type, or use



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PROPERTY CLASSIFICATION AND TAX RATIOS ALSO IMPACT THE DISTRIBUTION OF THE TAX BURDEN



- The relative value of property continues to maintain a direct proportional share relationship within classes, but stratifies the distribution across the base by use / class



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OPTIONAL CLASSES & SUB-CLASSES

Optional Property Classes

- Where a more fine-grained approach to taxation is indicated, municipalities may utilize optional property classes
- Optional commercial classes include: Shopping Centre, Office Building, and Parking Lot
- The Large Industrial class may be established to treat major properties separately from the general industrial stock

Property Sub-Classes

- Commercial and industrial sub-classes are used to apply discounted tax rates to unimproved land
 - *Vacant Land* sub-classes apply to commercial or industrial property that have no assessable improvements (buildings)
 - *Excess Land* sub-classes capture portions of improved property that is not improved and is in excess of the amount of land required to support the improvement (extra land)



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SECTION THREE

MEASURING AND UNDERSTANDING ASSESSMENT & TAX CHANGE

Growth, Reassessment, Phase-In
and Associated Tax Implications



ASSESSMENT CHANGE AND FLUCTUATIONS

- The Assessment Roll is a living data set, which is continually evolving in response to real-world market and property changes
- As the assessment base is constantly changing, tax outcomes are also in a continuous state of flux in response to:
 1. **Growth** (positive or negative), which reflects the value increase or decrease associated with a change to a property's state, use or condition; or
 2. **Valuation Change**, which is captured by reassessment and driven by changes in the real estate market over time
- It is critical to measure, understand and treat these two types of changes separately
- They have very different impacts and implications for the distribution of taxes, municipal revenue outcomes and the tax policy options

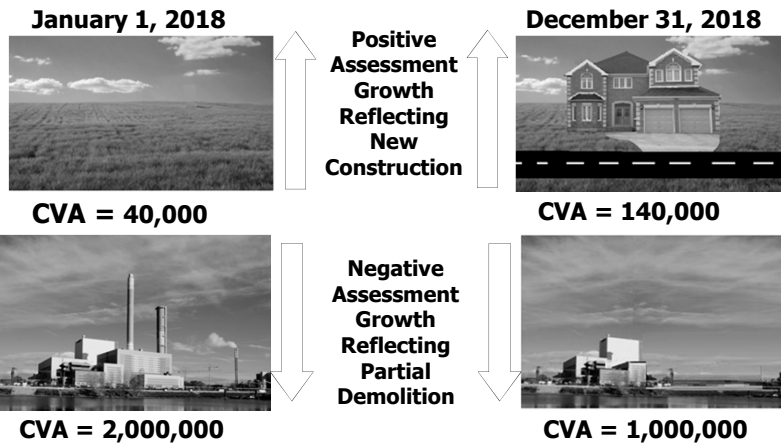


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REAL ASSESSMENT GROWTH (OR LOSS)

- When real growth in the tax base occurs, property values and classifications are updated in response to changes in the State, Use and/or Condition of property



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REAL ASSESSMENT GROWTH (OR LOSS)

- Growth is reflected on the roll based on the actual effective date of the change in property circumstances

Realty Tax Class	2018 CVA		CVA Growth	
	As Returned	As Revised	\$	%
Residential	2,861,714,631	2,916,426,378	54,711,747	1.91%
Farm	570,794,666	578,252,849	7,458,183	1.31%
Multi-Residential	39,356,594	41,115,531	1,758,937	4.47%
Commercial	244,050,944	248,860,507	4,809,563	1.97%
Industrial	23,054,499	23,408,245	353,746	1.53%
Large Industrial	5,734,848	5,567,481	-167,367	-2.92%
Pipeline	8,908,140	9,051,579	143,439	1.61%
Total	3,753,614,322	3,822,682,570	69,068,248	1.84%

- Positive growth is attributable to things like new construction, additions, improvements and changes in use
- Losses occur because of assessment reductions, changes in use, demolitions, etc...; tax write-off's result



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QUANTIFYING REVENUE GROWTH

- Growth is measured within a tax year... how the year ended vs. how it began

Realty Tax Class	2018 Taxation		Revenue Growth	
	As Returned	As Revised	\$	%
Residential	\$11,530,562	\$11,751,037	\$220,475	1.91%
Farm	\$575,041	\$582,554	\$7,513	1.31%
Multi-Residential	\$317,196	\$331,372	\$14,176	4.47%
Commercial	\$1,398,942	\$1,426,053	\$27,111	1.94%
Industrial	\$256,036	\$260,409	\$4,373	1.71%
Large Industrial	\$87,498	\$84,956	-\$2,542	-2.91%
Pipeline	\$50,823	\$51,642	\$819	1.61%
Total	\$14,216,098	\$14,488,023	\$271,925	1.91%

- Positive growth means new revenue from new taxpayers, or taxpayers that have improved or changed their properties
- This growth measurement also sets the starting point for the next year
- Our example municipality can raise \$14,488,023 in 2019 with a 0% levy increase; this is called the *Municipal Revenue Limit*



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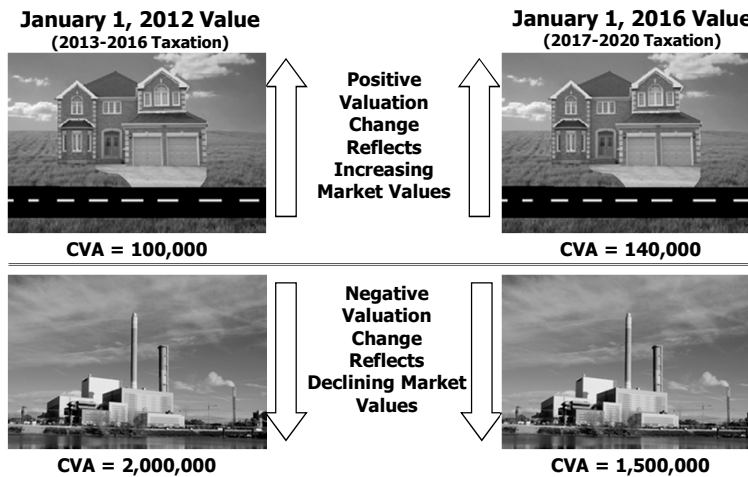
MARKET VALUE UPDATE

REASSESSMENT
AND PHASE-IN CHANGE



VALUATION CHANGE / REASSESSMENT

- The reassessment exercise is limited to updating values that reflect a more current real estate market
- Updated values do not represent a larger base or more taxing capacity



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MARKET VALUE UPDATE: REASSESSMENT

- Reassessment is intended to reflect actual changes in the local real estate market that have occurred between valuation dates

Realty Tax Class	Base Value	Destination Value	Market Value Update	
	(Jan. 2012)	(Jan. 2016)	\$	%
Residential	2,841,868,875	3,027,059,504	185,190,629	6.52%
Farm	425,692,717	731,031,614	305,338,897	71.73%
Multi-Residential	37,642,094	45,184,533	7,542,439	20.04%
Commercial	236,856,999	270,989,775	34,132,776	14.41%
Industrial	20,675,154	26,853,218	6,178,064	29.88%
Large Industrial	5,812,232	5,679,933	-132,299	-2.28%
Pipeline	8,691,490	9,411,667	720,177	8.29%
Total	3,577,239,562	4,116,210,244	538,970,682	15.07%

- It is critical to measure and understand reassessment and phase-in change separately from growth
- While reassessment does not affect overall municipal revenue it will change the distribution of tax as each property's relative share of the base changes



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ASSESSMENT STABILIZATION (PHASE-IN)

- As we move from one assessment cycle to another, the amount of any eligible increase is phased-in in equal increments of 25%
- Decreases are not restricted
- It is these phase-adjusted CVA's that we use for taxation each year

Example Properties	Current Value Assessment			Eligible Phase-In Amount	Taxable (Phase-Adjusted) Assessment			
	Jan. 1 2012	△	Jan. 1 2016		2017	2018	2019	2020
Property A	100,000	↑	140,000	40,000	110,000	120,000	130,000	140,000
Property B	100,000	↓	80,000	0	80,000	80,000	80,000	80,000
Property C	100,000	→	100,000	0	100,000	100,000	100,000	100,000

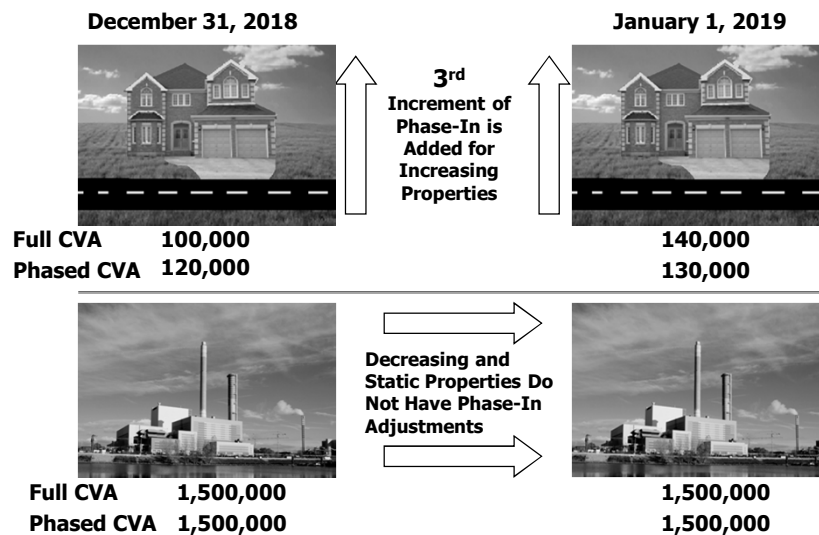
- Only reassessment changes are captured; the program does not apply to assessment increases triggered by: Property improvements, Development, Class changes, etc....



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ANNUAL PHASE-IN CHANGE



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YEAR-OVER-YEAR PHASE-IN CHANGE

- Phase-in change is simply the year specific instalment of reassessment change
- Even though there is more CVA at the end beginning of 2019 than the end of 2018, this is not growth and does not impact municipal revenue

Realty Tax Class	Phased CVA		Phase-In Change	
	2018 Year-End	2019 Returned Roll	\$	%
Residential	2,916,426,378	2,971,742,935	55,316,557	1.90%
Farm	578,252,849	654,642,231	76,389,382	13.21%
Multi-Residential	41,115,531	43,150,033	2,034,502	4.95%
Commercial	248,860,507	259,925,148	11,064,641	4.45%
Industrial	23,408,245	25,130,732	1,722,487	7.36%
Large Industrial	5,567,481	5,623,707	56,226	1.01%
Pipeline	9,051,579	9,231,623	180,044	1.99%
Total	3,822,682,570	3,969,446,410	146,763,840	3.84%



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TAX IMPACTS OF PHASE-IN CHANGE

- In order to deal with phase-in on the tax side and establish a proper starting point for they year we must calculate neutral or notional tax rates (NTR's)
- Notional tax rates are rates that raise the previous year's final annualized tax levy, including growth, from the updated assessment roll
- These rates are set to control for non-growth related value changes and maintain overall revenue neutrality
- NTR's also provide a baseline to isolate the effects of budgetary decisions and/or tax policy changes

Realty Tax Class	2018	NTR's	Change
Residential	0.00402977	0.00392149	-2.69%
Farm	0.00100744	0.00098037	-2.69%
Multi-Residential	0.00805954	0.00784298	-2.69%
Commercial	0.00580690	0.00565086	-2.69%
Industrial	0.01142405	0.01111709	-2.69%
Large Industrial	0.01535130	0.01493881	-2.69%
Pipeline	0.00570530	0.00555200	-2.69%

Both Raise a
Levy of
\$14,488,023
(Revenue Limit)



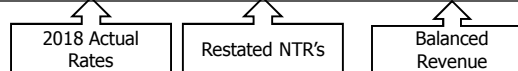
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PHASE-IN RELATED TAX IMPACTS (MEASURING INTER-CLASS SHIFTS USING NOTIONAL TAX RATES)

- Notional Tax Rates allow us maintain revenue neutrality using the new values returned for each year

Realty Tax Class	Municipal General Levy		Inter-Class Shifts	
	2018 Year-End	2019 Notional	\$	%
Residential	\$11,751,037	\$11,652,210	-\$98,827	-0.84%
Farm	\$582,554	\$641,792	\$59,238	10.17%
Multi-Residential	\$331,372	\$338,425	\$7,053	2.13%
Commercial	\$1,426,053	\$1,448,627	\$22,574	1.58%
Industrial	\$260,409	\$272,203	\$11,794	4.53%
Large Industrial	\$84,956	\$83,511	-\$1,445	-1.70%
Pipeline	\$51,642	\$51,255	-\$387	-0.75%
Total	\$14,488,023	\$14,488,023	\$0	0.00%



- The rate of phase-in change varies from property to property but we adjust tax rates based on overall change
- Because the tax rate change is not sensitive to each property, or group of properties the overall tax burden will inevitably shift from year to year



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PHASE-IN RELATED TAX IMPACTS (YEAR-OVER-YEAR INTER-CLASS SHIFTS)

Realty Tax Class	Rate of Phase-In Change	Inter-Class Shifts	
		\$	%
Large Industrial	1.01%	-\$1,445	-1.70%
Residential	1.90%	-\$98,827	-0.84%
Pipeline	1.99%	-\$388	-0.75%
Total	3.84%	-\$1	0.00%
Commercial	4.45%	\$22,574	1.58%
Multi-Residential	4.95%	\$7,053	2.13%
Industrial	7.36%	\$11,794	4.53%
Farm	13.21%	\$59,238	10.17%

- Taxes shift among properties and groups of properties are driven by differences in rate of phase-in change
- Tax rates are re-set based on overall change so the more a property or group of properties varies from the overall rate, the greater the tax shift (+ or -)

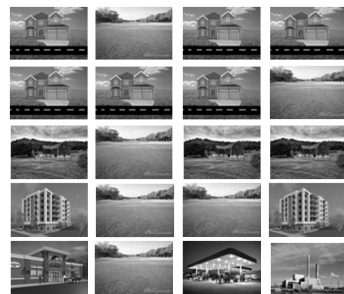


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WHY DON'T WE TREAT VALUE CHANGE LIKE GROWTH?

- Growth reflects actual changes in the size and intensity of tax base
- New revenue is supplied by new taxpayers and those who improved their property
- Equate this to increased income tax resulting from new or better paying jobs...



January 1, 2018
\$14,216,308

**Value and
Class
Changes to
Reflect
State, Use
and
Condition
Adds
\$271,715**



December 31, 2018
\$14,488,023



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WHY DON'T WE TREAT VALUE CHANGE LIKE GROWTH?

- When Reassessment / Phase-In occurs the changes do not reflect new properties, new taxpayers, property improvements or new uses



December 31, 2018
\$14,488,023



January 1, 2019
\$14,888,067

- If we don't reset the rates the tax base as whole will carry an additional \$400,000 or 2.76% even though it hasn't changed
- Increases are allowed, but they are municipal levy increases and subject to special calculations



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APPLYING & MEASURING LEVY CHANGE

- A municipality's annual levy change is the amount that Council chooses to (or has to) raise that exceeds the prior year's year-end levy or revenue limit.

Realty Tax Class	2018 As Levied	2018 As Revised	2019 Notional	2019 Final	Levy Change	
Residential	\$11,530,562	\$11,751,037	\$11,652,210	\$11,885,254	\$233,044	2.00%
Farm	\$575,041	\$582,554	\$641,792	\$654,628	\$12,836	2.00%
Multi-Residential	\$317,196	\$331,372	\$338,425	\$345,194	\$6,769	2.00%
Commercial	\$1,398,942	\$1,426,053	\$1,448,627	\$1,477,600	\$28,973	2.00%
Industrial	\$256,036	\$260,409	\$272,203	\$277,647	\$5,444	2.00%
Large Industrial	\$87,498	\$84,956	\$83,511	\$85,181	\$1,670	2.00%
Pipeline	\$50,823	\$51,642	\$51,255	\$52,279	\$1,025	2.00%
Total	\$14,216,098	\$14,488,023	\$14,488,023	\$14,777,783	\$289,760	2.00%

Growth
 \$271,925

Phase-In
 Shifts Only
 No Revenue
 Change

Levy Change
 \$289,760



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SECTION FOUR

ANNUAL TAX POLICY SETTING



ANNUAL & OPTIONAL DECISIONS

- Each year, municipalities are responsible for making a host of decisions that shape the local property tax regime by affecting how the property tax burden is distributed across the assessment base
- At a minimum, municipalities must revisit the following core decisions annually
 - General and Special Levy Amounts
 - Tax Ratios and Discounts for Property Sub-Classes;
 - Municipal Tax Rates;
 - Billing dates, due dates, penalties, etc.; and
 - Capping Tool Options (if capping applies);
- Municipalities may also choose to adopt, adapt or otherwise adjust more specialized tools and system elements such as:
 - Graduation (Banding);
 - Optional Property Classes,
 - Municipal Tax Phase-in; and/or
 - Various mandatory and optional Tax Relief Programs (vacancy, charities, etc.);



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PROPERTY TAX LEVIES

General Levy

- Amount to be raised against all ratable property within the jurisdiction using a single set of tax rates

Municipal Special Area Levy (SAR)

- Amount to be raised against **less than all** ratable property
 - SAR's can only be used where a differential of service exists and the cost of the differential is identified in the budget

Education Levies

- Education Taxes are levied under the *Education Act* by the Minister of Finance
- These taxes are collected by the local municipality and remitted to area school boards
- School board funding is based on a per-pupil funding formula and is not impacted by the amount of taxes collected locally



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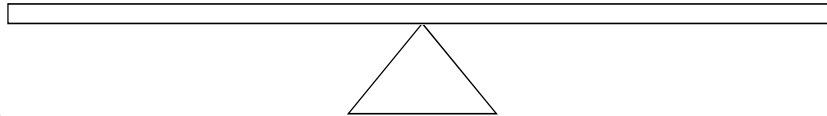
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MUNICIPAL LEVY AMOUNT IS A BUDGET ELEMENT

- Section 289 (290 for lower-tiers) directs municipalities to establish a budget including estimates of all sums required for the year and the anticipated revenue
- Spending and Revenue Estimates Must Balance

- Amounts to pay all debts falling due within the year;
- Amounts required to be raised for sinking or retirement funds; and
- Amounts required for any board, commission, etc.

- All revenue estimates including amount to be raised from all assessable property (general levy)
- Also amounts attributable to grants, fees and charges, fines and penalties, etc.



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TAX RATIOS



TAX RATIO OPTIONS

- Tax ratios are central to our property tax system and must be set annually in order for tax rates to be calculated;
- Ratios must be revisited & by-lawed annually even if they don't change;
- Flexibility to move ratios is prescribed by a complex set of statutes and regulations
- Ratio flexibility is generally restricted to downward movement with only limited opportunity to adjust upward in some taxation years
- In addition to limitations on moving tax ratios, the Municipal Act contains rules that limit the tax burden that can be carried by certain property classes when tax ratios exceed prescribed thresholds



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TAX RATIO SUMMARY AND PROVINCIAL LIMITS

- Ratio setting and ratio movement are governed by a complex set of rigid and prescriptive business rules
- We must pay attention to start ratio calculations, "ranges of fairness" and levy restriction threshold ratios

Realty Tax Class	2018 Ratios	2019 Start Ratios	Ranges of Fairness		Threshold Ratios	
			Lower Limit	Upper Limit	Threshold	Levy Restriction
Residential	1.000000	1.000000	1.00	1.00	-	N/A
Farm	0.250000	0.250000	0.00	0.25	-	N/A
Managed Forest	0.250000	0.250000	0.25	0.25	-	N/A
Multi-Residential	2.000000	2.000000	1.00	1.10	2.00	No
Commercial	1.440999	1.440999	0.60	1.10	1.98	No
Industrial Broad Class	3.072706	3.016059	0.60	1.10	2.63	Yes
Industrial	2.872492	2.834914				
Large Industrial	3.859972	3.809473				
Landfill	1.000000	1.000000	0.60	1.10	25.00	No
Pipeline	1.415789	1.415789	0.60	0.70	-	N/A



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TAX RATIO SENSITIVITY SCENARIO (REDUCE INDUSTRIAL AND LARGE INDUSTRIAL RATIOS BY 5%)

- Due to the mechanics of the our tax calculations, a change in any one ratio will necessarily result in a change in the tax rate, and tax burden of every other class
- Comprehensive ratio analysis should be undertaken before ratio are changed to ensure impacts are understood
- Outcomes can be counter-intuitive

Realty Tax Class	Tax Ratios			Tax Rates		
	Status Quo	Alternate Model	% Change	Status Quo	Alternate Model	% Change
Residential	1.000000	1.000000	0.00%	0.00392149	0.00392631	0.12%
Farm	0.250000	0.250000	0.00%	0.00098037	0.00098158	0.12%
Multi-Residential	2.000000	2.000000	0.00%	0.00784298	0.00785262	0.12%
Commercial	1.440999	1.440999	0.00%	0.00565086	0.00565781	0.12%
Industrial	2.834914	2.693168	-5.00%	0.01111709	0.01057421	-4.88%
Large Industrial	3.809473	3.618999	-5.00%	0.01493881	0.01420931	-4.88%
Pipeline	1.415789	1.415789	0.00%	0.00555200	0.00555883	0.12%



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TAX RATIO SENSITIVITY SCENARIO (REDUCE INDUSTRIAL AND LARGE INDUSTRIAL RATIOS BY 5%)

- As the levy is held constant, taxes will shift amongst properties and property classes when ratio changes are made

Realty Tax Class	2019 Start	Model	Tax Shifts	
Residential	\$11,652,210	\$11,666,532	\$14,322	0.12%
Farm	\$641,792	\$642,584	\$792	0.12%
Multi-Residential	\$338,425	\$338,841	\$416	0.12%
Commercial	\$1,448,627	\$1,450,408	\$1,781	0.12%
Industrial	\$272,203	\$258,910	-\$13,293	-4.88%
Large Industrial	\$83,511	\$79,433	-\$4,078	-4.88%
Pipeline	\$51,255	\$51,317	\$63	0.12%
Total	\$14,488,023	\$14,488,026	\$4	0.00%

- While we are only looking at tax ratios, similar modeling must be done for any policy change being made in order for decision makers to understand what their decision is actually doing
- Once final decisions have been made in regards to levy amounts, tax ratios, sub-class discounts, etc. final tax rates may be set



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FULL CYCLE – START LEVY TO START LEVY

- When we look at the change from Levy By-Law to Levy By-Law it is important to remember that the observable change is driven by four distinct forces
- In this way we are able to measure and understand the isolated impact of every change we have observed and decision we have made

Realty Tax Class	2018 As Levied	2018 As Revised	2019 Notional	2019 Final Policy	2019 Actual Levy
Residential	\$11,530,562	\$11,751,037	\$11,652,210	\$11,666,532	\$11,899,862
Farm	\$575,041	\$582,554	\$641,792	\$642,584	\$655,436
Multi-Residential	\$317,196	\$331,372	\$338,425	\$338,841	\$345,618
Commercial	\$1,398,942	\$1,426,053	\$1,448,627	\$1,450,408	\$1,479,416
Industrial	\$256,036	\$260,409	\$272,203	\$258,910	\$264,088
Large Industrial	\$87,498	\$84,956	\$83,511	\$79,433	\$81,022
Pipeline	\$50,823	\$51,642	\$51,254	\$51,317	\$52,343
Total	\$14,216,098	\$14,488,023	\$14,488,022	\$14,488,026	\$14,777,787
	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> Growth \$271,925 </div> <div style="text-align: center;"> Phase-In Shifts Only No Revenue Change </div> <div style="text-align: center;"> Policy Change Shifts Only No Revenue Change </div> <div style="text-align: center;"> Levy Change \$289,761 </div> </div>				



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Note: We are ignoring levy restriction rules for simplicity ⁴⁵

TAX POLICY IMPACTS & CONSIDERATIONS

- As seen, by moving tax ratios we can manipulate the distribution of the levy among taxpayer groups
- Other available tax policy options allow for further adjustments
 - Optional Classes allow the base to be broken up into more categories
 - Sub-Class Discounts adjust the taxes between occupied and vacant land
 - Graduated Taxation moves more tax to properties with higher assessments
 - Municipal tax phase-in programs and capping provide tax relief to those experiencing increases but also delay decreases for others
- The right mix must be determined locally based on local circumstances
- What MTE has found over time is that lower business class ratios, and a flatter distribution of the tax burden reduces long-term risk and enhances long-term financial stability
- The ultimate impact of choices that over-leverage high risk assessment (high ratios, graduated tax, etc.) cannot always be measured when tax rates are set, the outcomes are often only realized down the road



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**QUESTION, COMMENTS, CLARIFICATION
PLEASE SEND ANY ENQUIRIES TO:
PETERF@MTE.CA**



Closing Remarks
www.mte.ca

About Municipal Tax Equity Consultants and MTE Paralegal Professional Corporation

Municipal Tax Equity Consultants (MTE) Inc. is an Ontario incorporated company established in 1990 that provides municipalities with key services in the areas of property assessment, taxation, municipal finance and administration. Our affiliate corporation, MTE Paralegal Professional Corporation was established in 2008 and is a certified Professional Corporation under the Law Society of Upper Canada.

MTE's service portfolio is broad ranging, however, all of our services and our corporate approach to working with the municipal community focus heavily on providing municipal staff and decision makers with the knowledge, tools and resources necessary for the development and maintenance of appropriate, compliant and successful tax, assessment and financial policies and practices.

Municipal Tax Equity Consultants and MTE Paralegal Professional Corporation are recognized throughout the Province as trusted sources of expertise, and have long been considered as being on the leading edge of the property assessment and taxation industry in Ontario. The depth and breadth of our expertise and experience, coupled with a long demonstrated ability to maintain unparalleled standards of practice, has allowed us to forge a unique position across the broader spectrum of municipal finance, administration, strategic policy development and research.

The municipalities that rely on MTE's experts range from small rural and Northern single-tiers to large urban cities and key Counties and Regions across Ontario. By applying the organization's unique blend of experience and expertise, we work with our client communities to help ensure they achieve maximum revenue yields from existing revenue sources, realize optimal benefits from emerging opportunities, and are able to develop and operate within tax policy frameworks at the most optimal level.

MTE's core municipal client base is concentrated within Ontario, and includes approximately one third of the Province's municipal governments. MTE is also regularly engaged by broader public sector entities such as professional associations, Provincial Governments and industry working groups that draw on our unique blend of expertise and experience to meet the requirements of various specialized projects. Such projects include, but are not limited to: development and delivery of education and training material, specialized industry writing, customized software development and policy development support.

To best serve our clients, both corporations employ a service model that is based on an exclusive commitment to the municipal community; neither engages private sector clients whose interests may diverge from that of a municipality.

To find out more about MTE, please visit our website at www.mte.ca.

