Corporate Report

REPORT NUMBER	156-2023-Corporate Services & Long-Term Care-Revenue		
DATE PREPARED	April 27, 2023	***FILE***	
MEETING DATE	May 15, 2023		
SUBJECT	2023 Tax Policy		

RECOMMENDATION

WITH RESPECT to Report 156-2023-Corporate Services & Long-Term Care-Revenue, we recommend that the special service area boundary be extended for sewage and drainage, and street lighting as identified in Attachment 2;

AND THAT the tax ratios and tax rates included in Attachment 8 and outlined in Option 1 be approved for the 2023 taxation year;

AND THAT the final tax levy be due in two installments on August 2 and October 4, 2023;

AND THAT any necessary by-laws be presented to City Council for ratification.

EXECUTIVE SUMMARY

This report is being presented to provide City Council with recommendations on the tax policy options and requirements under the *Municipal Act, 2001* for the setting of tax policies, tax rates, and tax due dates in preparation for the 2023 final property tax billing. The recommended tax policies and ratios are consistent with the long-term tax strategy approved by City Council on April 24, 2023.

This report recommends reducing the commercial ratio from 2.007675 to the provincial threshold of 1.98, reducing the large industrial ratio from 2.85 to 2.73, reducing the multi-residential ratio from 2.0 to 1.99 and adopting starting ratios for all other classes.

The recommended option results in an increase of $74.82 (4.58%) for every $100,000 of full service residential assessment. The median residential single family detached home having an assessment of $218,000 would have a tax increase of $163.10.

DISCUSSION

Long-Term Property Tax Strategy

Administration presented Report 128-2023-Corporate Services & Long-Term Care-Revenue at the April 24, 2023 Committee of the Whole meeting, and direction was provided by Council to update the long-term tax strategy with the following considerations:

1. The commercial tax ratio be reduced from 2.042037 (2022) to 1.98, the provincial threshold ratio for the commercial property class;
2. The large industrial property class be phased out over the next four years by reducing the large industrial tax ratio by .12 each year until it equals the industrial tax ratio;
3. The multi-residential ratio be reduced by .01 each year and that Administration undertake further analysis once the Province concludes its review on potential approaches to reduce the current property tax burden on multi-residential properties;
4. When the commercial tax ratio reaches the provincial threshold ratio of 1.98, it be reduced by .01 each year thereafter;
5. The annual tax policy report will provide three options for Council's consideration including; one option which will reflect recommendations in paragraphs 1-4; one option which will reflect recommendations in paragraphs 1-2 only; and a status quo option (starting ratios with same tax policies as adopted by City Council in the previous year);
6. Administration report back to Council on the impact that the MPAC reassessment has on the distribution of the tax levy and any corresponding recommended changes to the long term tax strategy.

MPAC Reassessment and Assessment Growth

In the November 2021 Economic and Fiscal Update, the Province postponed the property tax reassessment update for both the 2022 and 2023 property taxation years. Because of this postponement, 2022 and 2023 taxes remain based on an updated return roll using the fully phased-in January 1, 2016 current value assessment (CVA). Therefore, there are no re-assessment shifts (value/equity changes) in 2023 as shown in Attachment 1.

Assessment growth was 0.60%, with the City experiencing negative growth in the industrial and large industrial classes. The majority of the growth continues to come from the residential class resulting in the ongoing shift of the tax levy onto the residential property class.

Net assessment growth of 0.60% in 2022 has contributed $1,241,237 in taxation revenue in 2023, reducing the over all tax levy increase from 5.01% before growth to 4.41% after growth.

Urban/Special Area Services

Urban Service Area By-laws were established when the City was first amalgamated as a fairness measure so that citizens who did not receive the benefit of certain services (transit, street lighting, sewage and drainage, and garbage collection) did not pay for them.

Report No. 2002.53 (Corporate Services & Long Term Care - Revenue) authorized Administration to bring forward by-laws as required to expand the areas within which special services (historically known as urban services) are provided.

Expanding the areas does not generate additional revenue for the City, but it does spread the cost of providing the services over more properties. This results in a decrease for those currently paying a special services charge and an increase for those who now benefit from the special service being made available.

In this regard, expansions to Schedule A – Sewage and Drainage Special Area and Schedule B – Street Lighting Special Area of By-law 46-2006 is in order to reflect properties now benefiting from sewage and drainage and street lighting. Special area expansions are included in Attachment 2.

Education Taxes

The Province sets the education rates across all municipalities in Ontario and updates the rates on an annual basis to offset the impact of reassessment. Since reassessment was deferred, there were no changes to the education rates in 2023.

Municipal Tax Levy

City Council approved a 2023 municipal tax levy including payments in lieu of taxes of $218,376,340. This represents an increase of $10.41 million or 5.01% over 2022. For billing purposes, the budget is allocated as follows in order to levy separately for urban/special services:

	2023	**2022**
Municipal General Tax Levy	$191,637,283	$187,044,286
Urban/Special Services:		
Garbage Collection	10,179,017	$7,845,231
Street Lighting	2,930,099	$1,900,495
Sewage and Drainage	1,512,394	$1,116,840
Public Transportation	12,117,547	$10,059,748

Total Municipal Tax Levy	$218,376,340	$207,966,600

Tax Ratios

- A municipal tax ratio is the degree by which a property class is taxed relative to the residential class.
- The residential tax ratio is always 1.0.
- Tax ratios determine how much of the municipal tax burden is borne by each property class.
- Altering tax ratios does not alter the overall levy amount, only how it is distributed.
- Education tax rates are set by the Province and are not dependent on tax ratios approved by municipal Councils.
- The Province has established a range of fairness for each property class. With the exception of revenue neutral ratios, tax ratios cannot be moved further away from the range of fairness.
- The Province has established threshold ratios for the multi-residential (2.0), commercial (1.98) and industrial (2.63) property classes. Property tax increases cannot be spread evenly over all property classes if any tax ratio exceeds the provincial thresholds.
- Attachment 3 provides an overview of Thunder Bay's historical tax ratios including those recommended in 2023.

Optional Property Classes

In addition to the standard property classes, municipalities can adopt optional classes. Optional classes provide flexibility in spreading the municipality's property tax burden within the commercial and industrial property classes.

All available optional classes were adopted by City Council in 1998 as a temporary solution to mitigate large shifts in the overall tax burden that would have otherwise occurred. The optional classes were not intended to be a permanent solution and in 2006, Council ceased using all but the large industrial optional class.

The large industrial ratio is 2.85 in 2022 compared to the industrial residual ratio of 2.370836.

There are currently five properties in large industrial class. Having so few properties in the class, increases the volatility of the class, which is magnified by the high ratios. Therefore, administration recommends that the large industrial ratio be reduced as outlined in Option 1.

Summary of Options			
	Option 1	**Option 2**	**Option 3**
Residential property class total levy increase	4.39%	4.36%	4.19%
Increase in tax bill for a full service median residential single family detached home	$163.10 4.58%	$161.97 4.55%	$156.06 4.38%
Multi-residential ratio	1.99	2.0	2.0
Commercial ratio	1.98	1.98	2.007675
Large industrial ratio	2.73	2.73	2.85

<u>Option 1 – Approved Long-Term Tax Strategy – Recommendations 1-4</u>

The approved Long-Term Tax Strategy seeks to reduce the commercial, large industrial, and multi-residential ratios.

Under this option, the commercial ratio is reduced to the provincial threshold ratio of 1.98, the large industrial ratio is reduced from 2.85 to 2.73 and the multi-residential ratio is reduced from 2.0 to 1.99.

When the commercial ratio is above 1.98, it is levy restricted. This means that the other property classes must pick up the commercial classes share of 50% of the tax levy increase. Because the commercial ratio is close to the provincial threshold, the tax shift impact of moving the ratio to 1.98 this year is partially offset by the shift back to the commercial class since it would no longer be levy restricted.

The chart below shows the impact reducing each ratio has on $100,000 of full service residential assessment.

	Total Tax Increase per $100,000 of full service residential assessment	% Increase
No change to ratios	$71.59	4.38%
Commercial ratio reduced to 1.98	$ 1.88	0.12%
Large industrial ratio reduced to 2.73	$ 0.84	0.05%
Multi-residential ratio reduced to 1.99	$ 0.51	0.03%
Total	$74.82	4.58%

The median residential single family detached home in Thunder Bay has an assessment of $218,000 and would see an increase to their tax bill of $163.10.

Attachment 4 provides further details on the tax changes by property class for Option 1. The residential property class would have a municipal levy increase is 4.84%; however, with no change to the education rate, the overall increase to the residential property class is 4.39%. The large industrial properties experience the lowest tax increase of 0.42%, followed by commercial at 2.65%. The tax increase for multi-residential would be 4.30%

This approach is consistent with the approved long-term tax strategy and is the recommended option.

Option 2 – Long Term Tax Strategy – Recommendations 1-2

Option 2 focuses on reducing the commercial ratio to the provincial threshold ratio and reducing the large industrial ratio, while adopted starting tax ratios for all other property classes.

Under this option, the commercial ratio is reduced to the provincial threshold ratio of 1.98 and large industrial ratio is reduced from 2.85 to 2.73. This option does not reduce the multi-residential ratio compared to Option 1.

As shown in Attachment 5, the residential property class would have an overall tax increase of 4.36%.

The median residential single family detached home in Thunder Bay has an assessment of $218,000 and would see an increase to their tax bill of $161.97, $1.13 less per year compared to recommended Option 1.

The multi-residential property class would experience the highest tax levy increase of 4.77% which is 0.47% higher compared to Option 1.

Option 3 - Status Quo

Option 3 is the approach that is typically adopted when Council has achieved its desired ratios and is satisfied that the tax shifts that are occurring between property classes are not significant enough to warrant a different approach.

All ratios will remain at the 2022 approved ratios except for the commercial ratio which is updated from 2.042037 to 2.007675 to account for the 2022 levy restriction. The starting ratios and the tax changes by property class for Option 3 are shown in Attachment 6.

The commercial ratio continues to be above the provincial threshold; therefore, only 50% of the municipal tax levy increase is passed on to the commercial class. As a result, the commercial class would have a total tax levy increase of 2.87%.

Option 3 provides the lowest overall tax levy increase for the residential property class which is 4.19%.

The median residential single family detached home in Thunder Bay has an assessment of $218,000 and would see an increase to their tax bill of 4.38% or $156.06, $7.04 less per year compared to recommended Option 1.

Attachment 7 highlights the Municipal Tax Shift by property class and the total tax increase by property class moving from Option 1 to Option 3.

Tax Rates and Due Dates

Attachment 8 provides the tax ratios and tax rates required to raise the 2023 Municipal Tax Levy using Option 1 – Long Term Tax Strategy. This option is recommended.

Attachment 9 provides tax ratios and tax rates that would be required to raise the 2023 Municipal Tax Levy using Option 2 – Long Term Tax Strategy Recommendations 1 & 2. This option is not recommended.

Attachment 10 provides tax ratios and tax rates that would be required to raise the 2023 Municipal Tax Levy using Option 3 – Status Quo. This option is not recommended.

Final bills are anticipated to be ready for mailing mid June.

Administration recommends the final tax levy be due in two installments: August 2nd and October 4th.

FINANCIAL IMPLICATION

Approval of the 2023 tax policies and tax rates as recommended will ensure that the 2023 tax levy will be sufficient to meet budgeted taxation revenue.

CONCLUSION

It is concluded that the tax policies, tax ratios, and tax rates, as recommended in Report 156-2023-Corporate Services & Long-Term Care-Revenue should be approved for the 2023 taxation year.

BACKGROUND

The provincial government sets the province-wide policies and rules with respect to property assessment and taxation. The Ministry of Finance sets assessment policy and standards and is responsible for establishing legislation and regulations governing tax policy. It also is responsible for setting education tax rates for all property classes. The Ministry of Education is responsible for establishing the deadlines for municipalities to pay their education tax installments and is responsible for allocating the education taxes to the school boards.

The Municipal Property Assessment Corporation (MPAC) is responsible for assessing all property in Ontario. MPAC conducts its activities in accordance with the provisions of the Assessment Act, as well as regulations issued under the Act by the Province. Municipalities use the values MPAC establishes for properties when they calculate property taxes.

Municipalities have been granted some decision-making responsibility by the Province relating to municipal taxation. In this regard, there are options made available by the Province through the Municipal Act, 2001, and regulations issued thereunder whereby certain tax policy decisions must be made by December 31 of each year.

Since the introduction of current value assessment by the Province in 1998, inequities in tax treatment have been identified in the multi-residential, commercial, and industrial property classes in many cities including Thunder Bay. On April 24, 2023, City Council approved R 128/2023 – Long Term Tax Strategy Update, with a continued focus on reducing property tax ratios to enhance long-term financial stability and achieve greater fairness and relative competitiveness over time.

REFERENCE MATERIAL ATTACHED

Attachment 1 – Assessment Changes 2022-2023
Attachment 2 – Special Service Area Expansions
Attachment 3 – History of Tax Ratios
Attachment 4 – Impact of using Option 1 – Approved Long Term Tax Strategy
Attachment 5 – Impact of Using Option 2 – Long Term Tax Strategy Recommendations 1 & 2
Attachment 6 – Impact of using Option 3 – Status Quo
Attachment 7 – Impact Options have on Distribution of the Tax Levy
Attachment 8– 2023 Tax Rates & Ratios with Option 1 – Recommended
Attachment 9 – 2023 Tax Rates & Ratios with Option 2
Attachment 10 – 2023 Tax Rates & Ratios with Option 3

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