STAFF REPORT: **Financial & Information Services**

REPORT TO:	**Finance and Administration Committee**
MEETING DATE:	**May 18, 2010**
REPORT NO.:	**FIS.10.31**
SUBJECT:	**2010 Tax Policy – County of Grey**
PREPARED BY:	**Ruth Prince, Manager of Revenue**

A. Recommendations

THAT Council receive Staff Report FIS.10.31 "2010 Tax Policy – County of Grey" for information purposes.

B. Background

Municipal Councils are required to make a number of tax policy decisions annually. Even if there are no changes, tax ratio's must be established each year and since tax ratios directly impact the tax rates, the ratios have to be set before the tax rate by-law can be adopted. The setting of tax policy is the responsibility of the upper tier municipality.

Kevin Weppler, Director of Finance for the County of Grey, presented Report FR-FP-14-10 to the Grey County Finance and Personnel Committee on February 9, 2010. The purpose of the Report was to provide the Finance and Personnel Committee with background information and advice to enable the County of Grey to establish tax policies for 2010. The 2010 recommendation was to maintain the status quo from 2009.

The Blue Mountains' Staff was able to take part in discussions held with Grey County finance officers and concur with the recommendations contained in the Grey County Report.

Recommendations summarized:

1. **Tax Capping** – In 2005, the Ministry of Finance introduced a number of optional tools to modify the mandatory limits and alter the amount of tax protection. In 2009, two new optional tools were used to permanently exclude properties from the capping program once they reach or crossed over their Current Value Assessment (CVA) tax destination.

2. **Tax Ratios –** Tax ratios determine the relative tax burden on each property class compared to the residential class. Tax ratios show how the tax rate for a property class compares with the residential rate. If a property class has a ratio of 2, then it is taxed twice the rate of the residential class. In 2009, the commercial tax ratio applied to taxable commercial assessment was set at 1.306940. This means that a commercial property tax owner would pay 1.306940 times the amount of property tax paid by an owner with taxable residential assessment. Tax ratios are for municipal tax setting purposes only (Town and County). The 2010 tax ratios will remain the same as the 2009.

3. **Tax rates –** This section references the County budget and tax rates.

4. **Tax Reductions for Mandated Subclasses of Vacant Lands/Units –** Continue to use the legal default reductions of 30% for commercial and 35% for industrial vacant lands/unit in 2010.

5. **Tax Reductions for Farmland Awaiting Development Subclasses –** Leave the Type 1 at a rate of 25% and the Type 4 at up to 100% of the zoned class rate

6. **Lower for New Construction Properties –** Leave the threshold at the 100% minimum tax level and all new commercial, industrial and multi-residential property class construction is taxed on their full CVA value**.**

7. **Optional Classes of Property –** The only optional class at this time is OT, Resort Condominium, referring to certain properties previously classed as commercial and that meet the certain criteria as set out in Regulation 213/05. At this time there does not appear to be any need to add any other optional property classes.

8. **Tax Relief for Low Income Seniors/Low Income Disabled Persons –** Continue with the existing policy of tax relief as provided in By-law 3886-2001 which defines tax relief as a re-assessment-related tax increase in excess of $500. (property owner allowed to defer payment of that calculated increase)

C. The Blue Mountains' Strategic Plan

Ensuring long-term financial sustainability.

D. Environmental Impacts

None

E. Budget Impact

None

F. Attached

1. Corporation of the County of Grey Committee Report FR-FP-14-10

Respectfully submitted,

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Ruth Prince, Manager of Revenue

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CORPORATION OF THE
COUNTY OF GREY

COMMITTEE REPORT

FR-FP-14-10

TO:	**Kevin Eccles, Chair and** **Members of the Finance and Personnel Committee**
FROM:	**Kevin Weppler, Director of Finance**
MEETING DATE:	**February 9, 2010**
PURPOSE:	**The purpose of this report is to provide the Finance and Personnel Committee with background and advice to enable the County to establish tax policies for the year 2010.**

RECOMMENDATION

THAT the Finance and Personnel Committee receive Report FR-FP-14-10 and approve the recommendations as set out in this report;

AND THAT the Finance and Personnel Committee instruct the Director of Finance to prepare the necessary By-laws for Council's consideration and approval.

BACKGROUND

The purpose of this report is to provide County Council with the background and advice to enable the County to establish tax policies that effect how the County of Grey apportions the tax burden by property class, as well as between the nine local municipalities.

It is also the responsibility of the upper tier to pass By-laws relating to tax policy decisions. In preparation for this report a meeting was held on January 29, 2010, with Local Municipal Treasurers and Staff to receive their input and endorsement for the items covered in this report.

Status: February 9, 2010 - Report received and recommendations contained therein approved (Motion FP47-10); March 2, 2010 – Council adopted the February 9, 2010 minutes and recommendations contained therein, as amended, (Motion FP 47-10)

1. TAX CAPPING

In 2005 the Province introduced a number of optional tools that can be used to modify the mandatory limits and alter the amount of tax protection provided, as well as the rate at which these business properties are moved to their full Current Value Assessment (CVA) tax level.

Beginning in 2009, the Province provided municipalities with even further autonomy over their capping programs by making two new optional tools available. Municipalities will now be able to institute measures to exclude certain properties from the capping program once they: (i) reach their CVA destination, or (ii) cross over it.

In 2009, the Local Treasurers reviewed these exclusion options and recommended that the County, beginning in 2009, implement these two options to permanently exclude properties form the capping program once they reach their CVA tax destination or crossed over it.

For 2010, Municipal Tax Equity Consultants (MTE) will be preparing a Proforma Capping Analysis for the Local Treasurers to review, and from this analysis, a recommendation on tax capping tools and capping cost recover will be prepared and brought to the Finance and Personnel Committee for its consideration.

2. TAX RATIOS

County Council establishes the relative tax burden of each property class by setting tax ratios. Property tax ratios determine how a property class municipal tax rate compares with the residential tax rate which is equal to 1.0. For instance, if the tax rate for the commercial class is 2, a commercial property would pay twice the amount of municipal property tax as a similar valued residential property. The Province established prescribed tax ratios and the "Ranges of Fairness" for municipalities. The County can maintain the prescribed tax ratios, or adjust tax ratios closer to or within the "Ranges of Fairness".

In 2009 municipalities were able to adopt class-neutral transition ratios to mitigate inter-class tax shifts resulting from the 2008 phased-in reassessment. This permitted municipalities to increase the tax ratio of one or more business property classes to the extent necessary to maintain existing municipal tax burdens between residential and business classes.

Although 2010 is not a reassessment year, updates in assessment values are being made as part of the four year phase-in, with 2010 being year two of the phase-in. In order to mitigate the inter-class tax shifts associated with the reassessment phase-in, the County would need to increase the tax ratio of one or more Business property classes in order to prevent the tax shift onto the Residential property class as a result of the latest reassessment.

The reason for the shift in tax dollars onto the Residential property class is simply the case of the Residential property class property values appreciating at a much higher rate than those properties in the Business classes.

By retaining existing 2009 Tax Ratios and applying these ratios to the new assessment values, a shift in taxation to the Residential class of $64,982 occurs and most other property classes would see an overall reduction in the amount of taxation. This shift in taxation is demonstrated in Column 10 on the attached spreadsheet (Recalculating Tax Ratios for Complete Revenue Neutrality by Property Class) as compared to the tax shift if Council decided to adopt new Revenue-Neutral Ratios for Multi-Residential, Commercial, Industrial, and Pipelines where a tax shift of $64,404 to the Residential Class would be prevented as a result of reassessment as demonstrated in Column 11.

In 2006, the County decided to approve of the use of tax ratios, revenue-neutral by class. There was much debate on the use of increasing tax ratios on the business classes in that this was seen as not being "business friendly" and therefore would not encourage businesses to relocate or remain in Grey County. In 2009, the County decided not to adjust tax ratios and permitted a shift to the Residential class of $123,431 in taxation to occur.

The Province has yet to make a decision for 2010 in regards to availability of this flexibility for municipalities in 2010. However in considering the use of tax ratios, revenue-neutral by class, it was decided that for 2010 the use of tax ratios, revenue-neutral by class, not be used and that the tax ratios for 2010 remain as adopted for 2009.

The Recommendation for the Finance and Personnel Committee is that the County of Grey adopt the 2009 year's actual tax ratios for use in setting the 2010 tax rates.

3. TAX RATES

The 2010 Draft Budget is to be distributed to Council on March 2, 2010, for review by Committee of the Whole on March 9, 2010.

The Recommendation for Finance and Personnel Committee is to direct the Director of Finance to prepare a general rating by-law, for 2010 Tax Rates, subject to the approval of the 2010 budget by County Council.

Status: February 9, 2010 - Report received and recommendations contained therein approved (Motion FP47-10);l March 2, 2010 – Council adopted the February 9, 2010 minutes and recommendations contained therein, as amended, (Motion FP 47-10)

4. TAX REDUCTIONS FOR MANDATED SUBCLASSES OF VACANT LANDS/UNITS

The legal default reduction of 30% for commercial and 35% for industrial property classes have been used by the County and the alternative to having two rates is to set a uniform discount rate for both classes anywhere between 30% and 35%.

The Recommendation for Finance and Personnel Committee is that the County of Grey continue to use the legal default reductions of 30% for commercial and 35% for industrial vacant lands/units in 2010.

5. TAX REDUCTIONS FOR FARMLAND AWAITING DEVELOPMENT SUBCLASSES

Two categories of Farmland awaiting development are possible:

I. Type 1 with subdivision registered, may be taxed at between 25% - 75% of the residential tax rate;
II. Type 4 with building permit issued, may be taxed at up to 100% of zoned class rate.

The Recommendation for Finance and Personnel Committee is that the County of Grey shall leave the Type 1 at a tax rate of 25% and the Type 4 is to be taxed at up to 100% of the zoned class rate.

6. LOWER LIMIT FOR NEW CONSTRUCTION PROPERTIES

As part of the 2004 Provincial Budget, Municipalities were able to place a lower limit, or floor, on the starting tax level eligible to new construction properties in the commercial, industrial and multi-residential property classes. A lower limit of up to 100% may be set for properties that become eligible within the 2010 taxation year. When a limit is employed the test for setting the tax level on new construction properties will become the lower of the CVA tax, the average level of the comparable supplied by Municipal Property Assessment Corporation (MPAC), or the floor if the level of comparables falls below that level. Municipalities have the option of increasing these limits based on the following schedule:

2005 – 70% Minimum Tax Level
2006 – 80% Minimum Tax Level
2007 – 90% Minimum Tax Level
2008 – 100% Minimum Tax Level
2009 – 100% Minimum Tax Level

The Recommendation for Finance and Personnel Committee is that the County of Grey set the threshold for 2010 new construction, as was done in 2009, at the 100% minimum tax level and all new commercial, industrial and multi-residential property class construction be taxed on their full CVA value.

7. OPTIONAL CLASSES OF PROPERTY

The County of Grey in 2005 established a Resort Condominium property class. The benefit to eligible property owners of property in this new class is found in one of the new regulations, 213/05, which amends the Education Act and establishes the annual tax rate for the new property class as the rate set out for Residential property.

In the meeting that was held with the Local Treasurers and Staff, discussion took place in regards to the possibility of creating a new Multi-Residential Tax Class in order to help stimulate new growth. The County has currently begun the process of having a Housing Study completed. This Study is to identify a housing profile for the County and provide an action plan on how to ensure an appropriate level of diverse housing stock is maintained throughout the County. This Study is also to identify strategies to deal effectively with social and affordable housing needs and issues throughout Grey County. Therefore, until this study is completed and strategies are identified and endorsed by Council, no new optional property classes are being recommended at this time.

No Action Required.

Respectfully Submitted

Date: February 9, 2010

Kevin Weppler
Director of Finance

Attachment – Recalculating Tax Ratios for Complete Revenue Neutrality by Property Class – Using 2010 Assessment Values with Phase-In

Status: February 9, 2010 - Report received and recommendations contained therein approved (Motion FP47-10);l March 2, 2010 – Council adopted the February 9, 2010 minutes and recommendations contained therein, as amended, (Motion FP 47-10)

RECALCULATING TAX RATIOS FOR COMPLETE REVENUE NEUTRALITY BY PROPERTY CLASS
AND COMPARING TO TAX DISTRIBUTION WITH NO CHANGE TO CURRENT TAX RATIOS - USING 2010 ASSESSMENT VALUES WITH PHASE-IN

	Column			(1)	(2)	(3)	(4)	(5)			(6)	(7)	(8)	(9)	(10)	(11)
	Property Class	Matched Year-End 2009 CVA	2010 CVA	2009 Starting Tax Ratios	Revenue Neutral Ratios	Request-Based Ratios	2009 General Tax Rates	2010 Rates Under Starting Ratios	2010 CVA Weighted by Request Based Ratios	2009 Ratio Weighted 2009 CVA	Request-Based 2010 Rates	2009 YEAR-END TAXES	Revenue USING 2009 TAX Ratios	Revenue Under Request-Based Ratios	2010 Reassess. Related TAX SHIFT OLD RATIOS	2010 Request-Based TAX SHIFT NEW RATIOS
1	Residential	8,514,225,501	8,968,802,855	1.000000	1.000000	1.000000	0.445453%	0.423594%	8,968,802,855	8,968,802,855	0.422630%	$37,926,873	$37,991,277	$37,904,847	$64,404	-$22,026
2	Multi-residential	157,570,087	165,742,983	1.441197	1.441842	1.441144	0.641985%	0.610482%	238,859,505	238,868,290	0.609071%	$1,011,576	$1,011,831	$1,009,492	$255	-$2,085
3	New multi-residential	0	0	0.000000	0.000000	0.000000	0.000000%	0.000000%	0	0	0.000000%	$0	$0	$0	$0	$0
4	Commercial	707,262,452	743,250,204	1.306940	1.308751	1.329619	0.582180%	0.553611%	988,239,593	971,383,421	0.561937%	$4,117,541	$4,114,718	$4,176,597	-$2,822	$59,056
4a	Comm. Res. Condos	192,369,023	192,602,115	1.000000	1.000000	1.000000	0.445453%	0.423594%	192,602,115	192,602,115	0.422630%	$856,914	$815,850	$813,994	-$41,063	-$42,919
5	Industrial	110,339,192	113,045,540	1.858187	1.908628	1.924224	0.827734%	0.787116%	217,524,941	210,059,753	0.813235%	$913,315	$889,800	$919,326	-$23,515	$6,011
6	Pipeline	29,187,688	30,232,460	0.906848	0.921333	0.921964	0.403958%	0.384135%	27,873,240	27,416,246	0.389650%	$117,906	$116,133	$117,801	-$1,773	-$105
7	Farm	918,559,675	970,175,484	0.250000	0.250000	0.250000	0.111363%	0.105898%	242,543,871	242,543,871	0.105657%	$1,022,938	$1,027,400	$1,025,063	$4,462	$2,125
8	Managed Forest	43,015,955	45,285,176	0.250000	0.250000	0.250000	0.111363%	0.105898%	11,321,294	11,321,294	0.105657%	$47,904	$47,956	$47,847	$52	-$57
		=========	=========						=========	=========						
	Totals	10,672,529,573	11,229,136,817						10,887,767,414	10,862,997,845		$46,014,966	$46,014,966	$46,014,966	$0	$0

Comments:

By retaining existing 2009 Tax Ratios and applying to new assessment values a shift in taxation, as shown in Column 10, to the Residential Class of $64,404 occurs and most other property classes gain, change is the result of unequal assessment appreciation

Column Notes:

1) 2010 starting ratios (column 6a of worksheet 1).
2) Revenue neutral ratios (column 6 of worksheet 1).
3) Municipality determines ratios between 2009 starting tax ratios (column 1) and the revenue neutral ratios (column 2).
4) Single-tier or upper-tier general municipal tax rates including any 2009 levy increase under the levy restriction (column 3 or worksheet 1).
5) Row 1 residential rate is the sum of column 4 in worksheet 1 divided by the sum of the starting 2010 ratio-weighted 2010 CVA.
For rows 2 to 8, take column 5 row 1 and multiply by the respective rows in column 1.
6) Row 1 residential rate is the sum of column 4 in worksheet 1 divided by the sum of the 2010 CVA weighted by the request-based ratios (column 3)..
For rows 2 to 8, take column 6 row 1 and multiply by the respective rows in column 3.
7) Annualized year-end taxes (column 4 of worksheet 1).
8) Product of respective rows in column 5 mulitiplied by the respective 2010 CVA (column 2 of worksheet 1).
9) Product of respective rows in column 6 mulitiplied by the respective 2010 CVA (column 2 of worksheet 1).
10) For each row, take the difference between the respective rows in columns 8 and 7.
The sum of column 10 should equal zero. Resort Condominiums will not in 2010 due to Ratio to be equal to that of the Residential Class and thus no revenue neutral ratio.
11) For each row, take the difference between the respective rows in columns 9 and 7.
The sum of column 11 should equal zero. Resort Condominiums will not in 2010 due to Ratio to be equal that of the Residential Class and thus no revenue neutral ratio.

Note:

A requested ratio should not result in a municipal tax increase on any class where the class was facing either a reassessment-related tax decrease or no change under the 2010 starting ratios.
A requested ratio should not result in a municipal tax increase greater than a reassessment-related tax increase that would have been incurred under the 2010 starting ratios.

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