

STAFF REPORT: Financial and Information Services

REPORT TO: Finance and Administration Committee
MEETING DATE: May 5, 2009
REPORT NO.: FIS.09.19
SUBJECT: 2009 Tax Policy – County of Grey
PREPARED BY: Ruth Prince, Manager of Revenue

A. Recommendations

THAT Council receive Staff Report FIS.09.19 “2009 Tax Policy – County of Grey” for information purposes.

B. Background

Kevin Weppler, Director of Finance for the County of Grey, presented Report FR-FP-16-09 to the Grey County Finance and Personnel Committee on February 10, 2009 and Report FR-FP-21-09 on March 24, 2009. The purpose of these 2 reports was to provide the Finance and Personnel Committee with background information and advice to enable the County of Grey to establish tax policies for 2009. The 2009 recommendations were generally to maintain the status quo from 2008, with the introduction of two new optional tools that become available in 2009.

The Blue Mountains’ staff were able to take part in discussions held with Grey County finance officers and they concur with the recommendations contained in the Grey County report.

Recommendations Summarized:

- 1. Tax Capping** – Two new optional tools became available in 2009. Municipalities can now institute measures to exclude certain properties from the capping program once they: (i) reach their Current Value Assessment (CVA) destination, or (ii) cross over it. These optional tools allow municipalities to alter the amount of protection provided on properties, as well as the rate at which these properties are moved to their full CVA tax level. The local Treasurers have reviewed these two exclusion options and have recommended that the County, beginning in 2009, use these two options to permanently exclude properties from the capping program once they reach their CVA destination or cross over it.

The practice of recouping the tax shortfalls that cannot be passed on to the property owners because of “capped” re-assessment-related tax increases, and offset it by holding back a similar portion of the re-assessment-related decrease due to property taxpayers in the same property class (commercial, industrial and multi-residential classes) will be continued. There is a change for 2009. A tax threshold decrease adjustment for capped properties where the required billing

adjustment is within \$250 of the properties' CVA tax; no capping claw-back would be applied and the affected property would be billed at their CVA tax level. This option significantly reduces the number of properties from the capping program and would move a greater number of properties to their CVA tax.

2. **Tax Ratios** – Tax ratios determine the relative tax burden on each property class compared to the residential class – for example in 2008 the tax ratio applied to taxable commercial assessment was set at 1.306940, meaning that for every \$1 of taxable commercial assessment, a property owner would pay 1.306940 times the amount of property tax paid by a property owner with taxable residential assessment (tax ratio of 1) for municipal purposes (Town and County). The 2008 year's actual tax ratios are used in setting the 2009 tax rates.
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 2008.
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

Supporting environmentally sound decisions

E. Budget Impact

F. Attached

1. Corporation of the County of Grey Committee Report FR-FP-16-09
2. Corporation of the County of Grey Committee Report FR-FP-21-09

Respectfully submitted,

Ruth Prince, Manager of Revenue

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*CORPORATION OF THE
COUNTY OF GREY*

COMMITTEE REPORT

FR-FP-16-09

TO: Bob Pringle, Chair and
Members of the Finance and Personnel Committee

FROM: Kevin Wepler, Director of Finance

MEETING DATE: February 10, 2009

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 2009.

RECOMMENDATION

THAT the Finance and Personnel Committee receive Report FR-FP-16-09 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. The statutory deadline for these decisions is April 30. In preparation for this report a meeting and conference call was held with the Local Municipal Treasurers to receive their input and endorsement for the items covered in this report.

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 properties are moved to their full Current Value Assessment (CVA) tax level.

Beginning in 2009, the Province has decided to provide 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.

Municipal Tax Equity Consultants (MTE) is currently preparing a Proforma Capping Analysis for the Local Treasurers to review on February 17, and from this analysis, a recommendation on the optional tools to use for 2009 will be prepared and brought to the Finance and Personnel Committee for its consideration. These optional tools allow municipalities to alter the amount of protection provided, as well as the rate at which these properties are moved to their full CVA tax level.

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".

The Minister of Finance has announced for 2009, that municipalities will be authorized 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.

To implement this change the County would be required 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.

For 2009, a streamlined approval process for regulating transition ratios has been introduced. Municipalities will now be provided with the option of setting new transition ratios based on a prescribed formula to be regulated by the Province. This new streamlined process is to enable municipalities to reset their own transition ratios in a more efficient manner.

By retaining existing 2008 Tax Ratios and applying these ratios to the new assessment

values, a shift in taxation to the Residential class of \$123,431 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 \$86,017 to the Residential Class would be prevented as a result of reassessment as demonstrated in Column 11. It must be noted that this shift will be the first of a four year assessment phase-in and therefore similar tax shifts will occur in the next three years.

In 2006, the last time municipalities were authorized to increase tax ratios to the extent necessary to maintain municipal tax burdens between residential and business classes, 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 considering the use of tax ratios, revenue-neutral by class, it was decided that the residential class would only see a rate reduction of \$1.019 per \$100,000 of assessment and therefore this tax savings would be insignificant to the average residential home owner.

The Recommendation for the Finance and Personnel Committee is that the County of Grey adopt the 2008 year's actual tax ratios for use in setting the 2009 tax rates.

3. TAX RATES

The 2009 Draft Budget is to be distributed to Council on March 3, 2009, for review by Committee of the Whole on March 10, 2009.

The Recommendation for Finance and Personnel Committee is to direct the Director of Finance to prepare a general rating by-law, for 2009 Tax Rates, subject to the approval of the 2009 budget by County Council.

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 2009.

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 2009 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

The Recommendation for Finance and Personnel Committee is that the County of Grey set the threshold for 2009 new construction, as was done in 2008, 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.

At this time there does not appear to be any need to add any other optional property classes.

No Action Required.

8. TAX RELIEF FOR LOW INCOME SENIORS/LOW INCOME DISABLED PERSONS

The County's current By-law 3886-2001 provides the required definitions and defines tax relief as a tax increase in excess of \$500.

The Recommendation for Finance and Personnel Committee is that the County of Grey shall continue with the existing policy of tax relief as provided in By-law 3886-2001.

Respectfully Submitted

Date: February 10, 2009

Kevin Weppler
Director of Finance

Attachment – Recalculating Tax Ratios for Complete Revenue Neutrality by
Property Class – Using 2009 Assessment Values with Phase-In

- Recalculating Tax Ratios for Complete Revenue Neutrality by
Property Class – using 2009 Assessment Values with NO Phase-In



*CORPORATION OF THE
COUNTY OF GREY*

COMMITTEE REPORT

FR-FP-21-09

TO: Bob Pringle, Chair and
Members of the Finance and Personnel Committee

FROM: Kevin Wepler, Director of Finance

MEETING DATE: March 24, 2009

PURPOSE: The purpose of this report is to provide the Finance and Personnel Committee with background and advice to enable the County to establish business tax capping optional tools for the year 2009.

RECOMMENDATION

THAT the Finance and Personnel Committee receive Report FR-FP-21-09 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

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 decided to provide 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.

A Proforma Capping Analysis prepared by Municipal Tax Equity (MTE), was reviewed by the Local Treasurers on February 17. From this analysis, a recommendation on the optional tools to be used for 2009 was to be prepared and brought forward to the Finance and Personnel Committee for its consideration. These optional tools allow municipalities to alter the amount of protection provided on properties, as well as the rate at which these properties are moved to their full CVA tax level.

It is the responsibility of the upper tier to pass By-laws relating to tax policy decisions. The statutory deadline for these decisions is April 30.

TAX CAPPING

As part of the 2004 Provincial Budget, the McGuinty Government announced a number of reforms to Ontario's property assessment and tax system and these include:

1. Local Options to determine Tax Capping Protection for business properties and accelerate progress to Current Value Assessment (CVA).
2. Options to phase-out protection for eligible new construction.

The Local Options to determine Tax Capping Protection for an assessment related increase include:

1. Continue with existing 5% capping rule; or
2. Increase the annual cap from 5% of last year's capped taxes up to a maximum of 10% of last year's capped taxes; and/or
3. Set an upper tier limit on annual increases at the greater of the amount calculated under (1) or (2) and up to 5% of the previous year's annualized CVA tax; and/or
4. Up to a maximum \$250 threshold may be set for increasing properties, decreasing properties or both; this would move properties with a billing adjustment of less than the threshold to their full CVA tax liability for the year.

Any of these tools may be used on their own, or in combination, and be applied differently to each capped class. In 2008, County Council approved the combined effect of incorporating the following tax capping options or establishing a maximum increase threshold at the greater of:

1. 10% of the previous year's annualized capped tax ,
2. 5% of the previous year's annualized CVA tax for eligible property, and
3. imposed a threshold adjustment for capped properties where the required billing adjustment is within \$250 of the properties' CVA tax; in this instance, no capping credit would be applied, and the affected property would be billed at their full CVA tax level.

With the exception of 1998 the County has consistently used the method of withholding a portion of the tax decreases to offset the increases it is prevented by capping from passing on to those properties with assessment related increases. This method from 1999 to 2007 has been sufficient to pay the amount of capping tax shortfall. 1998 was treated differently because the Province announced the capping program almost 12 months late, and rather than going back to have all tax bills recalculated for 1998, the County opted to pay the shortfall itself.

Beginning in 2009, municipalities will have the option to permanently exclude properties from the capping program once they: (i) reach their CVA tax destination, or (ii) cross over it.

Under the first option, a property can be excluded from the current year's capping program if its final (capped) taxes for the previous year were equal to its CVA taxes for that year. The second option would allow properties to be excluded from the current year's capping program if

they move from a position of being capped in one taxation year to being subject to claw-back in the current year, or vice-versa. The following examples have been provided to illustrate how these two options work in their simplest terms.

Capping Exclusion Illustration

	2008 CVA Tax	2008 Final Capped Tax	2009 CVA Tax	2009 Capped Tax (based on 10% Limit and 50% claw-back)	Captured by Exclusion	Final Tax
Example 1: Stay at CVA Tax	\$10,000	\$10,000	\$12,000	\$11,000	Yes	\$12,000
Example 2: Moving from capped to claw-back	\$15,000	\$14,000	\$10,000	\$12,000	Yes	\$10,000
Example 3: Moving from claw-back to capped.	\$10,000	\$10,500	\$12,000	\$11,550	Yes	\$12,000

(This example is purely hypothetical and for illustrative purposes only)

It is important to note that while these two exclusion tools are separate options, and a municipality may choose to exclude properties that have reached their CVA and not properties that cross their CVA tax destination, the cross-over option can only be used in conjunction with the “stay at CVA tax” option. These options may be put in place for any or all of the capped classes and must be supported by a municipal by-law.

These exclusion options will help begin the migration of the elimination of capping. These two options will cause a greater number of properties to be billed at CVA tax, regardless of reassessment impacts. It will also help simplify taxes and tax adjustments for taxpayers, and this option can help reduce capping costs in instances where properties would otherwise be eligible for capping protection.

These exclusion options also have some possible downsides:

- Can lead to inequities between properties with similar CVA's where one property reaches CVA tax and is excluded, but another property continues to receive protection.
- Could lead to increased risk of capping shortfalls as the pool of potential claw-back properties is reduced or eliminated.
- Where claw-back room is insufficient to cover costs of capping, properties remaining in the cap may be stalled in a claw-back position indefinitely.
- Could lead to transfer of capping costs to non-capped classes

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

As part of the Province's 2007 budget, the Minister of Finance announced that business education tax rates would be reduced incrementally to a Province-wide maximum target rate between 2008 and 2004. This announcement meant that over seven years, business

education rates would be lowered to a target maximum rate of 1.60 per cent. With this decrease in education rates, a number of business properties were subject to capping and part of their tax decrease was clawed-back to fund the cost of the capping protection given to those properties with tax increases.

The Local Treasurers reviewed this and asked that MTE calculate a Proforma on various scenarios using different CVA tax threshold dollar decreases up to a maximum of \$250 in order that this option could be considered. In reviewing the scenarios that were provided by MTE, the majority of the Local Treasures recommended that the County consider using the option of imposing a tax threshold decrease adjustment for capped properties where the required billing adjustment is within \$250 of the properties' CVA tax; in this instance, no capping claw-back would be applied, and the affected property would be billed at their full CVA tax level.

This option, if approved, would be a change from what the County has historically approved. This option would significantly reduce the number of properties from the capping program and would move a greater number of properties to their CVA tax. It does however increase the risk of future capping shortfalls as the pool of potential claw-back properties is reduced or eliminated.

The Local Treasurers understand that there is a risk of future capping shortfalls by implementing this option, but believe that by recommending the implementation of the exclusion options on the basis of trying to move as many properties to CVA tax in order to try and eliminate capping, that decreasing properties should be treated similarly and that a \$250 CVA tax threshold for decreasing properties should be recommended for 2009.

The Capping Proforma Analysis as provided by MTE with these new options is not predicting any capping shortfalls in any of the business classes at this time. MTE's Profomas can be made available upon request.

The Recommendation for Finance and Personnel Committee is as follows:

In accordance with Section 329.1 of the Municipal Act regarding Tax Capping, the following tax capping policies be approved:

- 1. THAT the maximum increase threshold shall be the greater of:
 - i) 10% of the previous year's annualized capped tax, and**
 - ii) 5% of the previous year's annualized Current Value Assessment (CVA) tax for eligible property;****
- 2. THAT an increase threshold adjustment be imposed for capped properties where the required billing adjustment is within \$250 of the properties' Current Value Assessment tax; in this instance, no capping credit would be applied, and the affected property would be billed at their full CVA tax level;**
- 3. THAT a decrease threshold adjustment be imposed for capped properties where the required billing adjustment is within \$250 of the properties' Current Value**

Assessment tax; in this instance, no capping claw-back would be applied, and the affected property would be billed at their full Current Value Assessment tax level ; and

4. THAT measures be instituted to exclude properties from the capping program once they:

- i) reach their Current Value Assessment tax destination, or**
- ii) cross over it.**

AND THAT this capping scenario be the County's choice of tax capping for each property class for 2009;

AND FURTHER THAT the cost of funding the tax capping relief be recovered from the same tax class (claw-back) from decreasing properties.

Respectfully Submitted

Date: March 24, 2009

Kevin Wepler
Director of Finance