



## **Administrative Report**

### **Office of the Director of Financial Services/Treasurer**

**To: Warden McNamara and Members of County Council**

**From: Sandra Zwiers  
Director of Financial Services/Treasurer**

**Date: Wednesday, February 06, 2019**

**Subject: 2019 Property Tax Policy Recommendations**

**Report #: 2019-0206-FIN-R003-SZ**

---

#### **Purpose**

To provide recommendations to County Council regarding 2019 Property Tax Policies for the County of Essex.

#### **Background**

#### **Legislation**

---

The Provincial Government, in 1997, introduced the Fair Municipal Finance Acts (Bill 106 and Bill 149) for the purpose of correcting the inequities in the taxation of properties across the Province. Upper-tier and single tier municipalities were given a number of responsibilities with respect to property taxation under that legislation.

- Establishment of Tax Ratios
- General Rating By-law for Upper Tier
- Alteration of Prescribed Subclass Tax (Excess and Vacant Lands)
- Tax Relief for Low Income Seniors and Disabled Persons
- Rebates to Eligible Charities

As well, the Small Business and Charities Protection Act (Bill 16) which came into effect in 1998, provided the upper-tier and single tier municipalities with further decisions to make.

## Limits on Property Taxes in the Commercial, Industrial, and Multi-residential Tax Classes (tax capping)

Mandatory Rebates of at least 40% for Registered Charities in commercial and industrial property tax classes (can rebate up to 100%)

Optional Tax Rebates of up to 100% to Similar Charitable and Non-Profit Organizations

Option to Choose Four New Property Classes: Shopping Centres; Office Buildings; Vacant Lands and Parking Lots; and Large Industrial Properties

Vacancy Rebate Programs for owners of properties in the commercial and industrial tax classes

More recently, the Ministry of Finance has introduced regulations that further provide municipalities with some flexibility in their tax policy decisions. In the 2016 Ontario Budget, the option came available for municipalities to make a technical adjustment to the provincially prescribed notional property tax rate calculation. This adjustment allows municipalities the option to adjust the year-end assessment used in the notional property tax rate calculation to offset changes including Assessment Review Board (ARB) decisions, Requests for Reconsideration, Post Roll Amended Notices and Special Advisory Notices. Decisions to adjust the notional tax rates are considered annually and require a Council resolution.

The Province also provided municipalities with increased flexibility to manage business property taxes, through the business tax capping program. Additional enhancements to those implemented in 2016 were added in 2017 to accelerate progress to Current Value Assessment taxes and options to exit and phase-out from the tax capping program. By adopting these various enhancements over the years, 2019 represents the second year since capping was introduced that all Essex County properties are out of the program and are taxed at their current value assessment.

In 2017, a new option came available to municipalities to alter the Vacant Unit Rebate and Vacant/Excess Land Subclasses Reduction Programs. In consultation with the lower tier municipalities, and after completing a multi-pronged public engagement process, resolutions were passed to endorse the phasing out of the Vacant Unit Rebate program for the 2018 taxation year. The County's application was approved by the Minister of Finance and Ontario Regulation Amendment 360/18 was passed on May 3, 2018.

In 2018, the Ministry of Finance announced new optional subclasses for both industrial and commercial property classes to promote and support local

## Administrative Report

Page 3

February 6, 2019

2019 Property Tax Policy Recommendations

---

farm enterprises across Ontario. The new subclasses will provide a tax reduction for small-scale on-farm businesses. The ability to establish these new subclasses is legislated under O. Reg 361/18. In order to determine the applicability and benefit of these subclasses within the County, MPAC must first identify properties within our region that qualify for this classification. Once that information is available, administration, in consultation with the Essex County Treasurers and Tax Collectors of the lower tiers, will make a recommendation to County Council on whether to establish these subclasses.

## Current Value Assessment and Tax Rate Calculations

---

In the Province of Ontario, property taxes are calculated by applying 'Tax Rates' to the 'Current Value Assessments' (CVA) for each property. The CVA's of each property are determined and provided by the Municipal Property Assessment Corporation (MPAC) to each municipality. MPAC determines the CVA's for each property, based on regulations that are established by the Ministry of Finance. Tax Rates, are determined by each municipality, based on their annual levy requirements and the established taxation policies for the year. There are different tax rates for each property tax class and sub-class. The upper tier and lower tiers each establish separate tax rates and the Ministry of Finance prescribes the Education Tax Rates that apply to each municipality annually.

An example of the manner in which the property taxes for a typical residential property would be calculated is as follows:

<b>Taxing Authority</b>	<b>Residential Tax Rate</b>	<b>CVA for Property</b>	<b>Taxation (\$)</b>
County	0.00482987	237,000	\$1,144.68
Lower Tier	0.00700480	237,000	\$1,660.14
Education	0.00170000	237,000	\$402.90
<b>Total Tax</b>	<b>0.01353467</b>	237,000	<b>\$3,207.72</b>

Commencing with the January 1, 2009 taxation year, a four-year phased-in assessment cycle was introduced based on January 1, 2008 market values.

## Administrative Report

Page 4

February 6, 2019

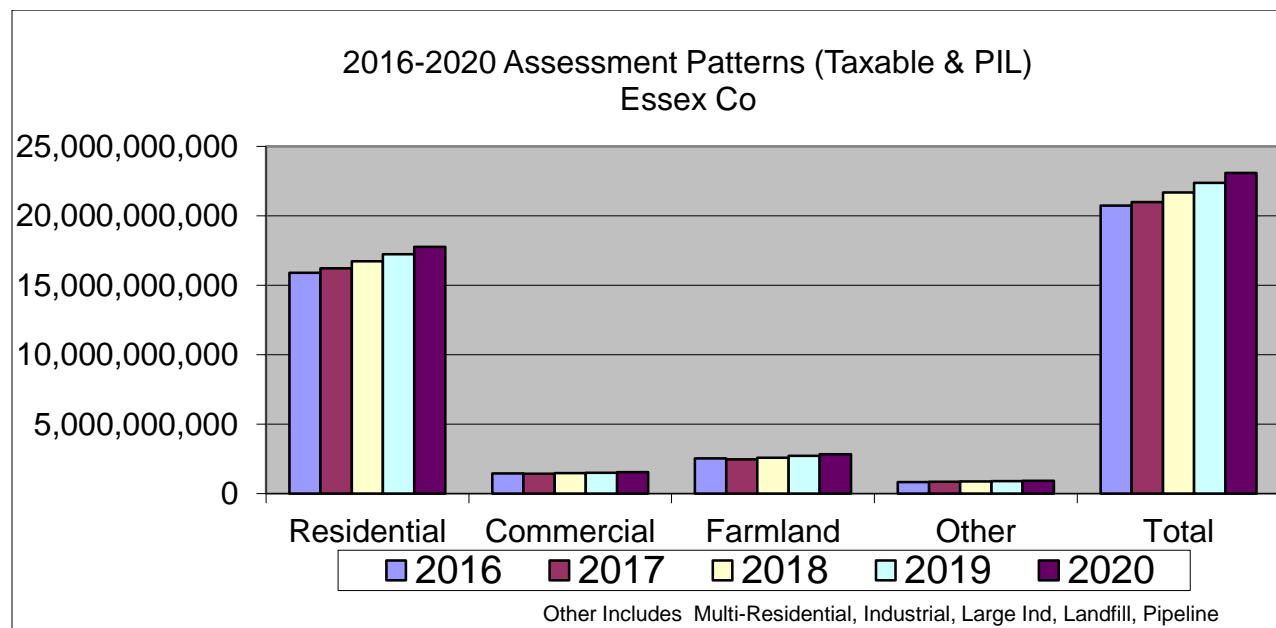
2019 Property Tax Policy Recommendations

Those 2008 values were updated to 2012 for the January 2013 to 2016 period and most recently, to 2016 for the January 2017 to 2020 assessment cycle. In 2017, the first year of the new assessment cycle, all CVA reductions were fully processed. CVA increases, however, have been phased-in over each of the following four years in the assessment cycle.

An example of the phased-in assessment increases for a property receiving an increase in CVA of \$3,000 is as follows:

2012 CVA	2016 CVA following reassessment	2017 CVA	2018 CVA	2019 CVA	2020 CVA
183,000	186,000	183,750	184,500	185,250	186,000

The following graph demonstrates the 2016 CVA total for the County following the reassessment, as well as the phased-in CVA's for the years 2017 to 2020, including growth from new assessment added.



The valuation date for the next four year assessment cycle has been moved ahead from January 1, 2020 to January 1, 2019. MPAC will therefore be assessing properties at their January 1, 2019 value for use in taxation calculations during the years 2021 – 2024. Moving the valuation date ahead by one year allows MPAC a longer period of time to inspect, investigate and

assess properties in order to produce a more accurate returned roll for taxation purposes.

As in prior years, in accordance with Section 308 of the Municipal Act, 2001, as amended, the County of Essex is responsible for establishing the tax ratios and property tax policy for the local municipalities within the geographic boundaries of the County of Essex for the current year. A meeting of the Essex County Treasurers and Tax Collectors was convened on Tuesday, January 22, 2019 to review and evaluate the tax policy options in order to formulate recommendations to County Council on property tax policies for 2019.

## **Discussion**

### **Property Tax Policy Considerations**

#### **a) Property Tax Classes**

---

#### **Optional Business Property Tax Classes**

In 1998, the Small Business and Charities Protection Act, 1998 introduced optional business property tax classes which municipalities were able to adopt in addition to the mandatory property classes. Currently there are nine mandatory property tax classes:

- Residential
- Multi-residential
- New Multi-residential
- Commercial
- Industrial
- Farmland
- Managed Forests
- Pipelines
- Landfills

Within the Commercial and Industrial property tax classes there are sub-classes for vacant and excess lands. Within the residential and farmland classes there are sub-classes for 'lands awaiting development', meaning there has been a plan of subdivision registered for the lands, however, no construction has commenced.

The option to adopt optional property tax classes within the original Industrial and Commercial tax classes was introduced by the Ministry of

## **Administrative Report**

Page 6

February 6, 2019

2019 Property Tax Policy Recommendations

---

Finance to recognize that there may be very different types of 'businesses' within the broad commercial and industrial classes and some had a greater ability to pay a higher level of property taxes than others.

The County of Essex opted to adopt the Large Industrial, Office Building, Shopping Centre and Parking/Vacant Lands optional business property tax classes in 1998 and in subsequent years until 2009.

This resulted in the original Commercial and Industrial property tax classes being segregated as follows:

The Commercial Broad Tax Class is broken down into:

- Shopping Centres
- Office Buildings
- Parking Lots and Vacant Lands
- Commercial Residual - all commercial properties not falling into one of the above 3 optional commercial classes are part of this residual commercial class.

The Industrial Broad Tax Class is broken down into:

- Large Industrial
- Industrial Residual – all industrial properties not falling into the Large Industrial class are part of the residual Industrial class.

As a result, different tax rates were able to be applied to the various types of commercial and industrial businesses. The Shopping Centre and Office Buildings were subject to a higher tax rate than the residual Commercial tax class. The Parking Lots and Vacant Land property tax class was subject to a lower tax rate than the residual Commercial tax class.

Similarly, the Large Industrial tax class was subject to a higher tax rate than the residual Industrial tax class.

In October 2009, based on the recommendation of the Essex County Treasurers and Tax Collectors, County Council eliminated the optional Shopping Centre Property tax class commencing in 2010. In so doing, this eliminated an issue within the Shopping Centre tax class which had been created by a change in the legislation in 2007, setting out how Shopping Centres were assessed. That legislative change had created large tax caps on some of the Shopping Centres. The following optional business property tax classes have been maintained since 2010: Large Industrial, Office Building, and Parking/Vacant Lands.

Based on the fact that all commercial and industrial properties are out of the capping program, it is the recommendation of the Essex County Treasurers and Tax Collectors that there is currently no need to make any changes to the optional business property tax classes for 2019.

## **Mandatory New Multi-Residential Property Tax Class**

In July 2017, a number of Ontario Regulations were passed that set out the parameters of a new mandatory tax class for multi-residential property. All multi-residential properties with permits issued after April 20, 2017 will be assessed into this new multi-residential class. While numerous multi-residential developments are underway throughout the County, at the cutoff date for the returned roll in December 2018, no properties were assessed and classified into this new multi-residential tax class. The tax ratio for this new class was set at 1.0 for the 2017 taxation year under Ontario Regulation 262/17. Municipalities have the option of setting a tax ratio between 1.0 and 1.1 for this new multi-residential class beginning in 2018.

The Essex County Treasurers and Tax Collectors discussed the impact of this new mandatory class and its associated narrow tax ratio range of fairness in light of the existing multi-residential tax class that has a current tax ratio of 1.9554. The new mandatory tax class will create a significant tax levy difference among multi-residential property constructed before and after April 20, 2017. Further analysis was deemed appropriate before a recommendation was made to change either the existing Multi-residential tax ratio or the New Multi-residential tax ratio. As discussed later in this report, analysis of this issue has been included in a study being undertaken by Municipal Tax Equity Consultants on behalf of the County of Essex.

## **b) Tax Ratios**

---

The determination of 'tax ratios' is another tax policy decision which must be established on an annual basis in order to calculate the tax rates. The concept of tax ratios was introduced by the Province in 1998 when the current property tax system was implemented. Tax ratios indicate the mathematical relationship between the residential class tax rate and the tax rates for other property classes. For example, if the tax ratio for a class has a value of 2.0, it means that the tax rate for the class will be two times the residential rate. The tax ratio for the residential class is always 1.0

Tax Ratios are also used in the determination of the percentage of the tax levy that is raised in each of the various property tax classes. That is

## Administrative Report

Page 8

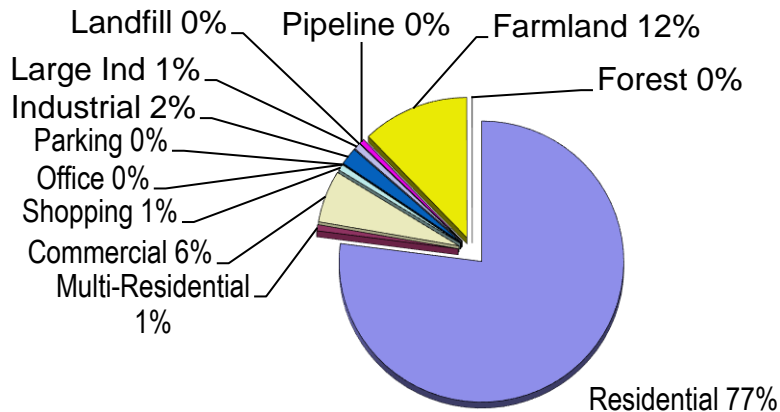
February 6, 2019

2019 Property Tax Policy Recommendations

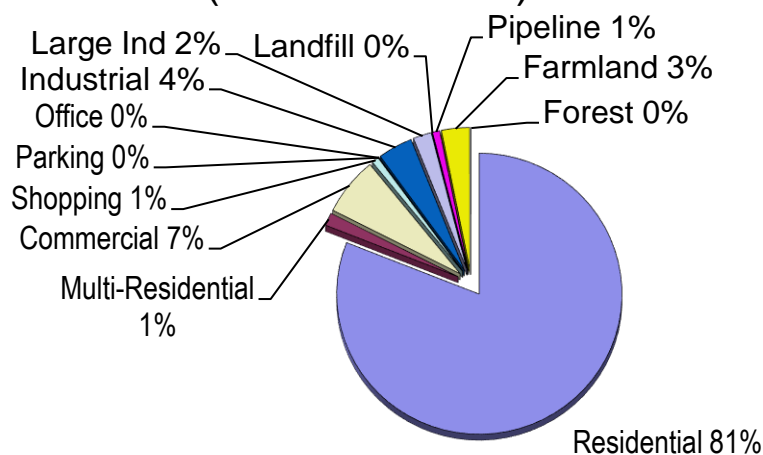
---

calculated by applying the tax ratio for a property tax class to the total CVA for a property tax class, resulting in the total “weighted assessment”.

### 2019 Assessment Distribution (Taxable & PIL) Essex Co



### 2019 Weighted Assessment Distribution (Taxable & PIL) Essex Co



The above charts demonstrate how the application of Tax Ratios redistributes the percentage of the levy that is paid by each property tax class. For example, 4% of the total weighted assessment is in the Industrial Tax class; however, the Industrial Tax class only represents 2% of the total



raw CVA. Increasing the current tax ratio for the industrial class would increase the percentage of the total weighted assessment for that class and increase the percentage of the total tax levy that must be raised within that tax class, while decreasing the percentage of the total tax levy that must be raised within the other property tax classes.

When the Province assigns tax ratios to municipalities in a year, the ratios are referred to in the Municipal Act as transition ratios. What differentiates transition ratios from tax ratios is that they represent the new ceiling or maximum tax ratio values that municipalities can adopt in their annual tax ratio by-law.

The transition ratios that the Province assigned to municipalities in 1998 at the time of the first province-wide reassessment, reflected the historical share of the municipal levy associated with each property class. The province last assigned transition ratios to municipalities that requested them in 2006 for application in the reassessment that occurred prior to 2009.

The rules for establishing and prescribing transition ratios were changed in 2009. Up to 2006, municipalities were required to request new transition ratios from the Province, and, if approved, the Province would file them in Regulation 385/98. This approval and filing process has now been replaced by the automatic calculation of revenue neutral transition ratios for qualifying municipalities. Specifically, when one or more of the revenue neutral ratios determined for a municipality have higher values than the current tax ratio(s), they automatically become transition ratios under regulation 385/98.

The tax ratios that the municipality may adopt in its tax ratio by-law can be equal to or lower than the transition ratios. Once the tax ratio by-law is passed, the transition ratios cease to exist until the next tax year when the cycle is repeated.

An analysis is conducted annually to determine if there have been any significant assessment related tax shifts between property tax classes which would warrant altering the Tax Ratios for one or more property tax classes. If there was assessment related tax shifting between tax classes occurring, the adoption of Revenue Neutral Tax Ratios would eliminate the tax shifting and redistribute the tax levy between classes so the proportion of the levy in each class would be the same as it was before the assessment changes.

Alternatively, if the intent of tax policy was to reduce the tax burden on a particular Tax Class, lowering the tax ratios in any will result in an increase

in the amount of taxation to be raised within the Residential Tax Class, thus increasing the amount of individual taxes paid by each residential taxpayer.

For 2019, modeling was conducted, ([See Appendix 1](#)) using various tax ratio scenarios, including the adoption of Revenue Neutral Tax Ratios. The analysis demonstrated that the amount of shifting between property tax classes was minimal and therefore it was not necessary to alter the tax ratios adopted by Council in prior years.

In 2018, the Essex County Treasurers and Tax Collectors identified a desire to investigate whether changes to the existing tax ratios warranted a deeper analysis. This discussion was based on the fact that the new multi-residential class, once assessment is allocated, will create an inequity in the taxation of multi-residential property throughout the County. Additionally, the County has adopted a relatively stable tax ratio plan while neighbouring municipalities have chosen to alter ratios within the ranges of fairness on a more frequent basis. The elimination of the vacant unit rebate program also changed the taxation landscape for the County and there was a desire to investigate whether changes to the business sub-class discounts were warranted. In the fall of 2018, a tax ratio analysis study was undertaken by the County in consultation with the lower tier municipalities and conducted by Municipal Tax Equity Consultants. The Essex County Treasurers and Tax Collectors have reviewed a first draft of the analysis and will be meeting again in 2019 to review the consultant's findings. A presentation will be made to County Council to highlight the study results and to outline any recommendations deemed necessary to change tax ratios in advance of the 2020 budget cycle.

### **c) Analysis of 2018 Phased-In CVA for 2019 Taxation**

---

A comparison of the 2018 Phased-in CVA totals to the 2019 Phased-in CVA totals ([See Appendix 2](#)) indicate that the increase overall for Essex County is 3.2% (2018 – 3.3%). That does not include any growth from new construction. It should be noted that the 2016 full CVA values will not be reached until 2020.

[Appendix 3](#) demonstrates what percentage each property tax class is of the total assessment and compares that distribution for the total 2019 CVA (realized in 2020) to the previous total 2016 CVA, as well as to the phased-in 2019 CVA. This also demonstrates that there has been very little shifting of assessment between property tax classes.

An analysis of 'typical' or 'median' property in various tax classes was undertaken to demonstrate the impact of this reassessment. [Appendix 4](#) provides that analysis. This table shows that the CVA percentage change for these various 'typical' properties, but also shows what the dollar tax change is, strictly due to reassessment.

## **d) Essex County Tax Assistance Programs**

---

### **Vacancy Rebate Programs and Sub-Class Reductions**

On November 16, 2016, Bill 70 Building Ontario Up for Everyone Act, was introduced in the legislature. This Bill provided flexibility for upper and single tier municipalities to review their vacancy rebate programs and discounts for vacancy/excess land sub-classes in order to develop rebate and reduction programs that reflect the business community needs and circumstances. Any changes to the previous programs, however, required approval of the Minister of Finance.

The Minister of Finance approved the County of Essex's application to eliminate the vacancy rebate program effective for the 2018 taxation year.

With respect to sub-class reductions, previously the only flexibility municipalities had was to establish a discount percent at 30% of commercial properties and 35% for industrial properties or set a single rate that is no less than 30% and no more than 35%. Essex County Council has historically adopted a 30% discount for Commercial properties and a 35% discount for Industrial properties. In other words a property owner with a vacant parcel of commercial property would pay taxes equal to 70% of the full commercial tax rate.

While the County of Essex successfully applied for the elimination of the vacant rebate program, no application was made to change the business sub-class reductions.

### **Commercial/Industrial Sub-Class Discounts for Vacant/Excess Land**

It is the recommendation of the Essex County Treasurers and Tax Collectors that for the 2019 taxation year the discount for the commercial sub-classes remain at 30% and for the industrial sub-classes remain at 35%.

## **Essex County Tax Assistance Program for Low Income Seniors and Low Income Persons with Disabilities (By-law 04-2004)**

Section 319 of the Municipal Act 2001, S.O. 2001 c.25 as amended provides that, for the purposes of relieving financial hardship, a municipality, other than a lower tier municipality, shall pass a by-law providing for deferrals or cancellation of, or other relief in respect of, all or part of a tax increase on property in the residential property class for persons assessed as owners who are, or whose spouses are low income seniors as defined in the by-law or low income persons with disabilities as defined in the by-law. The maximum amount that an eligible applicant would be able to receive, according to the maximum provisions in the Act, would be the difference between the total taxes for the property in the current year less the total taxes for that property in the most recent reassessment year. The upper tier municipality may opt to provide some relief that is less than the maximum amount, albeit some type of tax relief program is mandatory under Section 319. The County of Essex has had a tax assistance program for low income seniors and low income persons with disabilities in place since 1998.

This program is reviewed annually by the Essex County Treasurers and Tax Collectors. There are no changes to this program being recommended for 2019 and no amendments to By-law #04-2004, which sets out the eligibility criteria and process for applying for this Tax Assistance program.

## **Essex County Charity Rebate Program**

Section 361 of the Municipal Act 2001, S.O. 2001 c.25 as amended, mandates an upper tier or single tier municipality to pass a by-law implementing rebate policies of at least 40% for registered charities and similar charitable and non-profit organizations, for the purpose of providing relief from taxes on property if they occupy a building in the commercial or industrial property tax class. The intent of this provision was to return charities, which prior to 1998 did not pay business taxes, to the same level of taxation they were paying prior to the adoption of the Fair Municipal Finance Act. Section 361 also provides an option to extend this rebate program to charities and similar organizations occupying property that is not assessed in the commercial and industrial property classes.

The Essex County Charity Rebate Program has been in place since 1998 and it provides a rebate of 40% of taxes paid by eligible charities and similar

organizations that occupy property in the commercial or industrial property tax class and that make application.

This program is also reviewed annually by the Essex County Treasurers and Tax Collectors. There are no changes to this program being recommended for 2019 and no amendments to By-law #16-2007, which sets out the eligibility criteria and process for applying for this Tax Assistance program.

## **Veterans Clubhouses and Legion Halls Rebate Program**

By-law #10-2017, which sets out the eligibility criteria and process for applying for the Tax Assistance program related to veteran clubhouses, expired on December 31, 2018.

In May 2018, Bill 57 received royal assent. The Bill, which amends the Assessment Act, exempts all Legions from taxation in the Province. The tax exemption takes effect January 1, 2019. The enactment of Bill 57 alleviates the need for a Veterans Clubhouses and Legion Halls Rebate Program. During 2019, MPAC will be issuing supplementary amended notices reflecting exempt classification tax status to all Legions within the County.

## **Financial Implications**

The proposed tax policy recommendations contained in this report reflect tax ratios and programs that consider principals of fairness, affordability and equity in support of the continued long term fiscal sustainability of the Corporation.

## **Recommendation**

That Essex County Council adopt the tax ratios used in 2018, for the 2019 taxation year,

And further that the reductions for sub-classes for vacant/excess commercial and industrial land be set at 30% and 35% respectively;

And further that the Essex County Tax Assistance Program for Low Income Seniors and Low Income Persons with Disabilities established under By-law 04-2004 and the Charity Tax Rebate Program established under By-law 16-2007 continue with no amendments.

**Administrative Report**

Page 14

February 6, 2019

2019 Property Tax Policy Recommendations

---

Respectfully Submitted

*Sandra Zwiers*

Originally Signed by

Sandra Zwiers, Director of Financial Services/Treasurer

Concurred With,

*Robert Maisonville*

Originally Signed by

Robert Maisonville, Chief Administrative Officer

<b>Appendix No.</b>	<b>Title of Appendix</b>
1	Calculation of Tax Shifts Under Revenue Neutral Ratios
2	Assessment Change Summary
3	Assessment Base Distribution Summary
4	Typical Property Impact