Administrative Report

Office of the Director, Financial Services/Treasurer

To:	**Warden MacDonald and Members of Essex County Council**
From:	**Melissa Ryan, CPA** **Director, Financial Services/Treasurer**
Date:	**Wednesday, February 07, 2024**
Subject:	**2024 Tax Policy Discussion and Recommendation**
Report #:	**2024-0207-FIN-R04-MR**

Purpose

To provide recommendations to County Council regarding 2024 Property Tax Policies for the County of Essex.

Background

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. Following the approval of the Corporation's Annual Budget, an administrative report is prepared to present recommendations for County Council to set the Tax Policy that the County and all local municipalities will follow to determine the relative tax burden of each class of property for the current taxation year.

In terms of process, the Director of Financial Services / Treasurer annually chairs a regional meeting attended by Treasurers and Tax Collectors representing each local municipality. There is a long-standing tradition of collaborative decision making on tax policy topics. Even though the County has the jurisdictional authority to set policy for the whole of the County, recommendations have always resulted from input from every municipality. Tax policy for the County and its locals has been rooted in the principles of stability, equity, transparency and simplicity.

In November 2023, an initial gathering of regional treasurers and tax collectors took place to explore potential changes to the 2024 tax policy. During this meeting, various options were discussed. It was agreed that in

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January, decisions would be finalized on the group's preferred course of action. Each municipality would be responsible for preparing scenarios to assess the impact of these changes on their tax revenue and any other potential effects on their community so an informed decision could be made.

In January 2024, the regional treasurer and tax collector group convened to have a final review of existing tax policies and consider optional tax tools for the 2024 taxation year. The recommendations contained in this report reflect unanimous support by representatives from all seven local municipalities.

Discussion

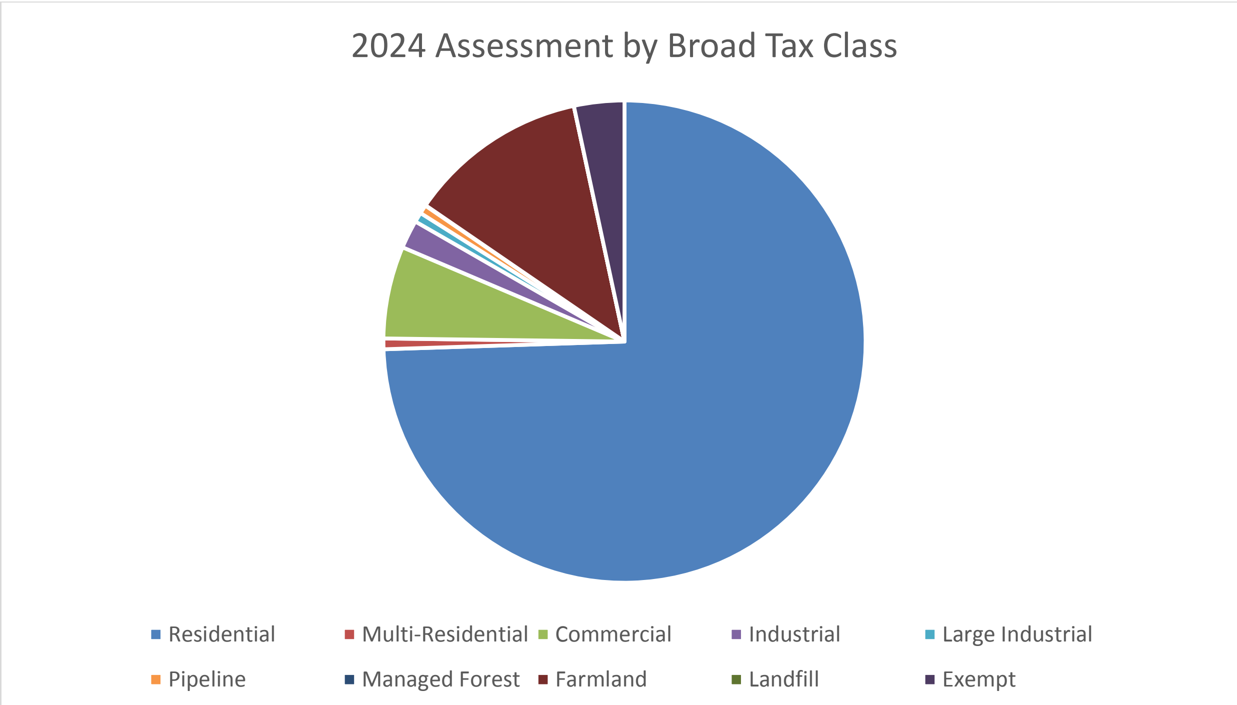
The regional group reviewed a number of tax policies and by-laws. The following discussion summarizes the issues and recommendations made by the group.

Part One – Current Value Assessment (CVA)

The Ministry of Finance postponed the re-assessment cycle for the 2024 year again. Taxation in the province has been frozen at January 1, 2016 levels since 2020. At the time of writing this report, the province remains silent on when the next re-assessment cycle will commence and what the CVA base year will be. As a result of the freeze, only in year growth/changes are impacting year over year CVA.

A comparison of the 2023 and 2024 returned rolls shows a 2.64% increase in raw assessment. The most notable growth occurred in the residential and new multi-residential classes. The residential class increased in raw assessment by $397,600,571 and the new multi-residential class increased by $8,493,000.

The County continues to be heavily weighted in the residential classes. The chart below illustrates the mix of assessment for 2024 by broad tax class.



Part Two – Tax Tools

In response to municipal need, the Province establishes tax tools from time to time. On an annual basis, the regional treasurers and tax collectors group reviews the tools available to determine their applicability to the taxation circumstance of the County.

Tax Ratios

In 2017, the Province made the New Multi-Residential tax class mandatory. Prior to 2017, the class was optional and hadn't been adopted by the County of Essex. The range of fairness for the tax ratio established for the class was prescribed between 1.0 and 1.1. In 2017, the County established the ratio at 1.1 for this new multi-residential class. The tax class capturing multi-residential assessment prior to 2017 had a tax ratio of 1.9554. In essence, multi-residential properties captured in the original tax class were taxed nearly double what a new multi-residential property was taxed in the new class. At the October 7, 2020 Regular Meeting of County Council, a recommendation, in principle, was approved that provided for the phased reduction of the multi-residential tax ratio over a four-year period. Beginning in 2021, the multi-residential tax ratio was reduced by 0.21385 annually, and reductions have continued. In 2024 this ratio is now in parity with the new multi-residential tax ratio (1.1).

Optional Small Business Class

In May 2021, the Province released the regulation related to the implementation of an optional small business class. The primary objective of the optional class is to assist municipalities that have gross assessment inequities among their commercial properties. The regional group analyzed the assessment of the County's commercial classes and did not find support for gross inequities. This analysis has been conducted each year since 2021 and, consistent with previous years, the regional group deemed this optional class unnecessary. For context, since the optional class was introduced in 2021, only two municipalities have implemented this optional class: Ottawa and Toronto.

Small-Scale On-Farm Business Subclass

In May 2018, the Province established two optional subclasses for small-scale on-farm businesses to promote and support local farms across Ontario. The commercial and industrial subclasses were created to provide a tax rate that is 75% lower than the commercial and industrial tax rates that would otherwise apply. The Province established a two-tier threshold for qualifying commercial and industrial assessment. The first subclass limit is $50,000 and the second subclass limit is equal to assessment exceeding $50,000 up to $100,000. An analysis of the properties in the County revealed only 17 eligible properties. A comparison of the estimated relief to eligible properties against the administrative costs of implementing the optional subclass resulted in the regional group declining the creation of the subclass. This analysis has been conducted each year since 2018 and, consistent with previous years, the regional group recommends against adoption of the subclass. It is important to note that regardless of whether a subclass is adopted, all eligible properties will continue to receive an education tax reduction.

Part Three – Current Regional Tax Subclass Discounts

Commercial Excess and Industrial Vacant & Excess Discounts

Since 1998, the mandatory vacant and excess land subclass reduction program has been instrumental in offering property tax relief to commercial and industrial property owners. Recognizing the evolving needs of municipalities and stakeholders, the Province has consistently empowered local governments with increased flexibility to modify this program. This adaptability encourages municipalities to assess the financial implications of tax reductions and engage in consultations to explore options for change. The enhanced flexibility enables municipalities to better align with community requirements and consider the interests of local businesses. As part of the Province's 2020 Budget Bill, changes were made to the *Municipal Act* to allow municipalities to change, update, tailor or **eliminate** discounts for excess/vacant land subclasses. For municipalities that intend to eliminate subclass discounts for vacant and excess land, the Act requires a specific approach to ratifying this via by-law.

To provide context to this discount, vacant land is defined as land without current use and lacking buildings or structures. Excess land refers to a portion of a property that is undeveloped and exceeds the land required for the existing developed portion, contingent upon there being an occupied section of the property paying full property taxes. Understanding these classifications is essential for effectively reviewing the vacant and excess land subclass discount program.

Section 313 of the Municipal Act, 2001, establishes subclasses for vacant and excess land within both the commercial and industrial property classes. These subclasses enjoy a reduced tax rate compared to the full rate for the respective class, with the County maintaining a consistent discounted tax rate of 30% for Commercial and 35% for Industrial for at least the last 10 years. Notably, there is no limitation on the duration a property can remain vacant or excess, and no application process is required. The Municipal Property Assessment Corporation (MPAC) identifies qualifying properties and places them in their own tax class. However, it is crucial to acknowledge that the Province has already phased out the education portion of the vacant and excess land subclass reduction. It's only the municipal component of the property tax rate that's currently discounted for these properties.

Several regions in Ontario have recently undergone or are planning changes to their vacant and excess land subclass reduction programs. In 2020, Halton Region opted for the complete removal of this tax reduction initiative, while Durham Region chose a phased-out approach during the same year. Similarly, Waterloo Region also implemented a phased-out strategy in 2020. In contrast, Niagara Region is currently in the process of phasing out the program, with the complete removal scheduled for 2024. These regional decisions underscore the evolving landscape of property tax policies, reflecting a broader trend in reevaluating the effectiveness and sustainability of such reduction programs.

The objectives driving the reconsideration of vacant and excess land subclass reduction programs are aligned with broader community goals. The emphasis is on encouraging infill development to optimize land use, fostering a healthy community environment, and motivating property owners to make the best use of their properties. This approach is designed to promote equity among taxpayers by ensuring that property tax incentives are in line with current municipal development priorities. By aligning these programs with broader community objectives, municipalities seek to strike a balance that supports economic development, enhances community well-being, and ensures fair and equitable tax treatment for all property owners.

At the Treasurer and Tax Collector meeting held on January 15, 2024, the elimination of these particular subclass discounts was discussed in detail. Following initial consultations at the November 2, 2023 meeting with local municipal partners and individual assessments completed by each municipality, it was revealed that several local municipalities expressed a willingness to eliminate these discounts. A follow up email requesting a confirmed response to the removal from all municipalities indicated that all local municipal partners would like to move forward with removing these discounts and keep all tax ratios the same which would marginally reduce rates for all classes.

Administration is recommending the removal of the Commercial Excess Land Discount of 30%, which applies to categories (CU, CW, CV, XU), the removal of the Industrial Vacant Land Discount of 35%, which applies to categories (IX, IJ, IY, IZ, JU), the removal of Industrial Excess Land Discount of 35%, which applies to categories (IU, IK, IV) and the removal of the Large Industrial Vacant Land discount of 35% which applies to categories (LU, KU).

This change is expected to impact approximately 607 properties and reduce the tax levy burden on all the other tax classes.

See below for a chart detailing the overall impact of the removal of these tax discounts. The removal of these rates will increase the tax collected on these properties to $561,067 from the original amount collected of $372,044. The increase in payment from these classes, $189,023, will reduce all other tax classes including the residential share of taxes.

RTC/RTQ	Description	Discount	Tax Collected with Discount	Tax Collected Without Discount	Additional Tax Collected Without Discount	# Of Properties in Class
CU	Commercial Excess	30%	$ 94,393	$ 134,655	$ 40,262	246
SU	Shopping Centre Excess	30%	$ 1,034	$ 1,475	$ 441	2
DU	Office Bldg Excess	30%	$ 114	$ 150	$ 36	1
IU + IK	Industrial Excess	35%	$ 82,805	$ 127,212	$ 44,407	125
IX + IJ	Industrial Vacant	35%	$ 160,728	$ 246,924	$ 86,196	225
LU	Large Industrial Excess	35%	$ 32,970	$ 50,651	$ 17,681	8
			$ 372,044	$ 561,067	$ 189,023	607

Should Council approve this recommendation, the only necessary action is the formalization of the removal through enactment of the by-law.

Part Four – Tax Assistance Programs

Essex County Tax Assistance Program for Low-Income Seniors and Low-Income Persons with Disabilities (By-law 2021-05)

Section 319 of the Municipal Act 2011, 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 cancelation of, or other relief in respect of, all or part of a tax increase on property in the residential class for persons assessed as owners who are, or whose spouse 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 provisions of 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 re-assessment 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.

The program is reviewed annually by the regional group. Similar to the experience for the 2022 taxation year, applications received at the local level have remained consistent during the 2023 taxation year. Given the current economic climate and inflationary pressures impacting property owners, it is anticipated that interest in this relief program will continue to increase.

The regional group recommends continuation of this program as represented in By-law 2021-05.

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 properties occupied in the commercial or industrial property tax class. 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 provides a rebate of 40% of taxes paid by eligible charities and similar organizations that occupy property in the commercial and/or industrial tax class and that make application.

This program is reviewed annually by the regional group. There are no changes being recommended for 2024 and no amendments to Bylaw 16-2007, which sets out the eligibility criteria and process for applying for this tax assistance program.

Financial Implications

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

Consultations

Regional Treasurers and Tax Collectors

Tracy Pringle, Municipal Property Assessment Corporation

Jana Thiessen, Municipal Property Assessment Corporation

Recommendation

That Essex County Council adopt the tax ratios as set out in By-law 2024-007 for the 2024 taxation year;

And further that the reductions for sub-classes for excess commercial, excess industrial and vacant industrial land previously set at 30%, 35% and 35% respectively, be removed for 2024 and any subsequent taxation years, unless specifically provided for in a By-law of the Corporation of the County of Essex;

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 amended under By-law 2021-05 continue with no amendments;

And further that the Essex County Charity Tax Rebate Program established under By-law 16-2007 continue with no amendments.

Approvals

Respectfully Submitted,

Melissa Ryan

Melissa Ryan, CPA, Director, Financial Services/Treasurer

Concurred With,

Sandra Zwiers

Sandra Zwiers, MAcc, CPA, CA, Chief Administrative Officer

Appendix	Title
Refer to By-law Section of Agenda	By-law 2024-07 A By-law to establish tax policy and levy property taxes for the year 2024.