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The Regional Municipality of Durham
Report

To:	Finance and Administration Committee
From:	Commissioner of Finance
Report:	#2024-F-2
Date:	March 19, 2024

Subject:

2024 Strategic Property Tax Study

Recommendation:

That the Finance and Administration Committee recommends to Regional Council that:

A) For the 2024 property taxation year, the municipal property tax ratios for the following property classes and subclasses for the Regional Municipality of Durham and its area municipalities be set as follows, consistent with the 2023 ratios, and the requisite by-law be prepared, and approval be granted,

Multi-Residential	1.8665
New Multi-Residential	1.1000
Landfill	1.1000
Pipelines	1.2294
Farmland	0.2000
Managed Forests	0.2500

Commercial Broad Class
(Including Shopping Centres, Office Buildings, Parking Lots and Residual)

Occupied	1.4500
Vacant Land	1.4500
Excess Land	1.4500
On Farm	1.4500

Industrial Broad Class
(Including Large Industrial and Residual)

Occupied	2.0235
Vacant Land	2.0235
Excess Land	2.0235
On Farm	2.0235

B) To achieve greater fairness and equity in the Current Value Assessment (CVA) system and property taxation policy, the Province be requested to:

- update the Provincial statutory rate applicable to nuclear generating facilities;
- institute an annual mechanism to ensure the rate continues to be updated in the future, and;
- redirect proxy property tax payments currently paid by the Region's two nuclear generating facilities to the Ontario Electricity Financial Corporation (OEFC) for the Ontario Hydro stranded debt to the host municipalities and the Region following retirement of the stranded debt.

Report:

1. Purpose

1.1 The annual Strategic Property Tax Study accompanies the annual Business Plans and Budgets and provides an update on various property assessment and taxation items. As one of the Region's primary revenue sources, it is important, where possible, to ensure a sustainable property tax assessment base. To achieve this, property tax policy decisions must consider the long-term impacts on both the assessment base and on all Regional property taxpayers.

1.2 The 2024 Strategic Property Tax Study provides information and analyses on a number of property tax items, including:

- assessment base trends including growth and the anticipated continued decline in the non-residential share of municipal taxes which places upward pressure on the municipal residential property tax rates;
- an update on the Regional property taxation at risk in assessment disputes including an analysis of changes resulting from a successful municipal appeal with respect to gravel pits;
- the provincial postponement of the reassessment until at least the 2025 property taxation year and real estate market developments;
- a review and comparison of Durham's municipal property tax ratios;
- average residential home and non-residential property tax comparisons;
- an update on provincial policy initiatives; and
- looking forward and next steps.

1.3 There are no recommended changes to the municipal tax ratios for the 2024 taxation year.

2. Previous Reports and Decisions

2.1 Strategic Property Tax Studies are prepared and presented annually with the 2023 Strategic Property Tax Study (Report #2023-F-8) approved by Council on March 29, 2023.

2.2 Included in the 2023 study was a Property Tax Reference Guide (Attachment #2 starting on page 26) that provided additional background including information on key terms, roles and responsibilities, historical property tax information and various property tax policy items.

3. Background

3.1 Property taxation is the single largest source of funding for the Region, averaging approximately half of the annual funding required to deliver the property tax supported services. In 2023, budgeted Regional property tax revenue was $817.4 million or 42.2 per cent of the total $1.94 billion gross expenditures for Regional property tax supported services.

3.2 When evaluating potential property tax policy options or changes, staff evaluate and consider taxpayer equity, market effects, competitiveness, and the specific financial implications for all property owners.

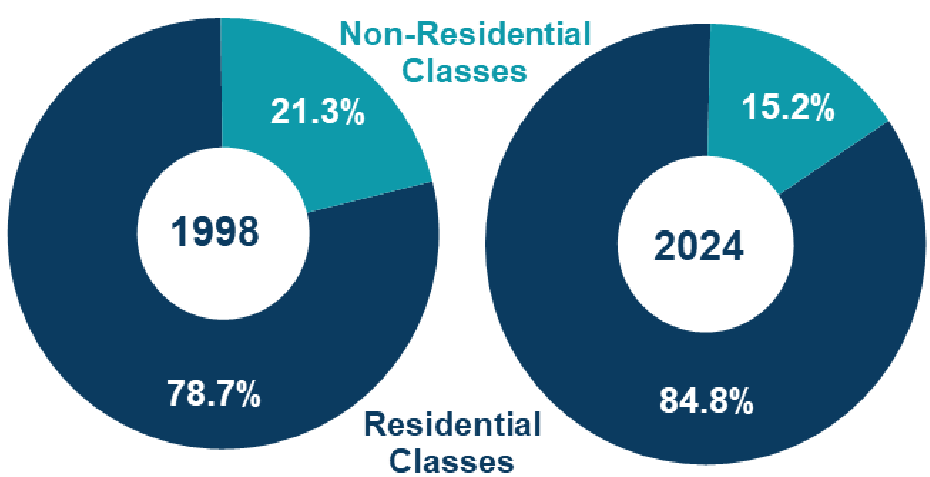
3.3 The Strategic Property Tax Study is produced annually to ensure key stakeholders, including Regional Council are kept informed on both recent developments as well as long-term trends, risks, and financial impacts.

4. The Assessment Base

Assessment Growth

4.1 Historically, Durham Region's residential growth and reassessment valuation changes have been higher than non-residential, contributing to a continual decrease in the proportionate share of non-residential assessment in the assessment base as shown in the 1998 and 2024 pie charts in Figure 1.

Figure 1
Weighted Assessment Base Composition

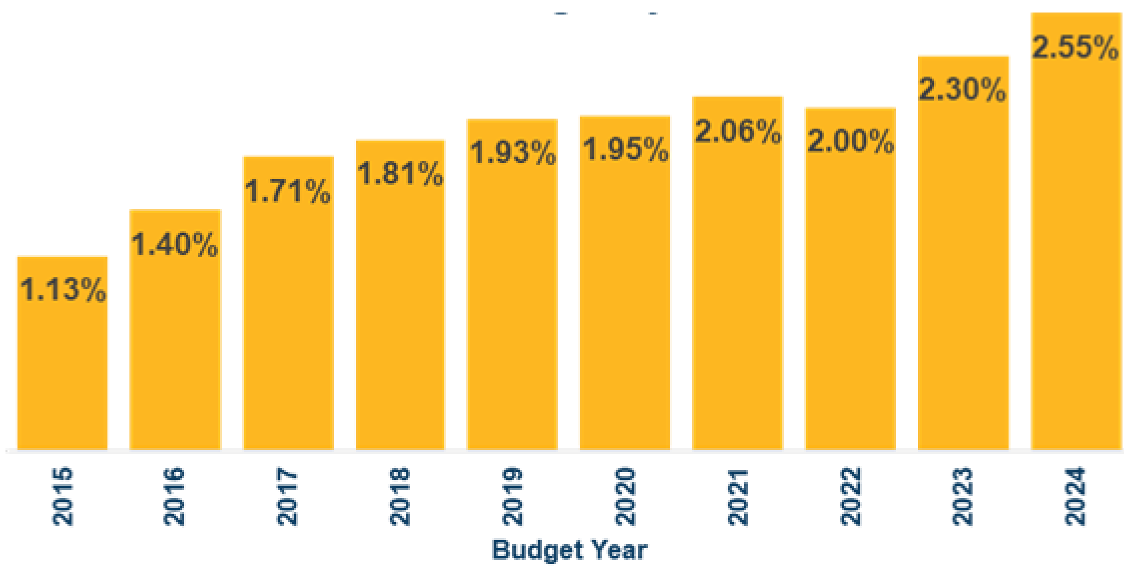


4.2 For the 2024 budget, the estimated taxable weighted assessment growth is 2.55 per cent, an increase from 2.30 per cent for the 2023 budget (Figure 2). This increase is due, in part, to:

- increased growth in the Seaton community;
- year-end adjustments related to an Assessment Review Board (ARB) and Divisional Court decision regarding gravel pits; and
- stronger growth in the warehousing and major distribution centres.

4.3 This growth was offset by a decrease in the large industrial property class due to court decisions that resulted in properties shifting to the commercial property tax class, the demolition of a large industrial structure in the Municipality of Clarington, and a property now eligible for the Conservation Land Tax Incentive program.

Figure 2
Historic Budgetary Growth



4.4 Of the 2.55 per cent taxable weighted assessment growth for the 2024 budget, 0.47 per cent is attributable to the Seaton community, compared to 0.20 percent for the 2023 budget. Continuing Council's direction (Report #2018-COW-19), this 0.47 per cent of the taxable weighted assessment growth for the 2024 budget has been partially deferred and will be brought into the annual budget in alignment with annual operating expenditures related to the Seaton development.

- The proposed 2024 Business Plans and Budget recommends using a portion of this growth to offset the incremental new operating costs required to provide Durham Region Transit services to the Seaton Community.
- This will promote long-term financial sustainability by better matching growth and the related property tax revenue from the Seaton community with the budgeted Regional operating costs to service this community.

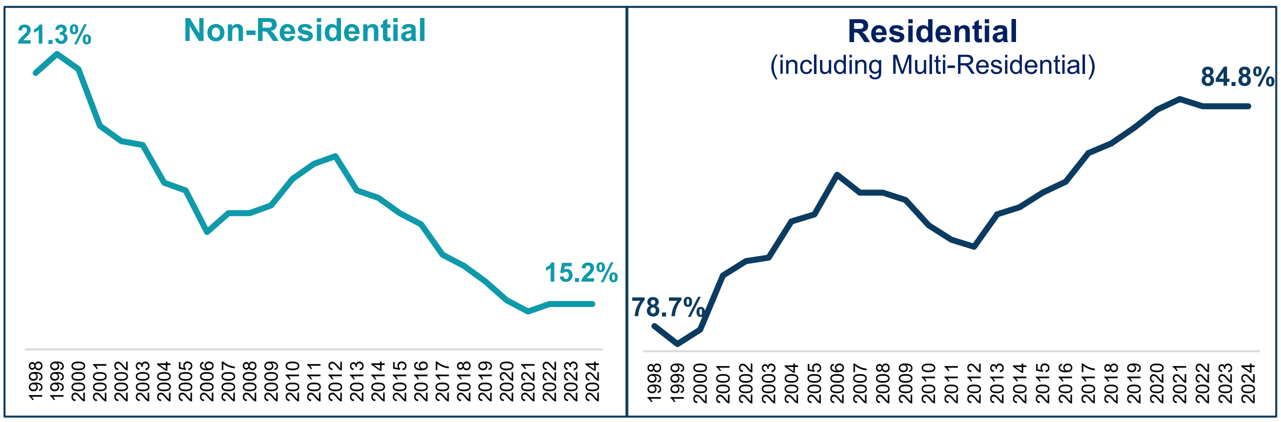
- This treatment is unique due to the large scale of the Seaton community and the intense and rapid planned development that will have a measured impact on Regional expenditures in the near term.

Non-Residential Share of Regional Assessment and Taxation Base

4.5 Figure 3 shows the significant decline in the non-residential share of the Region's property tax base since 1998 and the corresponding increase in the residential share of the tax base.

Figure 3

Share of Regional Property Taxes 1998-2024



4.6 As illustrated in Figure 3, the decline in the non-residential share of Regional property taxes has been continuous over the past 25 years with the two notable exceptions:

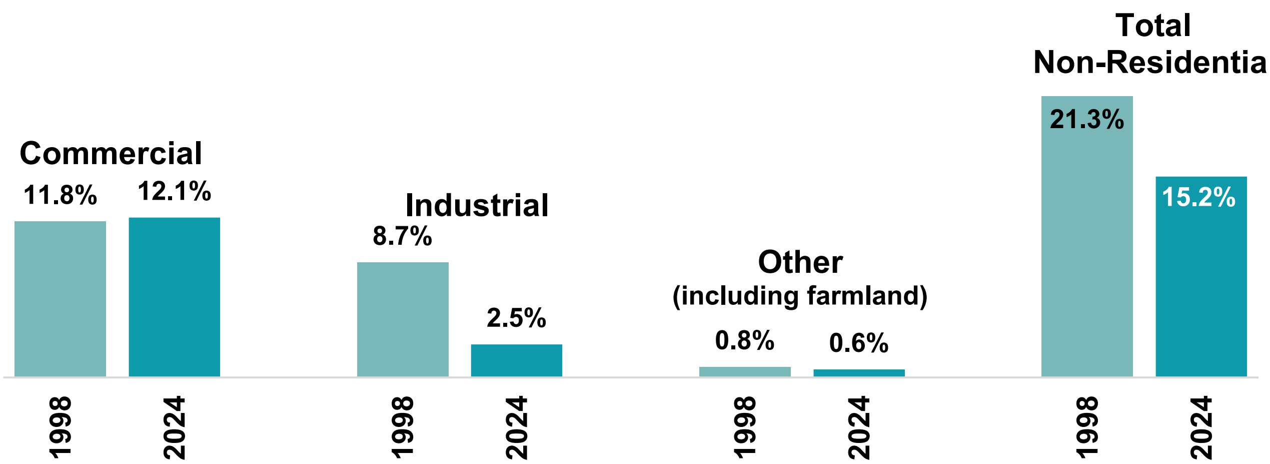
- Between 2006 and 2012 non-residential properties experienced higher valuation increases due to reassessments compared to residential properties resulting in an increase in the non-residential share of regional property taxes.
  - A large number of non-residential property owners successfully appealed these increased assessments to the ARB which then contributed to the continued decreasing share from 2012 onward.
  - This resulted in the increased Regional tax losses experienced for the 2008 and 2012 reassessment cycles as shown in Figure 6 in the Assessment at Risk Update (Section 5).
- For 2022 to 2024, Durham had relativity strong commercial growth (9.3 per cent) and unusually high net industrial assessment growth (6.2 per cent) relative to the residential assessment growth (6.3 per cent).
  - As a result, there was a slight increase in the non-residential share of Regional property taxes during this period.

- The postponement of the 2020 reassessment has resulted in a relatively stable share of non-residential property taxes for the past four years. When the reassessment occurs, it is anticipated that there will be increased property shifts between the residential and the non-residential property tax classes.

4.7 The decrease in the non-residential share of Regional property taxes over the past 25 years is primarily the result of declines in the industrial property class share as shown in Figure 4. The share of the “Other” category decreased between 1998 and 2023 largely as a result of Regional Council’s decision to decrease the farmland municipal tax ratio by 20 per cent between 2005 and 2007.

Figure 4

Non-Residential Share of Regional Property Taxes 1998-2024



4.8 The decrease in the non-residential share places upward pressure on the residential municipal property tax rate and has a direct impact when comparing relative property taxes as illustrated in Section 9 (Municipal Property Tax Comparisons).

4.9 The changes in Regional property class taxation shares are the result of:

- differences in assessment growth across the property classes;
- different valuation changes across the property classes from reassessments;
- ARB assessment appeal decisions; and
- changes to municipal tax ratios.

Emergence of the New ‘E’conomy

4.10 The Finance Department continues to advance a project which is focused on examining the anticipated impacts on Durham Region’s non-residential property tax base resulting from the structural economic changes with the emergence of the ‘e’conomy including the increasing prevalence of online retail, remote work, new technologies and the potential decline in demand for brick-and-mortar stores and office buildings.

4.11 Building on the collaboration with Ontario Tech University in 2022, staff are partnering with Trent University to perform statistical analysis which explores the potential relationship between in-person activity and relative property values. Preliminary insights through the development and ongoing refinement of a statistical model will assist in building an evidence-driven foundation to explore innovative policy solutions and revenue tools which address these structural economic changes.

4.12 The Finance Department is committed to leveraging the insights and solutions gained through partnering with academic researchers, municipal partners, and relevant experts. These will inform future Regional policy decisions and advocacy work with respect to potentially disruptive shifts in Regional property tax from the non-residential to the residential sector.

4.13 The Finance Department will continue to update Regional Council on this innovative research as it progresses.

5. Assessment at Risk Update

5.1 The calculation of individual property taxes requires a property's CVA which is included in the returned assessment roll provided by the Municipal Property Assessment Corporation (MPAC) under the authority of the *Assessment Act* and the *Municipal Act, 2001*. MPAC is responsible for both the classification and valuation of all properties in Ontario.

5.2 Municipal staff use the CVA and property classification set by MPAC along with the annual budgetary requirements and municipal taxation ratios approved by Regional Council to calculate municipal annual property tax rates applicable to individual property tax classifications.

5.3 At any given point in time, a material share of the Region's assessment base can be involved in an assessment or classification dispute. This can represent a significant financial risk to the municipal sector.

5.4 There are two avenues by which taxpayers can pursue assessment disputes.

- The first avenue (mandatory for residential properties) is the Request for Reconsideration (RfR) process where 53 per cent of all disputes are either settled or withdrawn.
    - This is an informal process whereby the property owner requests MPAC to review the property's current assessment and/or classification to ensure that MPAC has correct and current property information.
    - Through this review, one of the following two outcomes could occur. MPAC may revise the returned assessment based on more current/accurate information or may confirm the returned assessment as accurate.
    - Should the property owner not agree with the outcome of the review they have 90 days to file an appeal with the Assessment Review Board (ARB) (an adjudicative body under the Ontario Land Tribunal).

- If a change in the assessment is proposed by MPAC, a Minutes of Settlement Offer would be provided to the owner and, if it is agreed to by the owner, then the assessment is adjusted, and the local municipality will make a corresponding change to the property taxation.
- The owner has 90 days to accept the Minutes of Settlement or advance to the next stage.

- The second process is an appeal to the ARB, which is an independent adjudicative tribunal established under the *Assessment Act* that decides assessment and property classification complaints in Ontario.
  - It can take several years for disputes to reach settlement at the ARB, with many of the more complex commercial and industrial complaints stretching beyond the four-year assessment phase-in period.
  - Although less than half of disputes are settled at the ARB, almost 90 per cent of the property taxation losses are the result of ARB decisions.

Impacts in Property Valuation from the Pandemic are Not Relevant in Current Assessment Disputes

5.5 MPAC, the ARB and some municipalities have reported an increase in the number of assessment disputes filed by non-residential property owners claiming a decrease in the property's market value as a result of the recent pandemic.

5.6 MPAC has supported the current assessment in these instances as the valuation date used in the current taxation cycle (2017-2024) is January 1, 2016, and, in principle, is not subject to appeal for pandemic related impacts that occur four years later. To date, all ARB decisions on these types of appeals, have supported MPAC's position and denied any adjustments to the 2016 CVA.

5.7 Staff are actively monitoring settlement and ARB decisions to assess whether there is any increased risk to the Region.

Overview of Regional Assessment at Risk

5.8 Over the 19-year period (2006-2024), there have been four reassessment cycles as detailed below:

Valuation Date	Property Taxation Years	Cycle Length
2005 January 1st	2006 to 2008	3 Year
2008 January 1st	2009 to 2012	4 Year
2012 January 1st	2013 to 2016	4 Year
2016 January 1st	2017 to 2024	8 Year

5.9 MPAC and the ARB, due to both rule and procedural changes over the last several years and the postponement of the 2020 reassessment, have made considerable progress in reducing the previous backlog of assessment appeals at the ARB. The current volume of property disputes in Durham Region before the ARB is the lowest since the Region began analyzing the related risks in 2009.

5.10 Over the period 2006 to 2023 there have been 44,371 assessment disputes of which 51 per cent had the assessment confirmed or the dispute withdrawn. Only 1.2 per cent remain outstanding as shown in Figure 5.

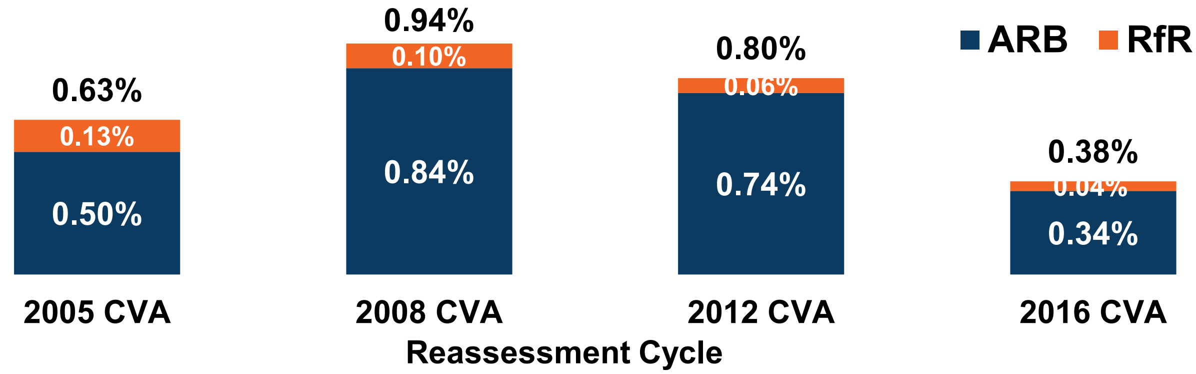
Figure 5
Number Assessment Disputes from 2006 to 2023

	Request for Reconsideration (RfR)	**Assessment Review Board (ARB)**	**Total**	
CVA confirmed or dispute withdrawn	11,969	10,671	22,640	51.0%
Dispute settled	11,639	9,554	21,193	47.8%
Dispute outstanding	9	529	538	1.2%
Total	**23,617**	**20,754**	**44,371**	

5.11 The 21,193 settled assessment disputes between 2006 to 2023 have resulted in Regional property tax losses of $66.9 million. Over half of these disputes (54.9 per cent) were settled through the informal RfR process and resulted in total Regional property tax losses of $7.3 million. The more complex, primarily non-residential disputes were settled at the ARB account for $59.6 million (89.1 per cent) of Regional property tax losses.

5.12 Figure 6 illustrates for each reassessment cycle the per cent of the Region’s total property taxes were lost due to settled assessment disputes. There are no outstanding assessment disputes for the 2005 and 2008 reassessment cycle and an immaterial amount of disputed CVA remains under appeal from the 2012 reassessment cycle. Approximately 12 per cent of the disputed CVA in the 2016 CVA cycle remains outstanding.

Figure 6
Portion of the Region's Total Property Taxes that were Lost due to Settled Assessment Disputes



5.13 As noted previously in this report, the higher 2008 and 2012 cycle's settlements were the result of a significant increase in non-residential property owner's disputing their high valuation changes that resulted from the reassessments.

Current Regional Risk in Outstanding Assessment Disputes

5.14 As of December 12, 2023, there were 148 properties with 538 outstanding assessment disputes in the Region of Durham for the taxation years 2017 to 2023.

- These disputes involve $5.4 billion in total CVA and $49.3 million in Regional property taxes as detailed in Figure 7.
- The majority of this assessment at risk (93.8 per cent) is for the City of Pickering, Town of Ajax, Town of Whitby and City of Oshawa properties.

Figure 7
Outstanding Assessment Disputes by Local Municipality from the 2016 Reassessment Cycle (2017 to 2022)

	Properties		CVA		Regional Taxes	
	#	**%**	**$m**	**%**	**$m**	**%**
Pickering	10	6.8%	1,013.0	18.7%	9.1	18.5%
Ajax	17	11.5%	1,278.9	23.7%	13.1	26.6%
Whitby	17	11.5%	553.5	10.2%	4.5	9.1%
Oshawa	15	10.1%	2,231.6	41.2%	20.3	41.2%
Clarington	16	10.8%	89.4	1.7%	0.7	1.4%
Scugog	11	7.4%	53.5	1.0%	0.3	0.6%
Uxbridge	48	32.4%	165.2	3.1%	1.1	2.2%
Brock	14	9.5%	21.0	0.4%	0.2	0.4%
Region	**148**	**100.0%**	**5,406.1**	**100.0%**	**49.3**	**100.0%**

5.15 Overall the number of properties with a dispute decreased by 24 or 14 per cent from 172 in 2022. Taxpayer launched disputes decreased by 44 and the Township of Scugog and the Township of Borck filed 20 new 2023 appeals on gravel pit properties within their jurisdictions.

5.16 In 2023, there were only six properties in the RfR process. The 142 properties in the ARB process represent 99.9 per cent of the CVA currently under dispute.

5.17 The Region's modelling suggests that, under a medium-risk scenario, the Region could see a net reduction of $3.7 million in Regional property taxes representing an average CVA loss of 7 per cent on the outstanding disputes.

- This net loss includes anticipated gains from gravel pit properties that are currently at the ARB as well as a 2024 ARB decision resulting in a loss in weighted assessment for a multi-residential property in Ajax.
- Under a low-risk scenario, this net loss is reduced to an estimated $2.8 million and increases to $4.6 million under a high-risk scenario.
- The Regional financial risk inherent in outstanding assessment disputes is adequately covered by the Region's Assessment Appeal Reserve.

5.18 Excluding gravel pits, 87 per cent of the estimated Regional property tax revenue losses are concentrated in the following three types of properties;

- Multi-residential properties and associated land (46 per cent),
- Vacant land (28 per cent), and
- Large commercial retail properties (13 per cent).

Gravel Pit Assessment Dispute

5.19 In March 2021, the ARB released an interim decision on a test case involving the valuation of gravel pits in the County of Wellington. The ruling significantly increased MPAC's assigned land value and reclassified various land segments to the industrial property tax class. This ARB decision supported the municipal position and was well received by the municipal sector.

5.20 In November 2021, MPAC sought leave to appeal the ARB decision in an effort to clarify the land classifications. On March 14, 2022, leave to appeal was granted and the Divisional Court hearing occurred in December 2022. On February 3, 2023, the Divisional Court's dismissed the appeal in its entirety and no appeals were filed.

5.21 In additional to having to apply the Wellington decision to outstanding appeals, MPAC conducted 2023 year-end adjustments to all 3,000 pits and quarries across the Province to reflect the ARB decision principles. For Durham Region, these MPAC 2023 year-end adjustments involved 103 properties broken down in Figure 8.

Figure 8
Gravel Pit 2023 Year-End MPAC Adjustments by Local Municipality

	Property Count	Increase in CVA $,000's		Estimated Annual Increase in Regional Taxes $,000's	
Pickering	1	2,895		19	
Ajax	-	-		-	
Whitby	-	-		-	
Oshawa	1	331		3	
Clarington	27	9,317		97	
Scugog	12	5,591		85	
Uxbridge	47	26,101		336	
Brock	15	11,486		108	
Region	**103**	**55,721**	**47%**	**648**	**76%**

5.22 Based on the principles established by the Wellington decision, MPAC increased the land value rate by 47 per cent as well as reclassified land (primarily residential to industrial). As a result of these MPAC adjustments, it is anticipated that the Regional taxes on the 103 properties will increase by a total of $0.6 million (approximately 76 per cent) in 2024 as shown in Figure 8. Property owners have until April 1, 2024 to appeal these 2023 year-end adjustments.

5.23 Although the Region is not recognized by Provincial legislation as a party to assessment disputes, Regional staff assist the local area municipalities in defending the common assessment base where appropriate and requested by the area municipality. The Region has been working closely with the Township of Uxbridge over the last several years on their gravel pit appeals and have also started working with the Townships of Brock and Scugog to file 2023 assessment appeals for the gravel pit properties located in their municipalities.

5.24 Since 2021, an increasing number of assessment appeals related to gravel pits in Durham Region have been launched as area municipalities seek to have the Wellington decision applied within their own jurisdiction. Figure 9 shows the number of properties subject to the MPAC 2023 year-end adjustments and the appeal status of these properties for taxation years 2021 to 2023.

Figure 9
Gravel Pit Properties with Outstanding ARB Appeals in Durham Region

Under Appeal	2021	2022	2023
Yes	33	53	80
No	70	50	23
Total	**103**	**103**	**103**

5.25 If the 2023 year-end adjustments are an accurate reflection of the eventual settlement of these appeals for 2021-2023, this could result in total additional Regional property taxes of between $1.2 million to $1.3 million under the medium risk scenario.

Multi-Residential Classification Dispute in the Town of Ajax

5.26 In 2017, the Province mandated a new multi-residential property class across Ontario with a maximum municipal tax ratio of 1.1 for 35 years to incentivize the development of new multi-residential buildings. Durham Region's existing multi-residential ratio is 1.8665 (approximately 40 per cent higher).

5.27 Section 10(2) of Ontario Regulation 282/98 placed multi-residential land and structures *"whose units have been built, or converted from a non-residential use, pursuant to a building permit issued, on or after April 20, 2017"* into the new multi-residential class.

5.28 On January 5, 2024, the ARB rendered a decision on the classification of several large multi-residential buildings in the Town of Ajax which were in the existing multi-residential property tax class.

5.29 The ARB decision revolved around the meaning and timing of "*building permits*" in the Regulation. Initial "partial" permits were issued to the individual properties in 2013 to 2016 and throughout the construction process, however final Full permits were not issued until October 2017 and May 2019.

5.30 The ARB found that the "*building and residential units could not have been completed without the Full Permit*" and, as such, the properties should be classified as new multi-residential as opposed to the current classification of multi-residential. The Town of Ajax has appealed this decision to the Divisional court but leave to appeal has not yet been granted.

5.31 The ARB decision spans six years (2018-2023) for one of the properties and four years (2020-2023) for the other. If the ARB's decision holds, it is estimated that the Regional property tax losses could total $2.0 million for the years under appeal.

5.32 Regional staff provided an analysis of multi-residential ratio changes and impacts in Report 2021-F-28 and recommended status quo for a number of reasons, including significant tax shifts that would result for residential property tax payers.

5.33 Regional staff will continue to work with area municipalities on the assessment appeals and protecting the assessment base.

6. Provincial Postponement of the MPAC Reassessment

6.1 In the March 2020 Economic and Fiscal Update, the Province postponed the property tax reassessment update which was to be completed by MPAC in 2020 for the 2021 property taxation year. In the November 2021 Economic and Fiscal Update, the Province further postponed the reassessment update for both the 2022 and 2023 property taxation years.

6.2 Throughout 2023, the Association of Municipal Managers, Clerks and Treasurers of Ontario (AMCTO), the Association of Municipalities in Ontario (AMO) and various business associations lobbied the Province to formally commit to a reassessment update. On August 16th, 2023, the Province filed a regulation extending the January 1, 2016 valuation date to the 2024 property tax year and as of the writing of this report, the Province has not announced the date for the next reassessment. 2024 will mark the 8th year of using the 2016 valuation for the calculation of property taxation.

6.3 The Province’s decision to postpone the reassessment was due in part to the pandemic and additional concerns with respect to the volatility of the residential housing market. It is important that the Province return to regular scheduled reassessments to ensure the assessment base remains up-to-date and to avoid even further property tax shifts amongst taxpayers and to maintain fairness to property taxpayers on a comparative basis given the changes to the market over such an extended period. As a reminder, no additional taxation revenue comes to municipalities from reassessments.

6.4 Staff and various municipal associations continue to advocate for a return to the reassessment cycle while ensuring municipalities are provided with adequate time to plan, analyze the impacts, prepare communications on the impact of the reassessment on property taxpayers and to implement the reassessment.

6.5 With current assessments based on valuations eight years out of date, it is anticipated that there will be significant property tax shifts with the next reassessment as the value of individual properties will not have changed uniformly across the Regional assessment base. Further, it is anticipated the risk and corresponding impact of assessment disputes will be materially greater in the next assessment cycle, specially with respect to the non-residential sector.

6.6 The current assessment cycle is four years with assessment increases phased-in evenly over four taxation years and any assessment decreases applied fully in the first year. Any changes in the Provincially mandated phase-in parameters will impact the distribution of the annual tax shifts that will occur over the next cycle.

6.7 Regional staff will continue to provide updates to Council on the reassessment timing and any phase-in parameters changes when announced by the Province. Once the reassessment is announced and information on the reassessment impacts are known, staff will provide extensive information to Finance and Administration Committee and Council on the impacts to property taxpayers.

7. Real Estate Market Developments and Potential Reassessment Impacts

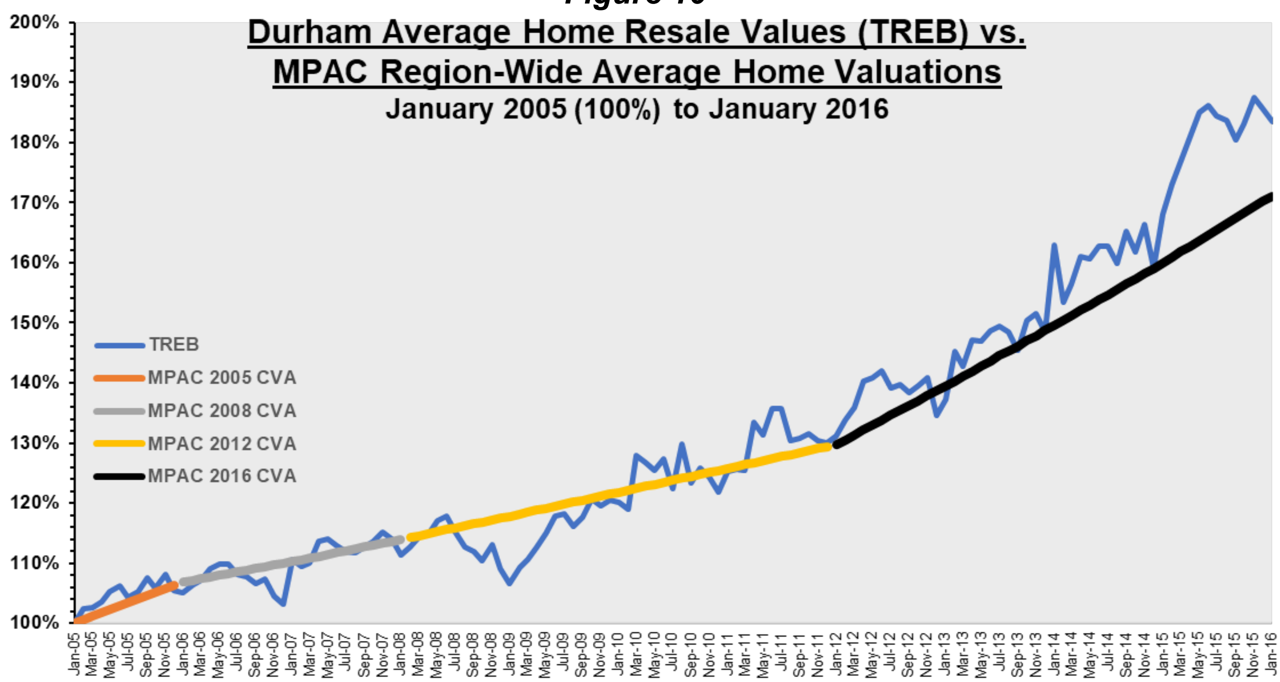
7.1 The CVA set by MPAC is meant to represent the value of the property in an arms length sales transaction on the valuation date. The CVA is therefore closely related to the general real estate market. The next reassessment, when announced, will bring the current valuation date (January 1, 2016) up to whatever current date is determined by the Province.

7.2 There have been several factors that have impacted the real estate market over the last four years and will continue to impact it. These factors include but are not limited to:

- various senior governmental initiatives to address both housing availability and affordability;
- federal introduction of a ban on non-Canadian residential property purchases;
- an increase in the Ontario government foreign homebuyers' tax to 20 per cent;
- increases in borrowing rates by the Bank of Canada;
- the residual impacts of the pandemic and associated recovery;
- continuing inflation and the potential for an economic slowdown/recession, and
- current and potential future impacts of a shift to the new 'e'conomy.

7.3 Figure 10 shows the Toronto Real Estate Board (TREB) monthly average home resale values in Durham Region and the Region's average MPAC Current Value Assessment (CVA) increase over the period 2005 to mid 2015. As expected, since CVA reflects market value, these two variables follow similar trajectories over the decade shown in the graph.

Figure 10

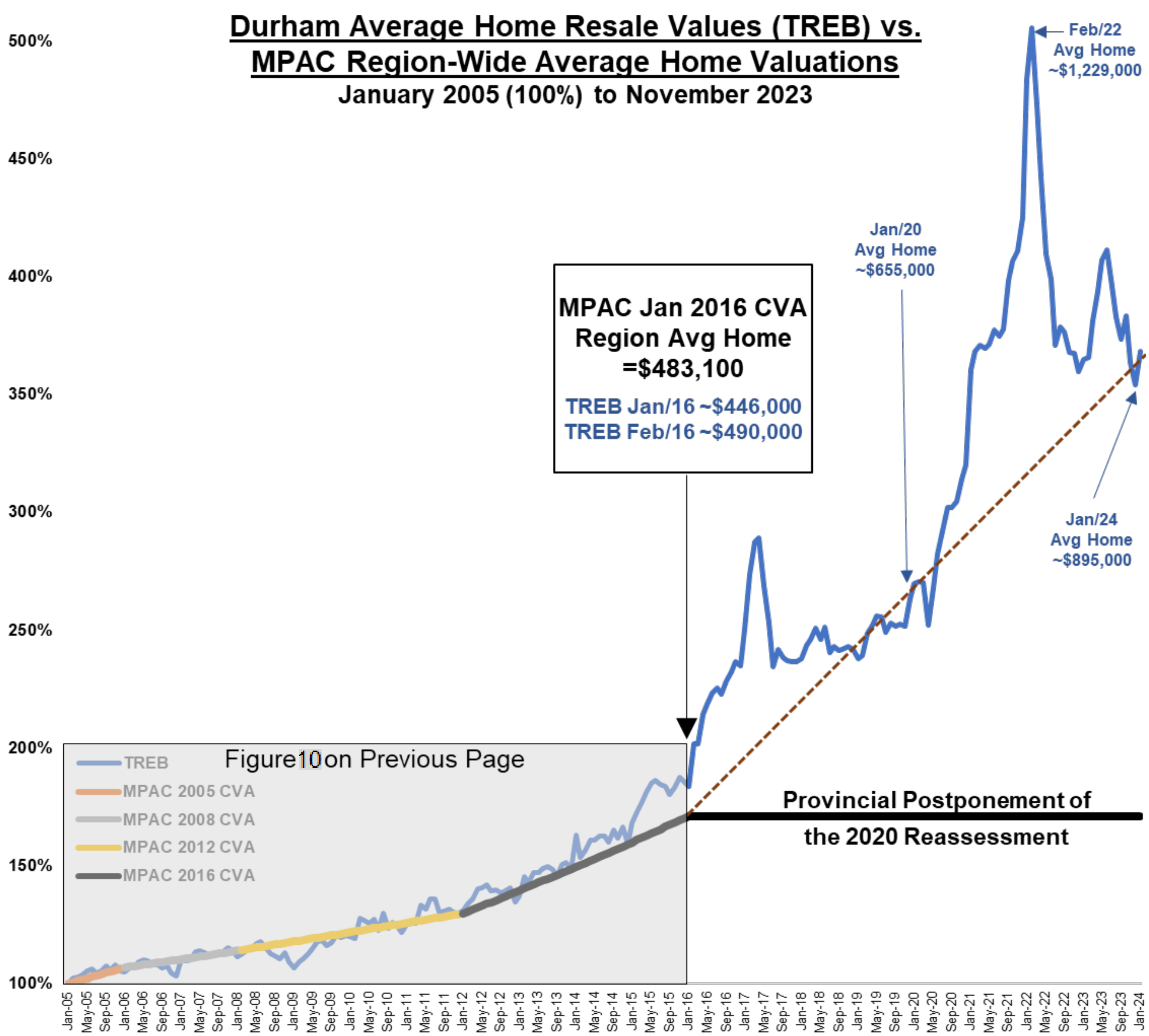


7.4 As illustrated in Figure 11, beginning in 2016, Durham Region's average residential home resale values as reported by TREB began showing increased acceleration and volatility. Meanwhile the MPAC CVA was held constant because of the Province postponing the reassessment update that was to occur in January 2020.

7.5 The TREB residential home resale values peaked in February 2022 and have dropped by approximately 27 per cent in the ensuring 23 months. This reflects the volatility created in part by the factors outlined in Section 7.2.

7.6 Figure 11 also suggests that the next reassessment has the potential to create material property tax shifts amongst the property classes and individual taxpayers. Given this volatility and risk, property tax policy changes are not recommended until the impacts of the next reassessment are understood. Some perceived issues that would be impacted by policy changes may or may not be alleviated through reassessment and this should be determined in advance of policy changes.

Figure 11



8. Municipal Flexibility with Respect to the Tax Treatment of "Vacant" Residential Properties

8.1 Since 2018, under Section 338.2 of the *Municipal Act, 2021*, upper and single tier municipalities have been provided the authority to impose an additional property tax rate on residential properties that are vacant.

- The rate must be applied to the assessment value and the property must be both taxable (not a payment-in-lieu (PIL) property) and be in the residential property tax class.
- The upper or single tier municipality, through by-law, must state the tax rate and provide a precise definition and conditions for the vacant rate to apply to an individual property.
- The Province will enact, through regulation, the authority for the upper or single tier municipal program. The lower tier municipalities, in a two-tiered structure, are responsible for administering the tax.
- The tax rate can vary between different geographical areas of a two-tiered structure.

8.2 This policy option provides municipalities with alternative tools to address their unique circumstances. The City of Ottawa and the City of Toronto implemented a vacant home property tax beginning in 2023 after having completed detailed studies on this policy tool and the presence of vacant residential properties in their communities.

8.3 The City of Hamilton has opted not to proceed with the implementation of their vacant residential property tax originally planned for 2024. The Region of Peel and the Region of Halton have paused their study of this policy option. York Region's review was put on hold in May of 2023 and in November York Regional Council made the decision not to proceed with a vacant home residential property tax.

8.4 Implementation in a two-tier municipal structure is more complex than implementation in a single-tier municipality like the City of Toronto and the City of Ottawa. In November 2022, the Province announced a Provincial Policy Framework for this program which has yet to be released.

8.5 Programs such as the vacant residential tax involve material start-up and on-going administrative costs which require a substantial presence of vacant residential properties to ensure that the net taxation revenues and program benefits would be realized. Based on a review of water consumption data, there does not appear to be a significant number of vacant residential properties in the Region to warrant the administrative costs of developing and implementing a vacant home property tax at this time. The area municipal Treasurers have supported this position over the last several years.

8.6 Staff closely monitor the housing and real estate market as well as current and future policy options being considered by senior and municipal governments to address housing affordability concerns.

9. Municipal Property Tax Comparisons

Municipal Tax Ratios

9.1 A municipal tax ratio is the degree to which an individual property tax class is taxed relative to the Residential property tax class. If the commercial municipal tax ratio is 1.45, then its municipal property taxation rate will be 1.45 times the residential class municipal property tax rate.

9.2 Since municipal tax ratios show the degree to which the non-residential classes are taxed relative to the residential class, the municipal tax ratios have a direct impact on the competitiveness of municipal non-residential property taxes. Figure 12 provides a comparison of 2023 municipal tax ratios across Durham comparator municipalities reflecting very favourable positioning from a competitiveness perspective.

Figure 12
2023 Municipal Tax Ratio Comparison

	Multi-Residential		Commercial		Industrial		Farmland	
	Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank
Durham:	1.8665	4	1.4500	2	2.0235	4	0.2000	2
Toronto	1.9635	6	2.5818	10	2.5130	7	0.2500	5
Peel Region (Mississauga)	1.2656	2	1.5170	4	1.6150	1	0.2500	5
Halton Region	2.0000	8	1.4565	3	2.0907	5	0.2000	2
York Region	1.0000	1	1.3321	1	1.6432	2	0.2500	5
Ottawa *	1.4000	3	1.9200	6	2.5600	8	0.2000	2
Niagara Region	1.9700	7	1.7349	5	2.6300	9	0.2500	5
Waterloo Region	1.9500	5	1.9500	7	1.9500	3	0.2500	5
Hamilton **	2.2174	10	1.9800	8	3.1025	10	0.1767	1
Windsor ***	2.0000	8	2.0140	9	2.3158	6	0.2500	5
Average	1.7633		1.7896		2.24242		0.2277	

Ratios in Figure 12 have been rounded to four decimal places.
* Ottawa has special property tax classes for Office Buildings (2.3900), Shopping Centres (1.5500) and Large Industrial Properties (2.1200)
** Hamilton has a Large Industrial property tax class (3.6381)
*** Windsor has a Large Industrial property tax class (2.9328)

9.3 Durham Region's multi-residential municipal tax ratio of 1.87 is competitive and is marginally above the average of similar municipal comparators.

9.4 Durham Region has a very competitive commercial municipal tax ratio of 1.45 which is the second lowest and 19.0 per cent below the average (1.79).

9.5 Durham Region's 2023 industrial municipal tax ratio of 2.02 is 9.8 per cent below the average of the comparators (2.24) and ranked fourth behind Peel (Mississauga), York Region, and Waterloo Region.

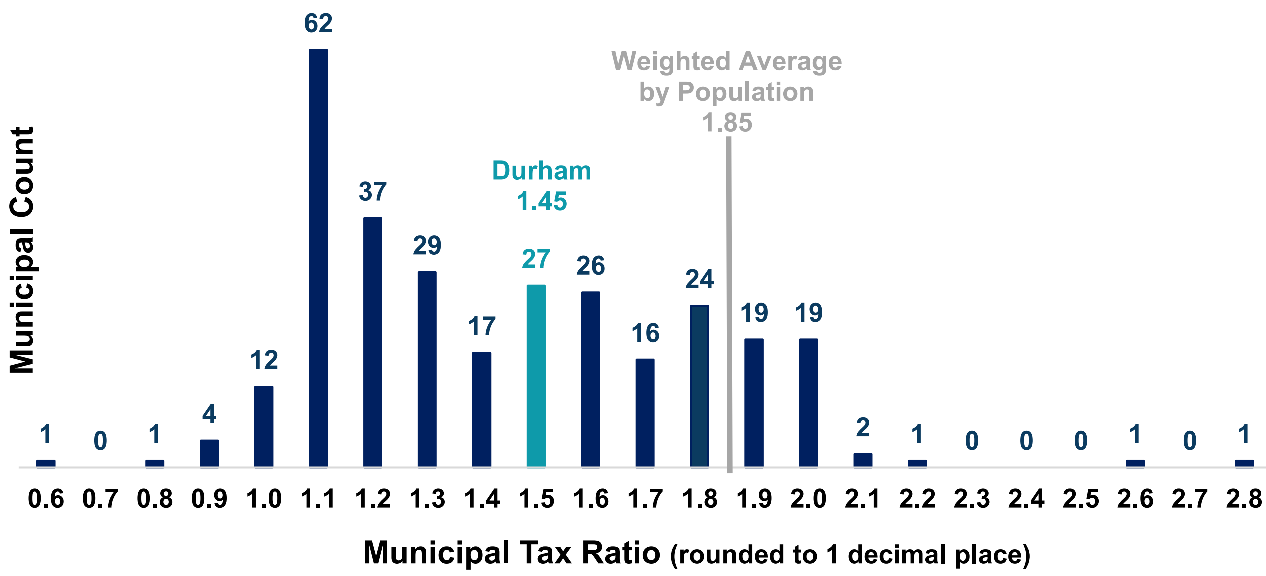
9.6 The City of Toronto is under a legislative levy restriction which limits budgetary increase on property classes above a certain municipal tax ratio (multi-residential 2.00, commercial 1.98 and industrial 2.63). Such a restriction reduces the municipal tax ratio over time.

- In 2023, this restriction decreased Toronto's municipal tax ratios to below the threshold in two of the three classes (multi-residential and industrial).
- It also resulted in a significant shift in the ranking of the multi-residential in Figure 11 with the City of Toronto moving to sixth from ninth position last year.

9.7 A review of the approximately 300 lower and single tier 2022 municipal tax ratios contained in the 2022 Municipal Financial Information Returns (FIRs) show that Durham's commercial ratio is significantly below the average ratio weighted by population as shown in Figure 12 below.

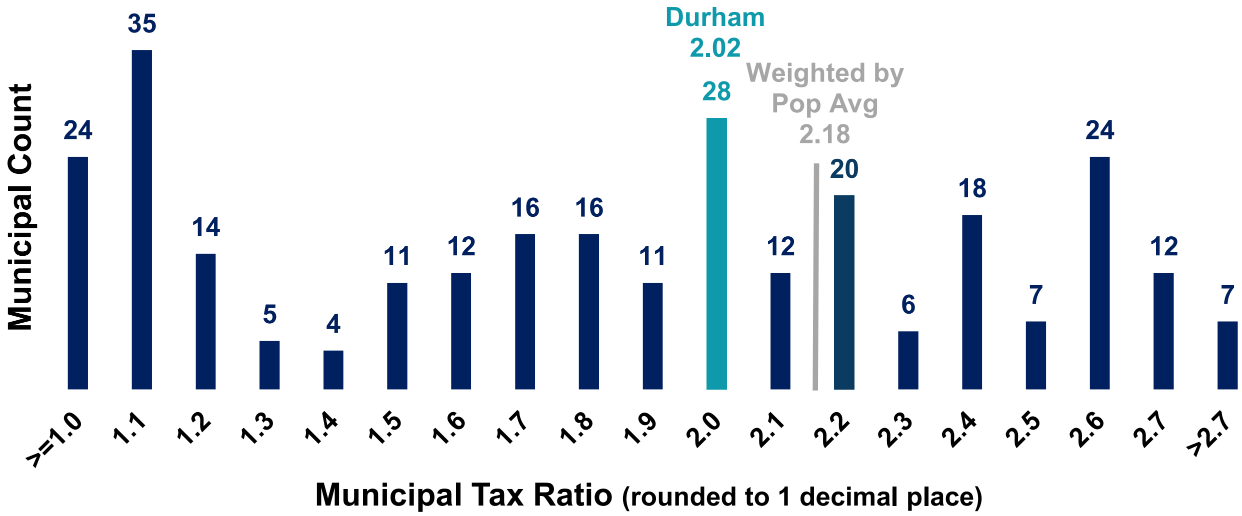
Figure 13

Provincial 2022 Commercial Municipal Tax Ratios



9.8 A similar review of the 2022 FIRs was done for the industrial class (Figure 14) which illustrates Durham's industrial municipal tax ratio is also below the weighted average ratio by population.

Figure 14
Provincial 2023 Industrial Municipal Tax Ratios



9.9 The Province has mandated a maximum farmland municipal tax ratio of 0.25.Several Ontario municipalities (Durham included) have lowered their municipal tax ratio from this provincial maximum as a support to the agricultural industry within their jurisdiction.

9.10 Changes in municipal tax ratios are revenue neutral with respect to the overall property taxes of a municipality. Any adjustments to property tax ratios will result in a shift of the property tax burden between the other property tax classes. For example, lowering the municipal tax ratio for one property tax class will increase the property taxes for all other property tax classes. There are no recommended changes to the Region's municipal tax ratios for 2023.

9.11 The remainder of this section provides a summary of property tax comparisons across comparable municipalities adjusting for the varying market values. This comparison highlights the degree to which market values affect tax rates and represents a much better comparison than those typically reported in the general press.

9.12 Tax rates and assessments vary significantly between municipalities. In general, they are inversely related (higher property assessments allow for a lower tax rate to generate the same tax dollars). Additional information on this can be found in the attachment to last year's Tax Strategy: Property Tax Reference Guide (Attachment #2 starting on page 26).

9.13 Caution should be used in interpreting the results of any municipal property tax comparison as these comparisons do not consider municipal services or service levels and a whole range of other unique municipal characteristics (non-residential assessment levels, urban/rural compositions, geographical density and size, financial sustainability, etc.).

Residential Home Comparison

9.14 The following residential home property tax comparison is based on 10 "average" homes from each of the local municipalities in the Region. The homes were chosen to reflect, as closely as possible, the municipality's average home in terms of assessment, age, size and building quality.

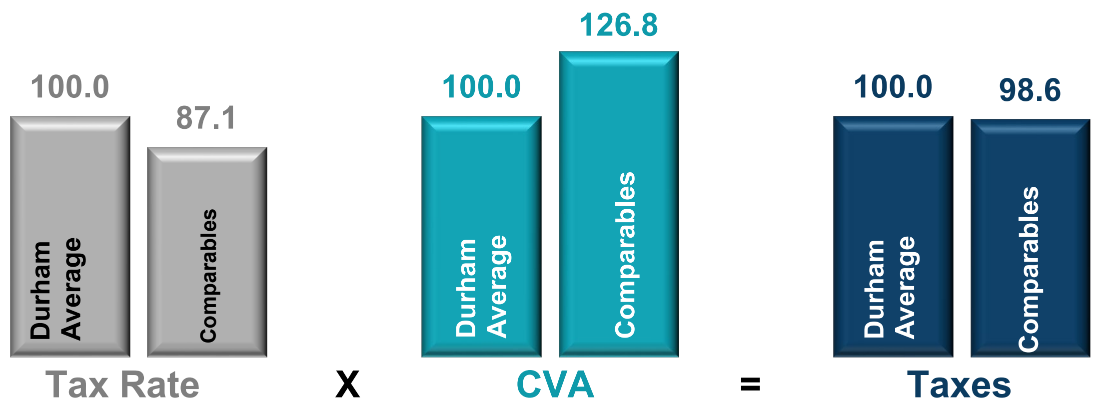
9.15 MPAC provided the CVAs for 27 comparator municipalities on which the following analysis is based. The comparison uses 2023 CVA and tax rates as 2024 municipal tax rates are not yet available.

9.16 Since 2023 was not subject to a reassessment phase-in, the CVAs have not changed. As a result, this analysis is very similar to last year's study and only reflects the relative changes in the municipal budgets.

9.17 The residential home comparison found that the comparable municipal average residential tax rate was 12.9 per cent lower than Durham's. However, assessment values for the comparators were 26.8 per cent higher. The resultant average property tax ($) difference between Durham and the comparator's average is very low, at approximately 1.4 per cent, as illustrated in Figure 14.

Figure 14

Residential Home Sample Average: Tax Rate, Assessment and Taxation



9.18 The majority of the large gap in tax rates can be explained by Durham's much lower market values (assessments) compared to our comparator municipalities. The gap of 12.9 per cent in tax rates is reduced to 1.4 per cent in tax dollars when Durham's lower assessments are considered.

Non-Residential Property Tax Comparisons

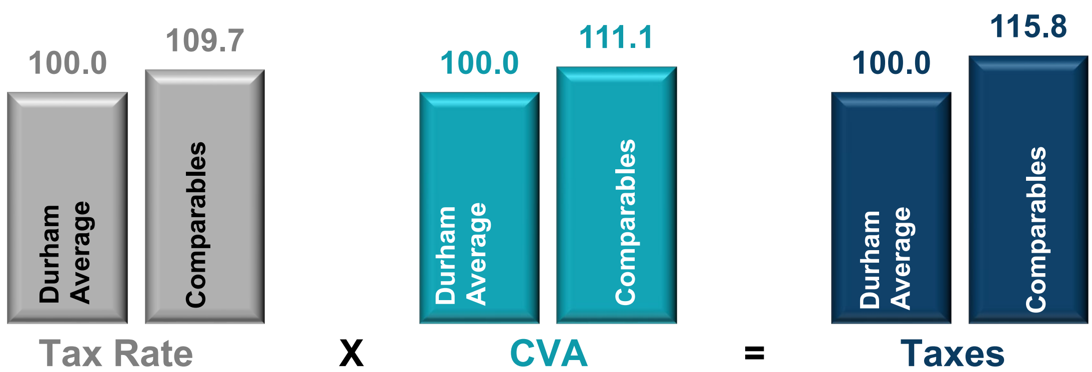
9.19 It is difficult to provide a valid non-residential property tax comparison. The primary issue is the uniqueness of the individual properties and the lack of robust sales transactions on which MPAC can base the assessments.

9.20 This difficulty has increased over the decade, as a result of significant assessment appeals launched by the non-residential sector across Ontario for the previous three reassessment cycles and the resultant changes in both specific property assessments and MPAC methodology.

9.21 It is believed that municipal taxation is a lesser consideration in a commercial location decision when compared to factors such as customer density and affluence.

9.22 Similar to the residential comparison, a commercial comparison based on 18 properties was conducted. As illustrated in Figure 15, tax rates and assessment vary significantly between municipalities.

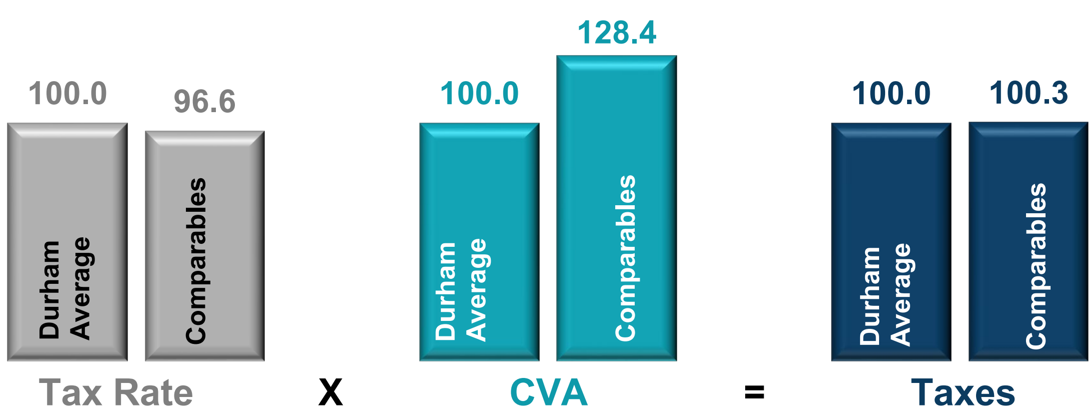
Figure 15
Commercial Sample Average: Tax Rate, Assessment and Taxation



9.23 Although the commercial sample showed a high degree of variability, the average comparator municipal tax rates were 9.7 per cent higher than Durham's, while the average CVA was also higher by 111.1 per cent. The resultant property tax average of the comparators is 15.8 per cent higher than in Durham Region.

9.24 An industrial comparison based on 12 properties was also conducted and the results are shown in Figure 16.

Figure 16
Industrial Sample Average: Tax Rate, Assessment and Taxation



9.25 A high degree of variability exists in the sample, however the averages show that the Durham Region tax rate is 3.4 per cent higher than the comparators', while the CVA is 28.4 per cent lower. The resultant property tax average on the comparators is approximately the same as Durham Region.

10. Provincial Business Education Tax (BET) Rate and PIL Properties

10.1 In 2021, the Province took significant steps towards uniform province-wide BET rates by instituting a common ceiling rate of 0.88 per cent for taxable properties.

10.2 The Ontario Ministry of Finance also confirmed that the BET reductions would not negatively impact municipalities, indicating that the Province will maintain BET rates at the 2020 level for PIL properties where the education taxes are retained by single and lower-tier municipalities.

- This different BET policy treatment is highlighted, as concerns have been raised that it may not be legislatively compliant
- Despite efforts by the Ontario Ministry of Finance for the 2021 to 2023 property tax years, several Federal organizations chose to pay the lower taxable education rate, rather than the higher PIL education rate.
- The Federal commercial property presence in Durham Region is low and the resultant underpayment in education property taxes to the local municipalities is relatively small. The presence of federal properties in the City of Ottawa is quite large however and the City of Ottawa has initiated an action in Federal Court to recover the over $20 million resulting shortfall in education property taxes retained by the City.

10.3 The Ontario Ministry of Finance confirmed on January 19, 2024 that all Provincial Education rates will remain unchanged for the 2024 taxation year including the PIL rates. The 2024 Provincial education property tax rates are detailed in Attachment 1.

11. Other Provincial Initiatives

11.1 In addition to the decision to continue the postponement of the reassessment for the 2024 tax year, the Province also announced, on August 16, 2023, that it would conduct a review of the accuracy and fairness of the Ontario property assessment and taxation system.

- MPAC stated that it welcomed the opportunity to work with the Province to ensure the property assessment process is optimal for both property owners and municipalities.
- No further information has been released on this initiative.

11.2 Regional staff will continue to monitor Provincial property tax initiatives and will update Regional Council on any further significant developments.

12. Property Tax Treatment of Nuclear Generating Stations

12.1 The two Ontario Power Generation (OPG) nuclear generating stations (NGS) provide a material amount of PIL revenue to the Region. In addition, the City of Pickering and the Municipality of Clarington also retain the education tax portion of these PIL payments.

12.2 In December of 2021, Regional Council approved Durham's Nuclear Sector Strategy 2022-2032 (Report #2021-COW-37) which recognizes the importance of this sector to the Region's economy.

Pickering Nuclear Generating Station (PNGS) Update

12.3 The Province is supporting OPG's plan to continue the safe operation of the PNGS units 5 through 8 past the currently approved date of December 31, 2024.

12.4 In June 2023, OPG submitted their application to the Canadian Nuclear Safety Commission (CNSC) to amend the power reactor operating license to operate units 5 through 8 at the PNGS through September 2026. It is understood that operating these units beyond 2026 will require a refurbishment of the units.

Darlington Nuclear Generating Station (DNGS) Update

12.5 The Darlington New Nuclear Project (DNNP) is the first grid-scale Small Modular Reactor (SMR) project in North America. Four SMRs are now planned at the Darlington site.

12.6 OPG's current application before the CNSC is to construct one G.E. Hitachi BWRX-300 unit as well as the shared infrastructure for the remaining planned units. OPG plans to complete construction of the first SMR by 2028, with commercial operation beginning in 2029.

12.7 The CNSC is holding two separate public hearings to consider the application, the first hearing was held in January 2024 and focused on the applicability of the DNNP environmental assessment (EA) to OPG's selected reactor technology. The second hearing is scheduled for October 2024 and will focus on OPG's licence to construct application and supporting documentation.

12.8 Building four BWRX-300 SMRs at Darlington would provide a total of 1,200 MW of electricity generation capacity, providing enough electricity to power about 1.2 million homes.

12.9 Moving to a "fleet approach" for SMRs in Ontario (i.e., building multiple units of the same technology) will allow for shared infrastructure (e.g., cooling water intake) and the application of learnings from construction to subsequent units to reduce costs.

Provincial Statutory Rate on Generating Facilities

12.10 The Province currently bases municipal PIL payments for nuclear generating facilities on legislated statutory rates as outlined in the *Assessment Act*, rather than current value assessment.

- The prescribed statutory rate set by the Province for assessing nuclear generating facilities is $86.11/m^2 of inside ground floor area of the actual generating and transformer station buildings. This rate was set in 1968 and has never been updated.

- As such, the prescribed statutory rate does not consider increased Regional service costs, the time value of money or the reassessment valuation changes of all other properties since 1998.

12.11 Of all the provincial statutory rates, those that are applicable to nuclear generating facilities are particularly inequitable to Durham taxpayers due to the presence of the majority of the Province's nuclear generating capacity. This particular statutory rate continues to represent a financial inequity to the Region and its local area municipalities.

12.12 It is recommended that the Province, in consultation with the municipal sector, review and update the nuclear generating facility statutory rate of $86.11 and institute a process by which this rate is annually updated in the future.

Nuclear Generating Facilities Proxy Property Taxes

12.13 An additional issue related to the nuclear generating facilities is the alternative assessment and proxy property taxes related to the payment of stranded debt.

- PIL payments on specific generating structures are based on a statutory assessment rate as defined per the *Assessment Act* and are paid to the host municipalities.
- Further proxy property taxes are levied and paid to the Ontario Electricity Financial Corporation (OEFC) and applied against the former Ontario Hydro stranded debt.
- Details of the alternative assessment are outlined in Ontario Regulation 423/11 under the *Electricity Act, 1998*. It is understood that proxy property taxes are the difference between the prescribed statutory rate for designated facilities and what would apply if taxed at its appropriate full CVA.

12.14 Given that proxy property tax payments to the OEFC are to be equivalent to what would have been payable by a private corporation based on an MPAC-derived alternative market valuation for these asset classes, Regional staff have previously requested confirmation from the Ontario Ministry of Finance that payments currently being made to the OEFC will instead be paid to the appropriate municipalities in respect of land located in those municipalities given Section 92(3) of the *Electricity Act, 1998*, which notes potential redirection of payment streams where it references tax treatment following the retirement of the stranded debt and repeal of Part V under Section 84.1 of the Act.

12.15 There remains a lack of clarity around the future redirection of these proxy property tax payment streams assuming the eventual retirement of the stranded debt. Any future amendments to the regulation that reduce revenues to impacted municipalities should be addressed through alternative sources of funding by the Province.

12.16 It is recommended that the Region continue to seek confirmation from the Province that all existing proxy property tax payments made to the OEFC will be redirected to host municipalities and the upper tier, where applicable, following retirement of the stranded debt.

13. Relationship to Strategic Plan

13.1 This report aligns with/addresses the following strategic goals and priorities in the Durham Region Strategic Plan:

- Goal 3.1 Economic Prosperity – to position Durham Region as the location of choice for business. Property taxation is a consideration in building a strong and resilient economy that maximizes opportunities for business and employment growth, innovation, and partnership; and
- Goal 5.1 Service Excellence – to provide exceptional value to Durham taxpayers through responsive, effective, and financially sustainable service delivery.

14. Conclusion and Looking Forward

14.1 Following the success of the award-winning Value Stories videos which highlighted the details of the Region's Budget, Finance and Corporate Communication's staff plan to develop a property tax video. It is anticipated that the video will be posted online and promoted through the Region's social media channels as part of a broader education campaign that will follow confirmation of the Provincial property tax reassessment update.

14.2 Staff will continue to monitor the following ongoing property taxation and assessment issues and will provide updates to Committee and Council as additional information becomes available:

- Non-residential declining share of the assessment and taxation base and impacts of the 'e-conomy';
- Future reassessment cycles;
- Provincial education taxes, including separate PIL education tax rate;
- Initiatives under *Ontario's Housing Supply Action Plan 2022-2023* including taxation of multi-residential apartment buildings and the assessment of affordable rental housing;
- Assessment disputes; and
- Nuclear generating facilities property tax treatment.

15. Attachments

- Attachment 1: 2024 Provincial Education Property Tax Rates

Respectfully submitted,

Original Signed By

Nancy Taylor, BBA, CPA, CA
Commissioner of Finance

Recommended for Presentation to Committee

Original Signed By

Elaine C. Baxter-Trahair
Chief Administrative Officer

Attachment 1: 2024 Provincial Education Property Tax Rates

Property Class			Provincial Education Tax Rate
	Residential		0.00153000
	Multi-Residential & New Multi-Residential		0.00153000
Broad Commercial	Commercial	Occupied, Vacant & Excess Land	0.00880000
Broad Commercial	Shopping Centres	Occupied & Excess Land	0.00880000
Broad Commercial	Office Buildings	Occupied & Excess Land	0.00880000
Broad Commercial	Parking Lots (Commercial)	Occupied & Excess Land	0.00880000
Broad Industrial	Industrial	Occupied, Vacant & Excess Land	0.00880000
Broad Industrial	Large Industrial	Occupied & Excess Land	0.00880000
Payment-in-Lieu (PIL)	Broad Commercial	Occupied, Vacant & Excess Land	0.00980000
Payment-in-Lieu (PIL)	Broad Industrial	Occupied & Excess Land	0.01250000
Payment-in-Lieu (PIL)	Pipelines		0.00980000
	Pipelines		0.00880000
	Farmland		0.00038250
	Small Scale On-Farm Commercial		0.00220000
	Small Scale On-Farm Industrial		0.00220000
	Managed Forests		0.00038250
	Farmland Awaiting Development Phase 1		0.00114750