If this information is required in an accessible format, please contact 1-800-372-1102 ext. 2304

The Regional Municipality of Durham Report

To:	Finance & Administration Committee
From:	Commissioner of Finance
Report:	#2019-F-13
Date:	March 19, 2019

Subject:

2019 Strategic Property Tax Study

Recommendations:

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

A) For the 2019 property taxation year, the municipal property tax ratios for the following property classes for the Regional Municipality of Durham be set as follows:

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 Residual, Shopping Centres, Office Buildings and Parking Lots)

Occupied	1.4500
Vacant Land	1.3050
Excess Land	1.3050

Industrial Broad Class

(including Residual and Large Industrial)

Occupied	2.1040
Vacant Land	1.8585
Excess Land	1.8585

and the requisite by-law be prepared and approval be granted.

Report:

1. Purpose

1.1 The annual Strategic Property Tax Study accompanies the Business Plans and Budgets and provides an update on various property tax issues related to this significant revenue source. In 2018, budgeted Regional property tax revenue was $644.5 million or 53.9 per cent of the total $1.2 billion gross expenditures on Regional property tax supported services.

1.2 The 2019 Strategic Property Tax Study provides information and analysis on numerous property tax items, including:

- Assessment base trends including growth and the declining non-residential share which places upward pressure on the residential property tax rates;
- 2016 reassessment phase-in and the impacts for the 2019 taxation year;
- Vacancy policy phase-out (second of three years) for commercial and industrial properties;
- Assessment at Risk;
- Review of Durham's property tax competitiveness including current municipal tax ratios; and
- Provincial policy issues/changes including Royal Canadian Legion's education tax rebate and farm value added activities.

2. Assessment Base Trends

<u>Assessment Growth</u>

2.1 Historically, Durham Region's residential growth has been strong relative to the non-residential growth contributing to a continual decrease in the proportionate share of non-residential assessments in the assessment base driven primarily by decreases in the industrial properties.

2.2 For 2019, total weighted assessment growth is estimated 1.93 per cent. Continuing Council's direction contained in Report #2018-COW-19, 0.22 per cent of the 2019 growth has been deferred until Regional departments begin incurring annual operating expenditures related to the Seaton development. This will ensure long term financial sustainability by matching taxable assessment 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 Seaton community and the intense and rapid planned development that will have a measureable impact on Regional expenditures in the near term.

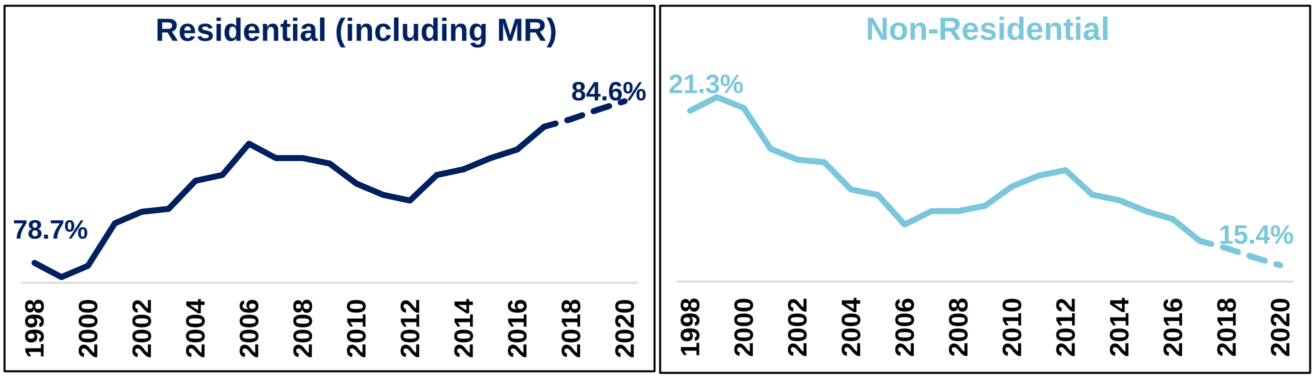
<u>Non-Residential Share of Assessment and Taxation Base</u>

2.3 The Region has experienced a continuously decreasing non-residential share of the assessment base since 1998. The only exception was the brief period between 2006-2012 when commercial properties experienced a higher valuation increase due to the 2005 and 2008 Current Value Assessment (CVA) reassessments.

2.4 A significant number of non-residential assessment increases were partially reversed through Assessment Review Board (ARB) decisions which contributed to the continuing decreasing non-residential share from 2012 onward.

2.5 The decrease in the non-residential share places upward pressure on the residential property tax rate and is a significant financial risk for the Region. Figure 1 shows the significant decline in the non-residential share of the Region's property tax base.

Figure 1
Share of Regional Property Taxation 1998 to 2020 (estimated)



2.6 Between 1998 and 2020 (estimated based on reassessment data):

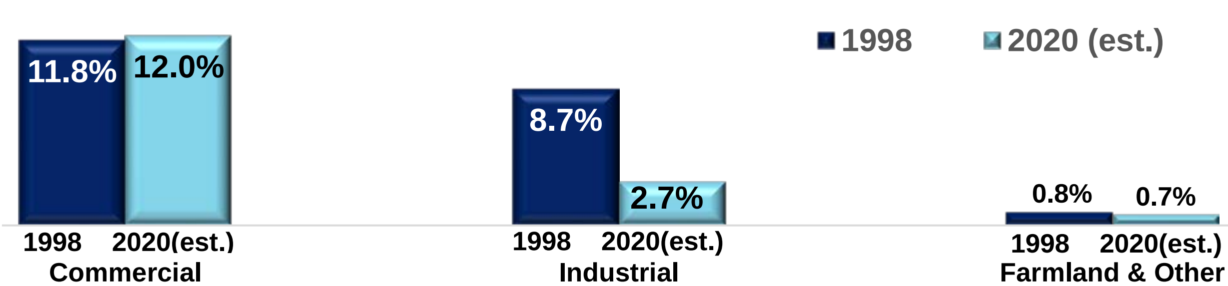
- the residential relative share of the Regional taxation base will have risen 7.5 per cent from 78.7 per cent in 1998 to an estimated 84.6 per cent in 2020; and,
- the non-residential relative share is estimated to drop 27.7 per cent from the 21.3 per cent share in 1998 to a 15.4 per cent share in 2020.

Breakdown of Non-Residential Shift in Regional Taxation Base

2.7 The decrease in the non-residential share of the Regional taxation base is primarily the result of declines in the industrial property class share.

2.8 As shown in Figure 2, the commercial share of taxation has risen slightly since 1998 (11.8 per cent to 12.0 per cent), and the share of farmland and other remained at a similar level. The industrial share, however, has experienced a significant drop over the 22-year time period from 8.7 per cent to 2.7 per cent.

Figure 2
Commercial and Industrial Share of Regional Property Tax 1998 to 2020 (estimate)



2.9 The changes in Regional taxation shares by property class 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.

General Motors Canada

2.10 In late December 2018, General Motors Canada (GM) indicated that there would be no product designated for the Oshawa manufacturing facility after the year 2019. There is very little additional information available as of the writing of this report on which to base detailed municipal impact analysis. Finance staff continue to work in collaboration with Regional Economic Development, City of Oshawa, and Municipal Property Assessment Corporation (MPAC) staff. As more information becomes available in 2019, staff will develop more detailed impact analysis and report back to the Finance and Administration Committee.

3. 2016 CVA Reassessment for Taxation Years 2017 to 2020

Reassessment Overview

3.1 In 2016, MPAC conducted the provincially mandated reassessment cycle to update the assessment valuation date from January 1, 2012 to January 1, 2016 (2016 CVA cycle). Per Provincial legislation, assessment increases are phased-in uniformly over the subsequent four-year taxation cycle (2017 to 2020), while assessment decreases are fully implemented in the first year (2017). 2019 is the third year of the four-year phase-in of the 2016 CVA reassessment.

Reassessment Impacts

3.2 It is important to note that reassessment does not result in a change in the total municipal taxation. The municipality does not collect any additional revenues as a result of reassessment. Reassessment does result in shifts amongst individual taxpayers and, as a result, Regional taxation shifts occur across property classes and across local municipalities within the Region. Figure 3, on the following page, provides a summary of anticipated Regional taxation shifts that will occur between property classes as a result of reassessment.

Figure 3

Estimated Regional Property Taxation Shifts Across Property Tax Classes

Property Class	2019 (third year phase-in)		2017-2020 (full reassessment)	
	$m	%	$m	%
Residential *	1.23	0.2%	7.27	1.4%
Multi-Residential	0.67	2.6%	2.87	12.0%
Commercial Residual	(0.98)	(1.8%)	(5.22)	(9.2%)
Shopping Centre	(0.12)	(0.5%)	(0.46)	(1.8%)
Office Buildings	(0.08)	(4.5%)	(0.42)	(20.3%)
Parking Lots **	-	1.7%	0.02	7.5%
All Commercial	**(1.18)**	**(1.5%)**	**(6.08)**	**(7.3%)**
Industrial Residual	(0.44)	(3.7%)	(2.31)	(17.5%)
Large Industrial	(0.30)	(4.2%)	(1.85)	(22.0%)
All Industrial	**(0.74)**	**(3.9%)**	**(4.16)**	**(19.3%)**
Farmland	0.08	3.1%	0.34	14.1%
Other	(0.06)	(3.4%)	(0.24)	(13.2%)
Total	-	-	-	-

* The residential class contains multiple property types including ones that would not be considered residential (e.g. gravel pits and golf course greens). This Study uses the average single family detached home as the primary residential comparator and its 2019 Regional reassessment impact is estimated at 0.3 per cent, not the 0.2 per cent estimated for the full residential property tax class.

** Due to small size of Parking Lots class, the dollar impact is below the rounding threshold of the table.

3.3 Figure 4 provides a summary of estimated Regional taxation shifts between local municipalities that occur as a result of the reassessment.

Figure 4

Estimated Regional Property Tax Shifts by Local Municipality

Local Municipality	2019 (third year phase-in)		2017-2020 (full reassessment)	
	$m	%	$m	%
Pickering	0.20	0.2%	1.04	1.0%
Ajax	0.35	0.3%	1.76	1.6%
Whitby	0.77	0.6%	3.48	2.6%
Oshawa	0.23	0.2%	0.75	0.5%
Clarington	(0.53)	(0.6%)	(2.12)	(2.5%)
Scugog	(0.38)	(1.6%)	(1.83)	(7.3%)
Uxbridge	(0.40)	(1.5%)	(2.01)	(6.9%)
Brock	(0.24)	(2.2%)	(1.07)	(9.4%)
Total	-	-	-	-

Variability of Reassessment and 2019 Residential Reassessment Impacts

3.4 The 2016 reassessment showed a more significant degree of variability than previous reassessments. This was especially true in the residential class which, on average, will experience a 0.2 per cent increase in 2019 Regional taxes due to reassessment. However, the average does not convey the large range of impacts by both property type and geographical area. For example:

- the average single family detached home in the Region will experience a 0.3 per cent increase (rather than the 0.2 per cent residential class average); and,
- the impact for an average single family detached home ranges from a high of a 1.1 per cent increase in Whitby to a low of a 2.6 per cent decrease in Brock.

3.5 The average Region-wide detached home will have a CVA of $454,000 in 2019. It is estimated that the third year phase-in (2019) will result in a reassessment related increase in Regional taxes by 0.3 per cent, or approximately $9.

3.6 It is estimated that for the 2020 property tax year (fourth and final phase-in year) a similar increase of approximately 0.30 per cent to 0.35 per cent ($9) will occur. Additional information on the reassessment impacts is detailed in Report #2018-COW-32.

3.7 The valuation date for the next MPAC reassessment has been brought forward from January 1, 2020 to January 1, 2019. The resulting CVA changes will still be phased-in over four tax years (2021 - 2024). The accelerated start date will allow MPAC additional time to consult with stakeholders and improve assessment roll accuracy with the hope of reducing future assessment disputes.

4. Continuation of 2018 Vacancy Taxation Policies Phase-Out and the Lowering of the Municipal Tax Ratio for the Occupied Industrial Broad Classes

4.1 After extensive consultation with the public, business community and local municipalities, Regional Council, as part of the 2018 Strategic Property Tax Study, approved the phase-out of the two property taxation vacancy policies that were applicable to both the commercial and industrial broad classes. More specifically:

- Regional Council approved the following three-year phase-out of discounts applied to municipal property taxes on parcels in the vacant and excess land subclasses within the broad Commercial and Industrial property tax classes.
    - For the 2018 property tax year, the discount was reduced to 20.00 per cent in the broad commercial classes (from 30.00 per cent in 2017) and 23.33 per cent for the broad Industrial property tax classes (from 35.00 per cent in 2017).
    - For the 2019 property taxation year, the discount will be reduced to 10.00 per cent for the broad Commercial property tax classes and 11.67 per cent for the broad Industrial property tax classes.
    - For the 2020 property taxation year, the discount will be eliminated for both the Commercial and Industrial broad property tax classes.

- Regional Council also approved a two-year phase-out of the vacant unit property tax rebate program available to eligible units in the broad Commercial and broad Industrial property tax classes.
    - For the 2018 property tax year, the rebate percentage was decreased to 15.0 per cent for the broad Commercial property tax class (from 30.0 per cent in 2017) and 17.5 per cent for the broad Industrial property tax classes (from 35.0 per cent in 2017).
    - The vacant unit rebate program for both the Commercial and Industrial broad property tax classes will be eliminated for the 2019 property tax year.
- In addition, to improve Durham's industrial competitiveness, Regional Council also directed that any increased municipal property taxation resulting from the phase-out of the vacant and excess land subclass discounts in the Commercial and Industrial broad property tax classes be used to fund a phased-in reduction of the Industrial broad class municipal property taxes through a reduction in the Industrial broad property tax class occupied municipal tax ratio. This is an important improvement stemming from Council support of the preferential vacancy policies' phase out.

4.2 Figure 5 provides the estimated impacts of the vacant and excess land subclasses' discount phase-out and reduction in the industrial broad class municipal tax ratio.

Figure 5

2019 Estimated Impact on Total Municipal Property Taxes
Resulting from the Vacant Policy Changes and Industrial Ratio Reduction
$ millions

	2019 Estimated Municipal Taxes **(after ratio adjustment & no budgetary increase)**	**2019 Estimated Change in Municipal Taxes**	**2019 Estimated % Change in Municipal Taxes**
Residential	876.23	0.00	0.0%
Multi-Residential	47.57	0.00	0.0%
Commercial (broad)			
Occupied	129.88	0.00	0.0%
Vacant Land	3.75	0.47	12.5%
Excess Land	1.35	0.17	12.5%
Commercial Subtotal	**134.98**	**0.64**	**0.5%**
Industrial (broad)			
Occupied	27.56	(1.01)	(3.7%)
Vacant Land	2.64	0.29	10.9%
Excess Land	0.77	0.08	10.9%
Industrial Subtotal	**30.97**	**(0.64)**	**(2.1%)**
Other	7.21	0.00	0.0%
Total	**1,096.96**	**0.00**	**0.0%**

- Vacant properties and excess land parcels in the broad commercial classes will experience a 12.5 per cent increase in municipal taxes or $0.64 million in 2019.
- Vacant properties and excess land parcels in the broad industrial classes will experience a 10.9 per cent increase in municipal taxes or $0.37 million in 2019.
- All properties in the broad occupied industrial property classes will experience a 3.7 per cent **decrease** in municipal taxes or $1.01 million in 2019.
- There is **no impact** on the occupied commercial, residential, multi-residential or farmland property taxes classes as a result of these two decisions.

5. Assessment at Risk Update

Assessment Disputes

5.1 A number of complaints are filed by property owners with respect to the MPAC assigned CVA or property classification. At any given point in time, five to ten per cent of the assessment base can be involved in a dispute which represents significant financial risk to the municipal sector.

5.2 The dispute process and the resulting assessment settlements (typically reductions) represent the following three financial risks to the municipal sector.

- Municipalities are required to rebate the difference between the previously billed property tax amount based on the original CVA and the revised billing based on the revised CVA (typically lower). The longer the complaint has been outstanding, the larger the amount of taxes that must be rebated.
- The majority of the complaints that are filed and settled are for non-residential assessment. CVA reductions on these types of properties further erodes the non-residential assessment base, shifting taxes to the residential property tax base.
- Finally, changes to previous assessment cycles have the potential to put downward pressure on the current assessment cycle values, which may result in reduced assessment growth going forward.

5.3 There are two processes by which taxpayers can pursue MPAC assessment disputes. The first process, which is mandatory for residential properties, is the *Request for Reconsideration* (RfR) process. This is an informal process whereby the property owner requests MPAC review the file and the owner ensures that MPAC has up-to-date and correct property information. MPAC may offer to revise the returned assessment based on more current information or may confirm the returned assessment as accurate. Should the property owner not agree with the outcome of the RfR process, they have 90 days to file an appeal to the Assessment Review Board (ARB).

5.4 If a change in the assessment is proposed by MPAC, a Minutes of Settlement Offer may be provided to the owner and, if it is agreed to by the owner, then the assessment is adjusted. The owner has 90 days to accept the Minutes of Settlement or move on to the next part of the dispute process (formal appeal) discussed in the following section.

5.5 The second process is an appeal to Assessment Review Board (ARB), which is an independent adjudicative body within the Ministry of the Attorney General that decides assessment and classification complaints with respect to properties in Ontario. It can take several years for disputes to reach settlement, with many of the more complex commercial and industrial-type complaints resulting in processes that stretch far beyond the current four-year assessment phase-in period.

5.6 In response to the increased volume of assessment appeals and based on stakeholder feedback, in 2017, the ARB initiated a process to modify its Rules of Practice and Procedure with the key objective of more timely appeal resolutions. Details on the changes can be found in Report #2017-COW-189.

5.7 Although the number of dispute claims are fairly evenly split between the RfR process (53.2 per cent) and the ARB process (46.8 per cent), the total Assessment at Risk in the ARB process is more than seven times (87.6 per cent) that of the RfR process (12.4 per cent). Further, the Regional taxation losses in the ARB process (80 per cent) is four times the Regional losses in the RfR process based on historical analysis.

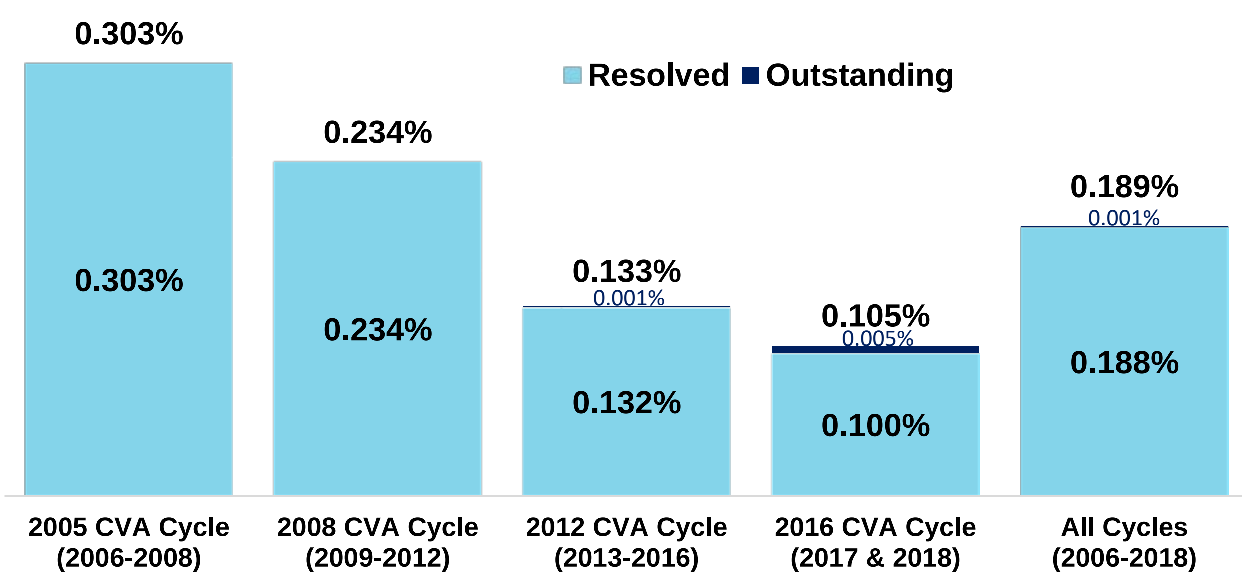
5.8 The next section briefly summarizes the RfR (primarily residential) dispute process analysis, and the remainder of the Appeals section of this report focuses on the higher risk ARB (primarily non-residential) disputes.

Request for Reconsideration Process Summary

5.9 Figure 6 provides a summary of the estimated Regional taxation losses for the four CVA cycles including both the losses on resolved disputes and the medium risk scenario losses on outstanding RfR disputes.

Figure 6

Request for Reconsideration (RfR): Estimated 2006-2018
Regional Property Taxation Losses as a Share of Total Regional Taxation



5.10 The Regional taxation loss due to the RfR process has continued to decline since the 2005 CVA cycle as shown above. A review by the Ontario Ombudsman in 2006 resulted in significant changes to the MPAC RfR process which is believed to have significantly contributed to this decline.

5.11 The estimated Regional taxation losses for all four CVA cycles is $13.2 million of which approximately $100,000 is estimated for the outstanding RfRs.

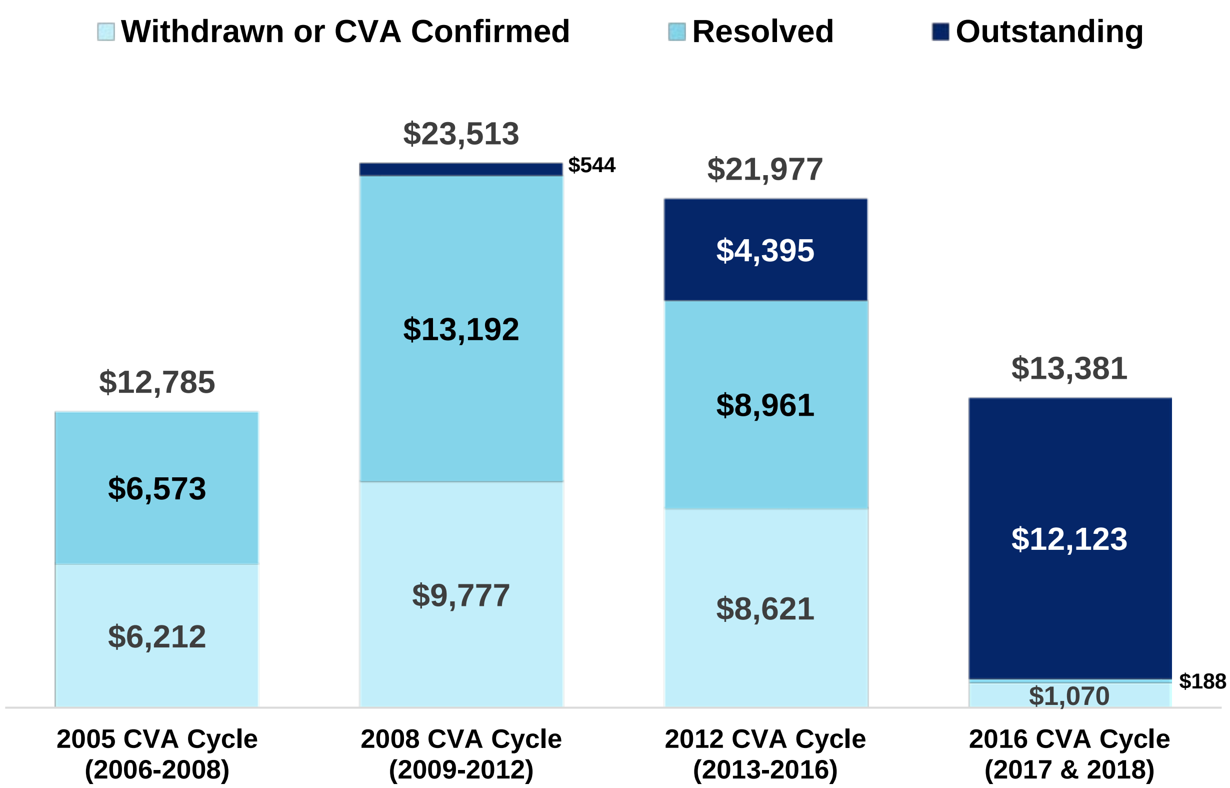
Assessment Review Board (ARB) Disputes

5.12 The following analysis covers the last four reassessment cycles (2005, 2008, 2012 and 2016) encompassing the taxation years 2006 to 2018.

5.13 Figure 7 outlines the assessment at risk for each reassessment cycle. The significant jump in the assessment at risk in the 2008 CVA cycle was the result of the economic downturn, as well as large group appeals by owners who had significant properties across the Province. This was particularly apparent in the large retail sector. The non-residential disputes are also driven by various economic factors including the declining manufacturing sector and the changes in 'brick and mortar' retail sector driven by on-line shopping.

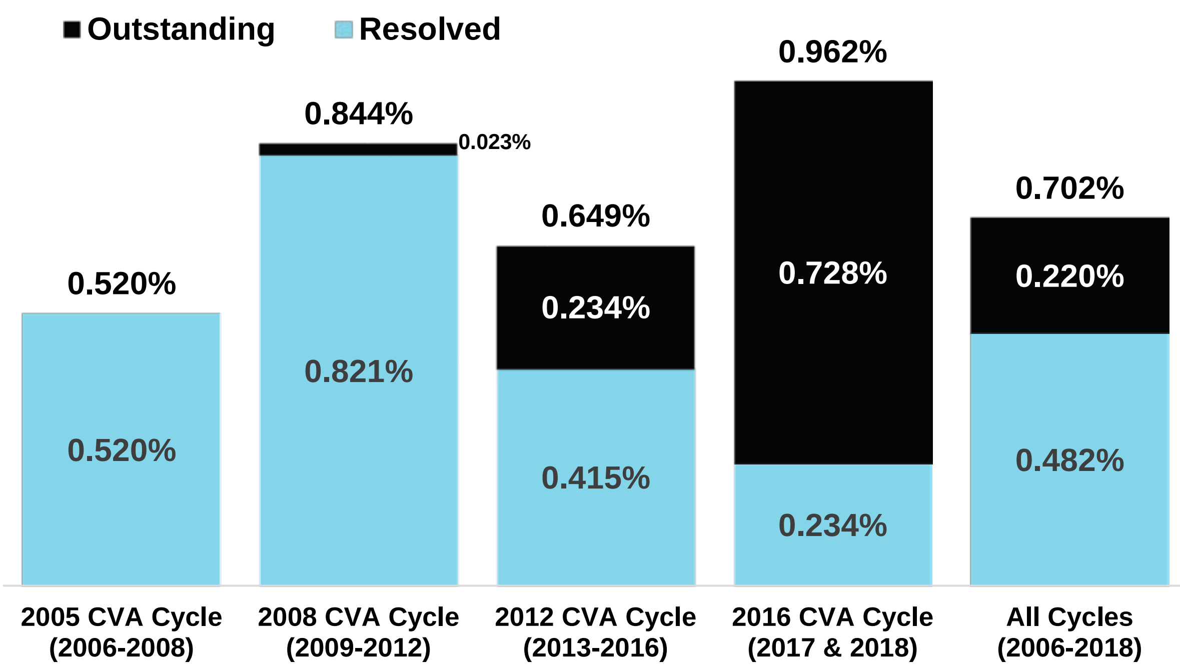
Figure 7

Assessment at Risk in ARB Disputes 2006-2018 ($m)



5.14 The backlog of ARB disputes has decreased over the previous two years, however there is still a material backlog in the 2012 CVA cycle. The majority of the ARB appeals for the 2016 CVA cycle are just beginning the appeal process.

Figure 8
ARB Appeals: Estimated 2006-2018
Regional Property Taxation Loss Percentage as a Share of Total Regional Taxation



5.15 As illustrated in Figure 8, the Regional taxation loss due to the ARB settled disputes over the four CVA cycles is $33.7 million. It is estimated, under the medium risk scenario, that the outstanding ARB disputes will result in additional Regional taxation losses of $19.2 million (high risk estimate $23.1 million; low risk estimate $15.4 million).

5.16 The resolved Regional Taxation losses peaked with the 2008 CVA cycle. It is estimated that the 2016 CVA cycle losses will also be significant due to weakness in the auto manufacturing sector and the continued erosion of the large retail sector as a result of the shift away from brick and mortar stores to on-line shopping.

5.17 Although there is much uncertainty with respect to the outstanding ARB disputes, it is anticipated that the current Property Tax Appeals reserve and the budgetary provision for adjustments to the assessment base will assist in mitigating the impact of these taxation losses. Regional staff will continue to monitor the assessment appeals and will provide Regional Council with updates.

Regional Role in Assessment Disputes

5.18 The Region's 49 per cent share of total property taxation relies on maintenance of the assessment base and any reduction due to appeals has a direct financial impact on Regional taxation revenues.

5.19 As discussed in previous years' studies, the Region's legislative disconnect from the assessment complaint and appeals process due to lack of upper tier inclusion in the relevant Provincial legislation represents a financial risk. This impacts the Region's ability to accurately forecast potential financial losses and effectively monitor and protect the assessment base.

5.20 Regional Council has previously requested that the Province amend the *Assessment Act* to provide upper tier municipalities with the appeals rights that are commensurate with the responsibilities of the upper tier to set property taxation policy, as well as recognizing the upper tier's higher share of property tax revenues. To date, no response has been provided or action taken by the Province on this issue.

6. Inter-Municipal Comparisons

Municipal Tax Ratios

6.1 The calculation of property taxes is based on a property's CVA as included in the returned assessment roll provided by the MPAC under the authority of the *Assessment Act* and the Municipal Act, 2001 where:

- MPAC is responsible for the classification and CVA assignment for all individual properties in Ontario; and
- Municipalities must use MPAC information along with budgetary requirements and municipal taxation ratios to calculate annual property tax rates applicable to individual property tax classifications.

6.2 The Upper-Tier municipality (Region) in a two-tiered municipal structure is responsible for property taxation policy decisions related primarily to property classes and municipal property tax ratios. Local municipalities are legislatively required to use the Upper Tier property classes and municipal property tax ratios in the calculation of local municipal property rates.

6.3 A municipal tax ratio is the degree to which an individual property class is taxed relative to the Residential class. If the Multi-Residential municipal tax ratio is 1.867, then its municipal property taxation rate will be 1.867 times that residential class tax rate. Since municipal tax ratios show the degree to which the non-residential classes are taxed relative to the residential class, the ratios have a direct impact on the competitiveness of municipal non-residential property taxes.

Figure 9
2018 Municipal Tax Ratio Comparison

	Multi-Residential		Commercial		Industrial		Farmland	
	Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank
Durham: (Recommended 2019)	**1.867**	**4**	**1.450**	**2**	**2.104**	**5**	**0.200**	**1**
Toronto	2.523	9	2.848	10	2.836	10	0.250	4
Peel Region (Mississauga)	1.451	3	1.477	4	1.611	2	0.250	4
Halton Region	2.000	7	1.457	3	2.360	7	0.200	1
York Region	1.000	1	1.232	1	1.497	1	0.250	4
Ottawa *	1.426	2	1.920	6	2.507	8	0.200	1
Niagara Region	1.970	6	1.735	5	2.630	9	0.250	4
Waterloo Region	1.950	5	1.950	7	1.950	3	0.250	4
Hamilton **	2.634	10	1.980	8	1.980	4	0.250	4
Windsor ***	2.000	7	2.019	9	2.320	6	0.250	4

Ratios in table have been rounded to three decimal places.
* Ottawa broad class ratios
** Hamilton has a Large Industrial class with a ratio of 4.000
*** Windsor has a Large Industrial class with a ratio of 2.938

6.4 As illustrated in Figure 9, Durham Region has a competitive Multi-Residential ratio of 1.867. Durham's ratio is approximately 1 per cent below the average of the similar municipal comparators (1.89). For a local municipality with a large share of multi-residential assessment, any reduction in this ratio would shift significant local municipal taxes to the residential property tax class. Finance staff will be participating in a review of Multi-Residential taxation policy issue currently being organized by the Ontario Regional and Single Tier Treasurers (ORSTT).

6.5 Durham Region has a competitive commercial ratio of 1.4500. Durham's ratio is almost 22 per cent below the average of the comparators (1.85) in the above table. Durham has the second lowest ratio and just slightly lower than Mississauga's ratio of 1.4517. Mississauga has been increasing its commercial ratio to partially offset reassessment shifts due to the 2016 CVA reassessment.

6.6 Durham Region's 2019 recommended industrial municipal ratio is not as competitive as its commercial ratio. Although Durham's ratio is 4 per cent below the average of the comparators (2.19) in the table, Durham is higher than Mississauga, York Region and Waterloo Region. Although Hamilton industrial ratio is lower than Durham's at 1.98, it also has a large industrial property class with ratio at over 4.0. The continual phase-out of the vacancy programs and corresponding decrease in the Industrial broad class ratio will improve Durham's industrial competitiveness over the next two years.

6.7 The Province has mandated a maximum farmland municipal tax ratio of 0.25. However, several Ontario municipalities (Durham included) have lowered their ratio from this Provincial maximum. Durham Region's farmland municipal ratio (0.2000) is very competitive.

Residential Home Property Tax Comparison

6.8 For the past several reassessment cycles, the Region has provided a residential home property tax comparison based on four specific homes in Durham Region. For the 2016 CVA reassessment, the comparison was based on 10 homes across all of Durham's local municipalities.

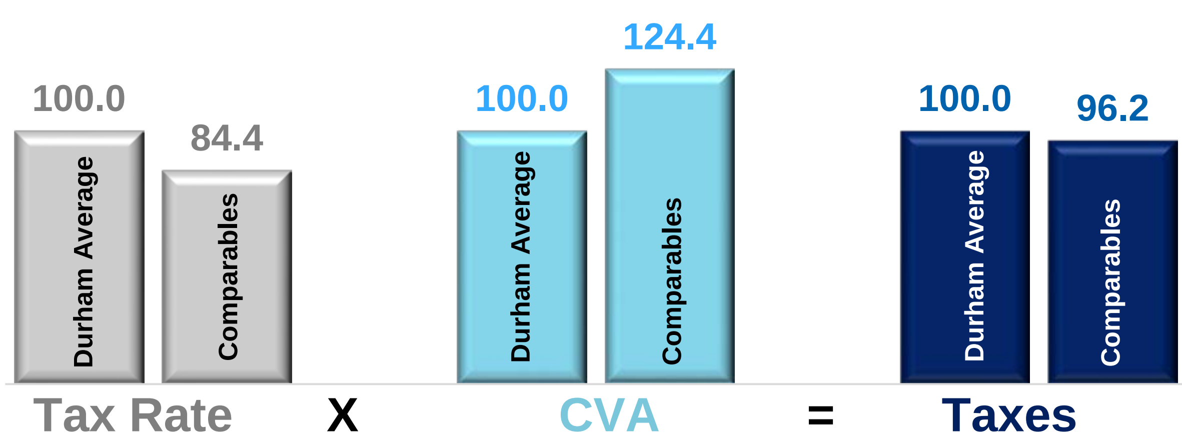
6.9 Homes were chosen to reflect, as closely as possible, that municipality's average home in terms of assessment, age, size and building quality. MPAC provided the CVAs for the comparator municipalities on which the following analysis is based.

6.10 As shown, tax rates and assessments vary significantly between municipalities. In general, they are inversely related (higher assessments allow for a lower tax rate to generate the same tax dollars).

6.11 The residential home comparison found that the comparable municipalities' average residential tax rate was 15.6 per cent lower than Durham's. However, assessment values for the comparators were found to be 24.4 per cent higher. The resultant average property tax difference between Durham and the comparators is approximately 3.8 per cent as illustrated in Figure 10.

Figure 10

Residential Home Sample Average: Tax Rate, Assessment and Taxation



6.12 The majority of the large gap in tax rates can be explained primarily by Durham's lower market values (assessments). The gap of 15.6 per cent is reduced to 3.8 per cent when Durham's lower assessments are considered.

6.13 This example only adjusted for the different relative CVA in the comparator properties. There are also differences in assessment base composition (residential vs. non-residential shares), geographical size for service delivery and service/budget levels which lead to differences in municipal tax rates, but are beyond the scope of this Study.

Non-Residential Property Tax Comparisons

6.14 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.

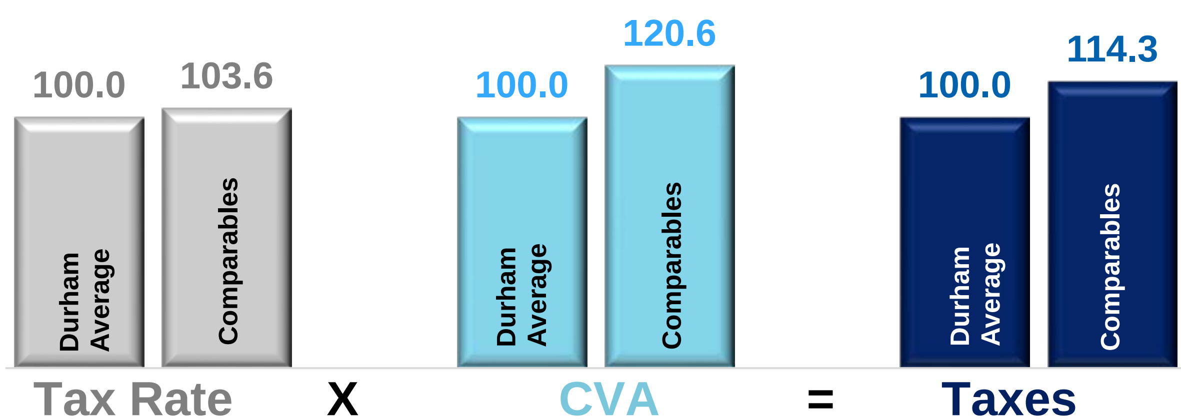
6.15 This difficulty has increased over the last few years as a result of significant assessment appeals launched by the non-residential sector across Ontario for the previous two reassessment cycles and the resultant changes (implemented and anticipated in both specific property assessments and MPAC methodology).

6.16 However, the 2018 municipal ratio analysis (previous section 6.1) clearly showed that Durham's commercial ratio is very competitive with comparator jurisdictions. As well, it is believed that municipal taxation is a lessor consideration in a commercial location decision when compared to factors such as customer density and affluence. Further, commercial growth within the Region has kept pace with residential growth over the past two decades.

6.17 Similar to the residential comparison, a commercial comparison based on 18 properties was conducted. As shown in Figure 11, tax rates and assessment vary significantly between municipalities. In general, they are inversely related (higher assessments allow for a lower tax rate to generate the same tax dollars).

Figure 11

Commercial Sample Average: Tax Rate, Assessment and Taxation



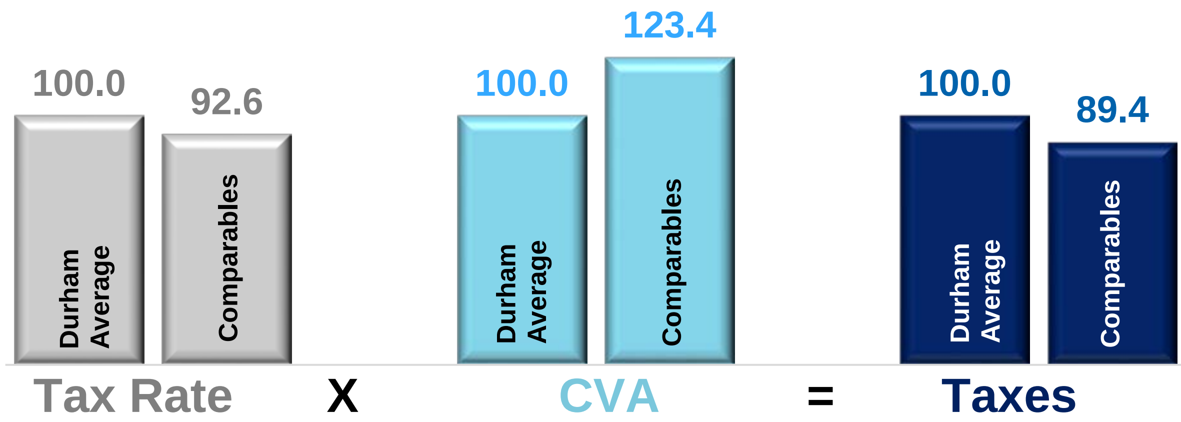
6.18 Although the commercial sample showed a high degree of variability, the average comparator municipal tax rates were 3.6 per cent higher than Durham's, while the average CVA was also higher by 20.6 per cent. The resultant property tax average of the comparators is approximately 14 per cent higher than in Durham Region.

6.19 The industrial class, as shown in the ratio comparison, is not as competitive in Durham Region as the commercial class. This is the reason that Regional Council chooses to use the increased municipal tax revenues from the vacant and excess subclass discount phase-out (2018-2020) to lower the industrial broad occupied municipal tax ratio by over 10 per cent by 2020. This will assist the Regional competitiveness over the coming two years.

6.20 An industrial comparison based on 12 properties was also conducted. As shown in Figure 12, tax rates and assessment vary significantly between municipalities.

Figure 12

Industrial Sample Average: Tax Rate, Assessment and Taxation



6.21 Again, a high degree of variability exists in the sample, however the averages show that the Durham Region tax rate is 7.4 per cent higher than the comparators', while the CVA is 23 per cent lower. The resultant property tax average on the comparators is slightly more than 10 per cent lower than Durham Region. The relative weakness of Durham's industrial property tax competiveness is the reason for Council's decision to lower the industrial tax ratio approximately 10 per cent between 2018 and 2020. As noted, property taxation does not appear to be the significant driver in an industrial business determination of site selection.

Durham Region Competitiveness Study

6.22 In January 2019, the Region's Economic Development department reported on the Durham Region Competitiveness Study (#2019-EDT-1). This comprehensive study looked at a variety of competitive factors beyond property taxation. This study found that:

"A cost-competitive business environment is critical to enabling business investment, expansion and job growth. In this respect, Durham offers strong value and competitiveness".

"The competitiveness profiles outlined several areas where Durham Region has strength as a potential investment location:

- *Relatively low industrial and office commercial lease rates;*
- *Competitive property taxes for industrial and commercial office development;*
- *Competitive development costs;*
- *Affordable wages for start-up businesses;*
- *Access to high quality infrastructure;*
- *Strong technical and college level programming, aligned with local labour market;*
- *Emerging presence of research and innovation assets; and*
- *High quality of place."*

7. Provincial Property Tax Policy Changes

Royal Canadian Legions

7.1 In 2018, the Provincial government implemented a policy where Royal Canadian Legions will become exempt from both municipal and education property taxation.

7.2 Since 2000, the Region of Durham and its local municipalities had already provided full rebate of municipal taxes to the Legions under section 6.1 of the *Assessment Act*.

7.3 Although the new Provincial initiative will not result in any changes to the municipal taxation on Legion's property (since these municipal taxes have been rebated in Durham Region since 2000), it will eliminate the Provincial education portion of the taxes on these properties.

Farm Value Added Activities (new property class)

7.4 In the 2017 Ontario Economic and Fiscal Review (November, 2017), the Province announced a policy change that would "*provide municipalities with the flexibility to tax the first $50,000 of assessment on qualifying value added and commercial activities on farms at a rate that is 75 per cent lower than the commercial or industrial tax rate that would otherwise follow."*

7.5 The Province, in their December 22, 2017 letter to Municipal Treasurers, confirmed this flexibility would be provided to municipalities starting in the 2018 property tax year. The Province further confirmed that they intend to institute this reduction with respect to education property taxes across the Province.

7.6 The provincial regulations (Ont. Regulation 361/18) required to implement this new flexibility were filed on May 3, 2018. The Province did implement this new class for 2018 with respect to Provincial education taxation.

7.7 MPAC has not yet identified all eligible properties for this optional subclass as of the publication of this report. It is anticipated that the MPAC identification will be completed, properties notified and municipalities provided with the required information within the first half of 2019.

7.8 As such, Regional staff do not have the necessary information to complete the financial analysis and quantify the impact of implementing this optional subclass. Without the required information being available, it is premature to recommend any changes for the 2019 tax year. It should be noted that the adoption of this municipally optional class will result in taxation shifts to all other classes with the majority of the tax reduction being funded by the residential property class which may be less than desirable in the agriculturally based local municipal tiers.

8. Looking Forward

8.1 Regional Finance staff will continue monitoring future developments with respect to the following and report back to Regional Council on:

- 2016 CVA reassessment cycle impacts for 2020;
- outstanding and future 2016 CVA assessment appeals (for tax years 2017 to 2020) at the ARB;
- impact of General Motors potential closure of auto manufacturing and related facilities in Durham Region and potential reuse of the properties;
- municipal flexibility with respect to small value-added commercial and industrial activities on farms; and
- changes in Provincial assessment and taxation policies that have a material impact on the shared assessment base of Durham Region and local municipalities.

Attachment #1: Durham Region Property Tax Comparisons

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

Durham Region Property Tax Comparisons

Direct Tax Rate Comparisons

Direct comparisons of property tax rates are often made and lead to erroneous conclusions with respect to 'high' or 'low' tax jurisdictions as tax rates are only one factor in the calculation of property taxes. Taxes = (Property Tax Rate) X (Property CVA)

Any comparison that does not consider the varying market value assessments (CVA) within each jurisdiction is meaningless. Further, taxation levels reflect the services and service levels provided by the municipalities and municipalities do not provide identical services or service levels. Finally, residential tax rate comparisons do not consider the property tax contributions from the non-residential sector.

Annual Municipal Property Tax Comparison

This attachment provides property tax comparisons across comparable municipalities making adjustments for the varying market values which then shows the degree to which the market values affect tax rates.

This study presents the comparisons based on 2018 property taxation which is the second year phase-in of MPAC's 2016 CVA reassessment (since 2019 comparable municipal property tax rates are not yet available for all comparators).

Caution should be used in interpreting the results of any municipal property tax comparison. These comparisons do not consider municipal services or service levels and a whole range of other unique municipal characteristics (non-residential assessment levels, financial stability and long-term planning including reserve and debt levels, urban/rural compositions, geographical density and size, etc.).

As such, these comparisons can be useful in showing the impact of the assessment base on property tax rates and to garner an overall impression of general competitiveness but the results should not in any way be considered a ranking of municipalities or commentary on municipal efficiency or service delivery.

Inter-Municipal Assessment Base Comparisons

When tax rate comparisons are done, consideration should also be given to the property tax funding provided by the non-residential sector, as the non-residential funding reduces the residential property tax rate. As shown in Figure 13 on the following page:

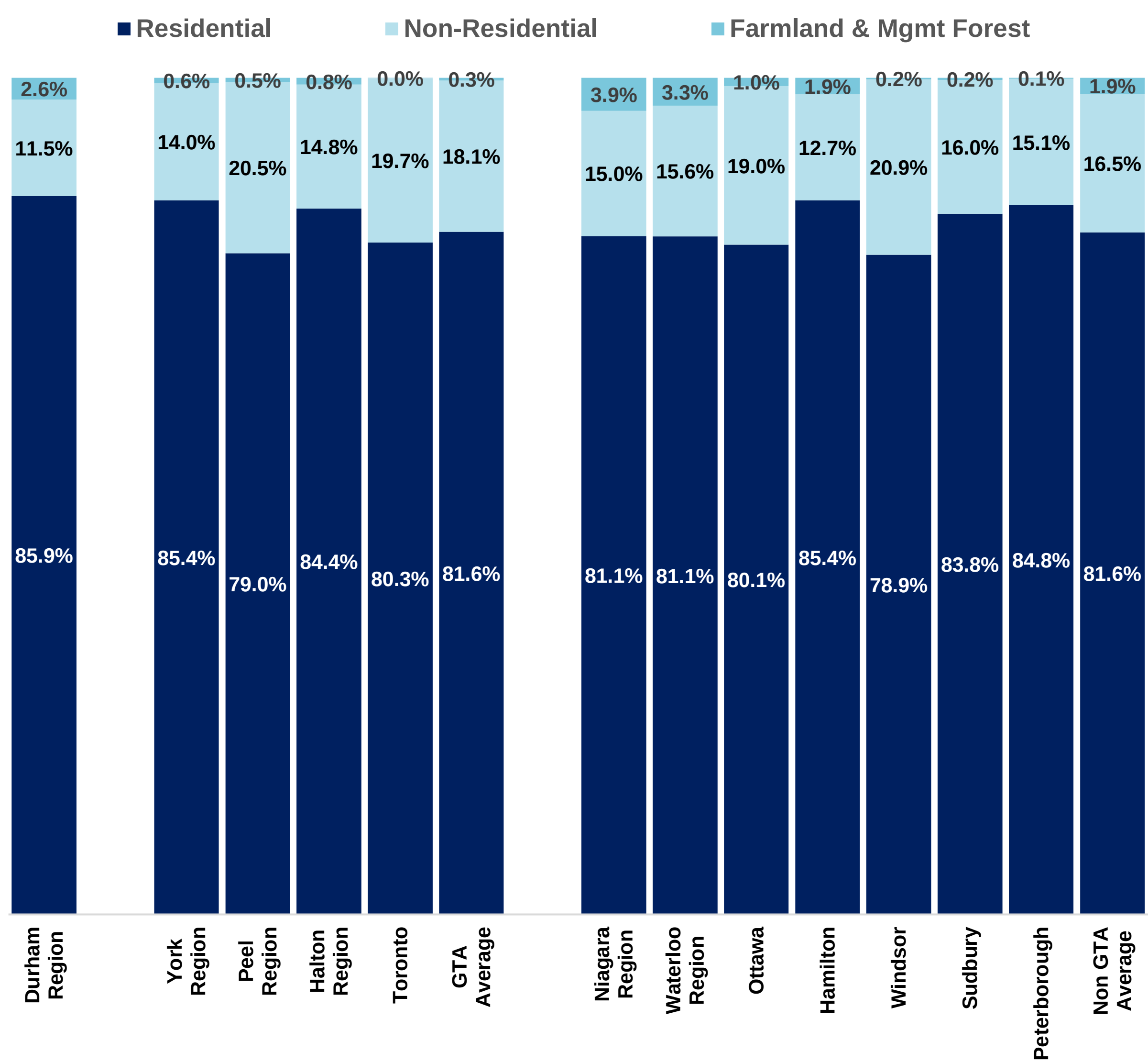
- When compared to other municipalities, Durham has the highest residential share of the assessment base at 85.9 per cent, which is significantly higher than the comparable weighted average of the other GTA municipalities (81.6 per cent) and the Other (non-GTA) comparators at a similar level of 81.6 per cent.
- The Region of Durham's high residential share is compounded by a very high share of farmland and managed forests (2.6 per cent), which are taxed at a reduced rate of the residential tax rate (20 per cent for farmland and 25 per cent for managed forests).

- Correspondingly, Durham has the lowest share of Non-Residential (commercial/industrial) assessment at 11.5 per cent, which is considerably below its GTA counterparts' weighted average (18.1 per cent) and the non-GTA comparators (16.5 per cent).
- A higher proportion of the assessment base in the commercial and industrial classes results in more taxation from this sector and lower budgetary requirements that must be financed from the residential sector (hence a lower residential tax rate). As such, the composition of the assessment base affects the tax rates and the implications of this are overlooked in a simple comparison of residential tax rates across jurisdictions.

Figure 13

Property Class Assessment Share: Durham Region and Comparable Municipalities

Total Taxable and PIL Unweighted 2019 Assessment by MPAC



Residential Home Property Tax Comparison

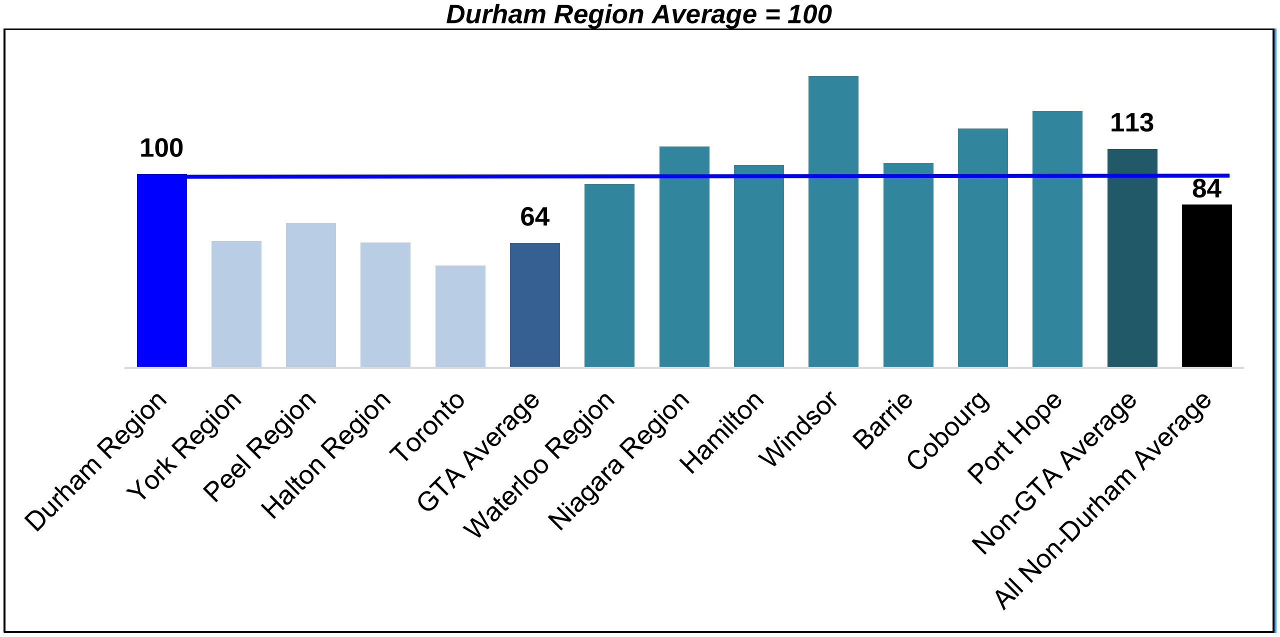
The annual Strategic Property Tax Study has provided a residential home property tax comparison based on specific homes in Durham Region. For the 2016 CVA reassessment, this comparison was based on 10 homes across all local municipalities

The homes within each local municipality were chosen to reflect, as closely as possible, that municipality's average home in terms of assessment, age, size and building quality. The number of comparator municipalities was also expanded in the new sample data and MPAC provided the comparable CVAs for the comparator municipalities.

The analysis begins with a graphing of the municipalities' residential property tax rates which show a very large variance across municipalities. Next is a graph of the average CVA of the 10 sample properties across all comparators, which also shows a high degree of variability across municipalities in the opposite direction (since tax rates and assessment tend to be negativity correlated). The final graph represents municipal tax dollars and shows a significantly lower degree of variability amongst municipalities and reflects the dramatic impact the assessment base has on the property tax rates.

Figure 14 illustrates the significant differences in residential property tax rates across the comparator municipalities.

Figure 14
2018 Residential Property Tax Rates for Comparator Municipalities
Durham Region Average = 100



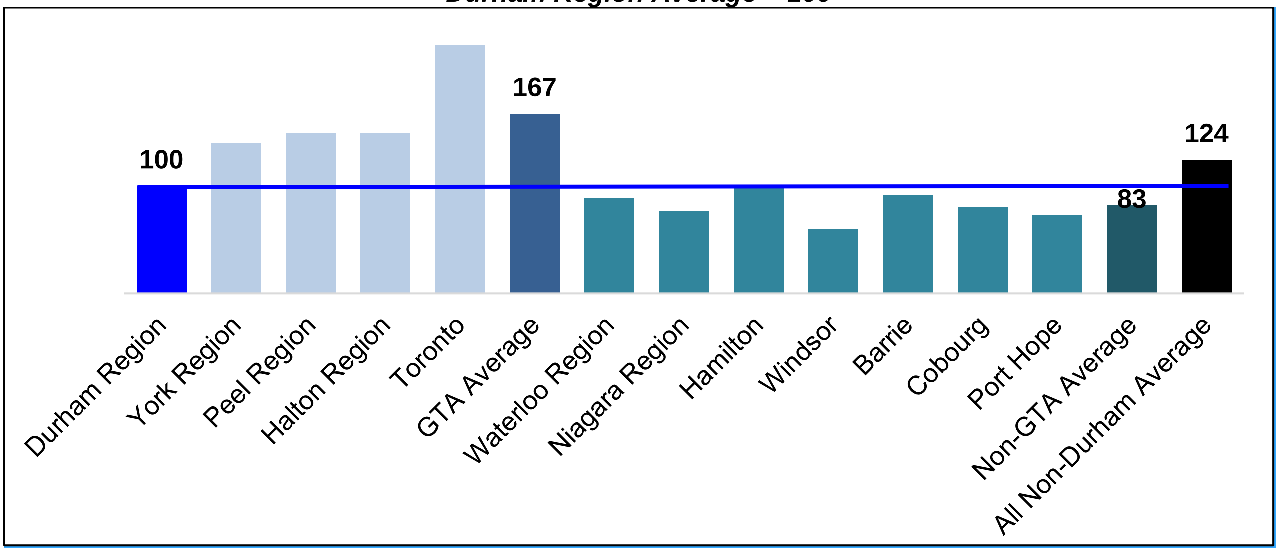
The average total property tax rate for the non-Durham municipal comparators used in this analysis is 84 per cent of Durham Region's average residential property tax rate. However, property tax rates are not a valid comparison due to the factors previously discussed.

Figure 15, on the following page, shows the average of the comparable assessments (CVA) provided by MPAC for the ten sample homes.

Figure 15

2018 Estimate of CVA Average of Residential 10 Home Sample

Durham Region Average = 100



Like the previous tax rate graph, the assessments vary significantly across municipalities. On average, the CVA of the comparable municipalities is 24 per cent higher.

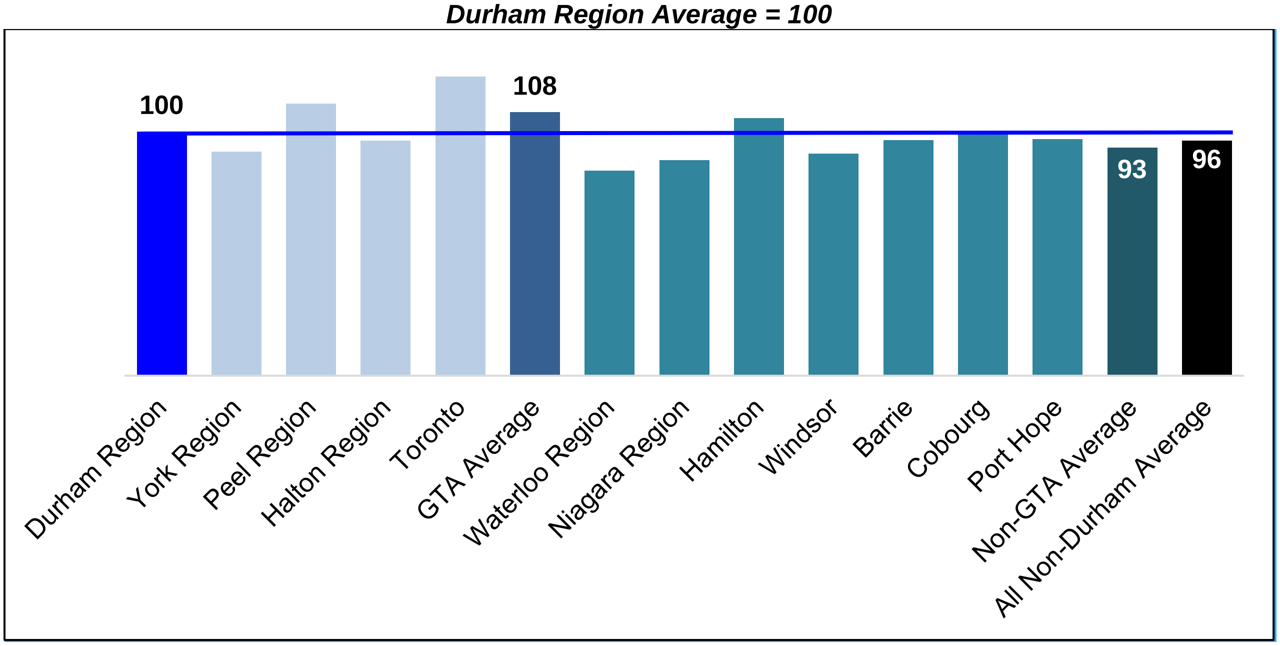
Since tax rates and assessments are inversely related and both are used in the calculation of property taxes, a higher Durham property tax rate is required to compensate for its comparatively lower assessments.

Figure 16 shows the average total property taxes paid by the ten sample homes. Durham's average is close to the average of the comparators shown.

Figure 16

2018 Estimated Total Property Taxes: Average of Residential 10 Home Sample

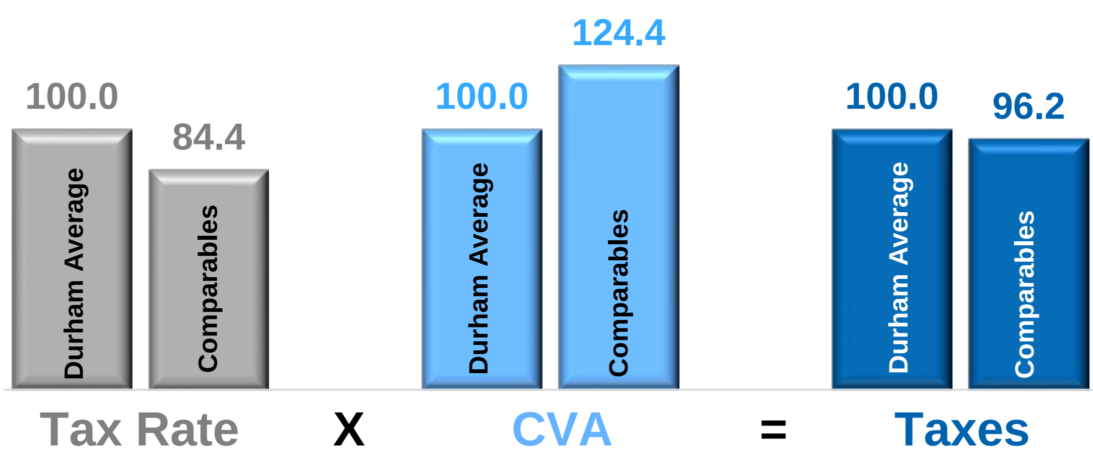
Durham Region Average = 100



The wide range of tax rates and assessment in the previous two graphs, narrows considerably when actual tax dollars are compared. There are, of course, still differences due to the other factors not captured in this analysis, but it is clear from the above graph that Durham Region's residential property taxes are competitive with the Region's municipal comparators. The average property taxes paid by the 10 home sample within Durham Region is within 3.8 percent of the average of all the comparators.

In summary (Figure 17), the comparable municipalities' average residential tax rate was 15.6 per cent lower than Durham's. However, assessment values in comparators were found to be 24.4 per cent higher. The resultant average property tax difference between Durham and the comparators is approximately 3.8 per cent.

Figure 17
<u>2018 Residential Home Sample Average: Tax Rate, Assessment and Taxation</u>



This example only adjusted for the different relative CVA in the comparator properties. There are also differences in local assessment base compositions (i.e. residential vs. non-residential shares) and service/budget levels, which also affects residential municipal tax rates, but are beyond the scope of this Study.

Non-Residential Property Tax Comparisons

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.

This difficulty has increased over the last few years as a result of significant assessment appeals launched by non-residential sector across Ontario for the previous two reassessment cycles and the resultant changes (implemented and anticipated in both specific property assessments and MPAC methodology).

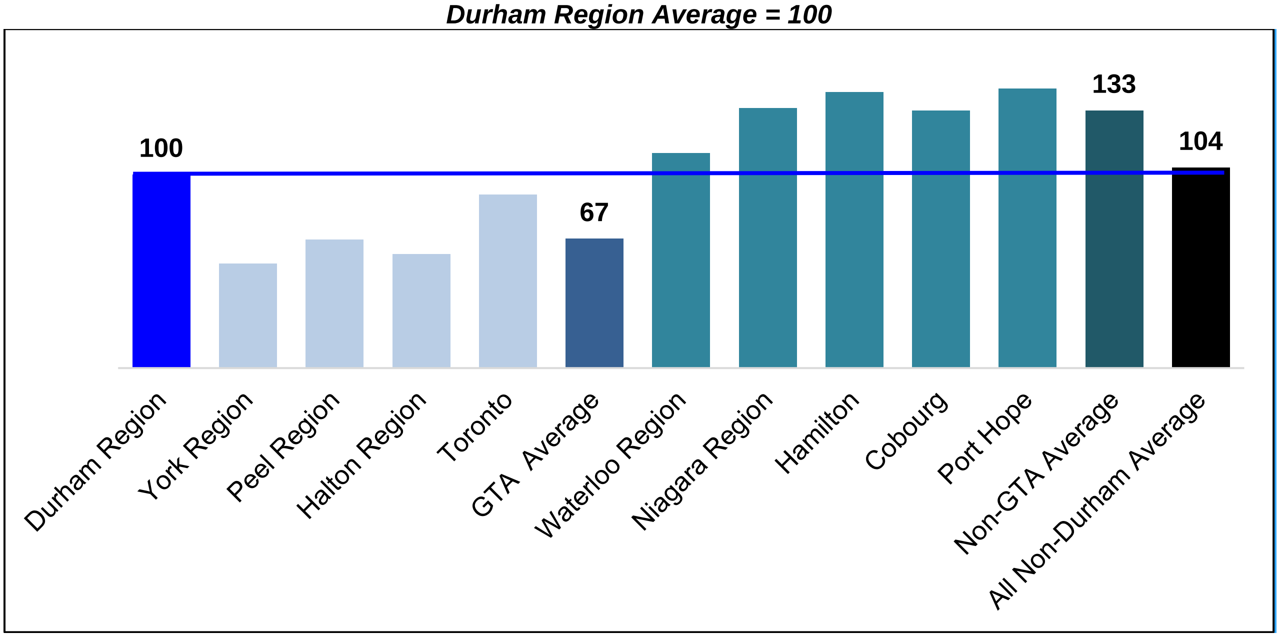
However, the 2018 municipal ratio analysis (Report section 6.1) clearly showed that Durham's commercial ratio is very competitive with comparator jurisdictions. As well, it is believed that municipal taxation is a lesser consideration in a commercial location decision when compared to factors such as customer density and affluence. Further, commercial growth within the Region has kept pace with residential growth over the past two decades.

Commercial Property Tax Comparisons

Similar to the residential comparison, a commercial comparison based on 18 properties was conducted. As shown in Figure 18 and Figure 19, tax rates and assessment vary significantly between municipalities. In general, they are inversely related (higher assessments allow for a lower tax rate to generate the same tax dollars).

Figure 18 illustrates the significant differences in commercial municipal property tax rates across the comparator municipalities.

Figure 18
2018 Commercial Property Tax Rates for Comparator Municipalities
Durham Region Average = 100



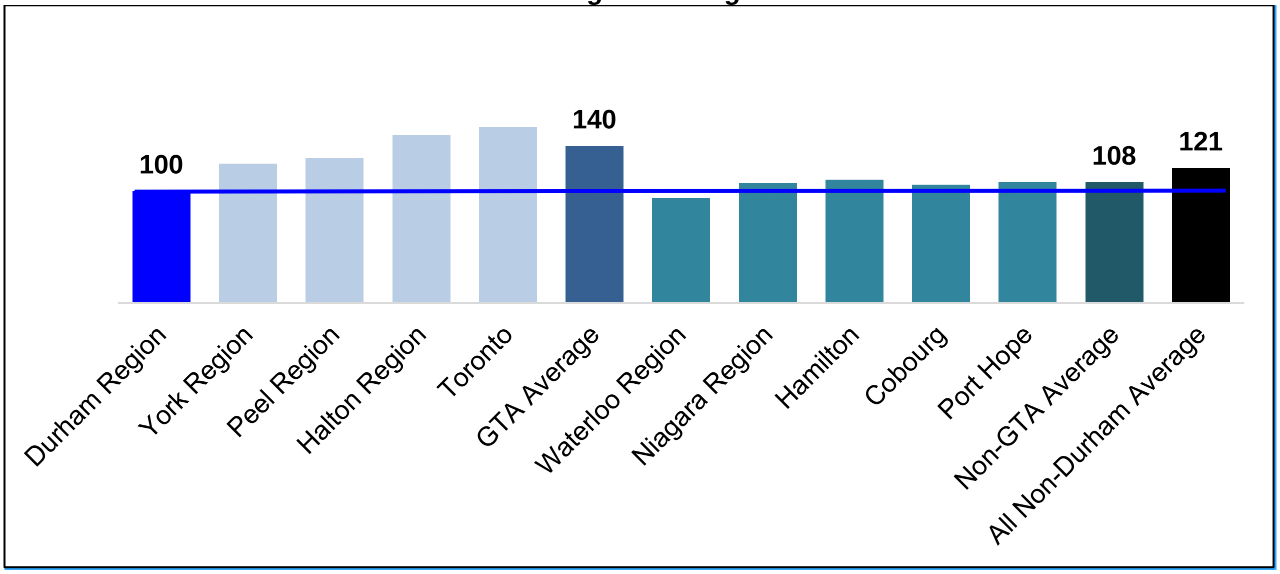
The average municipal property tax rate for the non-Durham municipal comparators used in this analysis is 4 per cent higher than Durham Region's average commercial property tax rate. However, property tax rates are not a valid comparison due to the factors previously discussed.

Figure 19, on the following page, shows the average of the comparable assessments (CVA) provided by MPAC for the 18 sample commercial properties. On average, the municipal comparators had 21 per cent higher assessments.

Figure 19

2018 Estimate of CVA Average of Commercial 18 Property Sample

Durham Region Average = 100



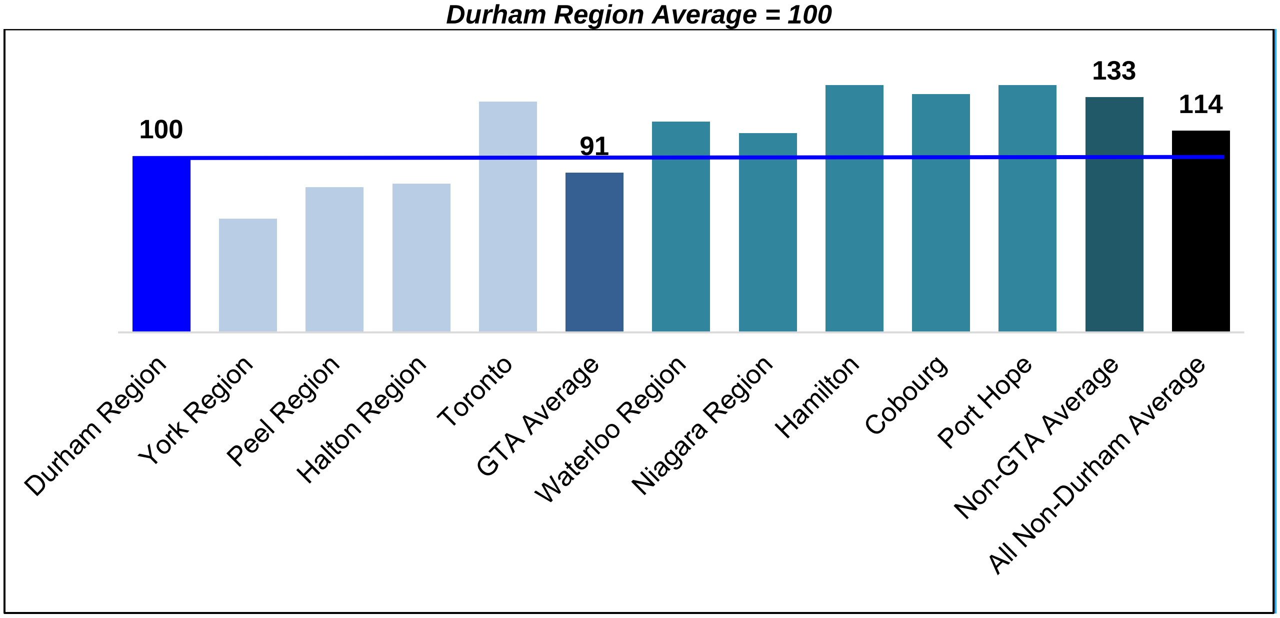
Like the previous tax rate graph, the assessments vary significantly across municipalities. Aside from Waterloo Region, Durham's average assessment is the lowest amongst all comparators and, as a result, Durham requires a higher property tax rate to compensate.

Figure 20 shows the average total property taxes paid by the 18 sample commercial properties. Durham's property taxes are on average 14 per cent less than the comparators'.

Figure 20

2018 Estimated Total Property Taxes: Average of Commercial 18 Property Sample

Durham Region Average = 100

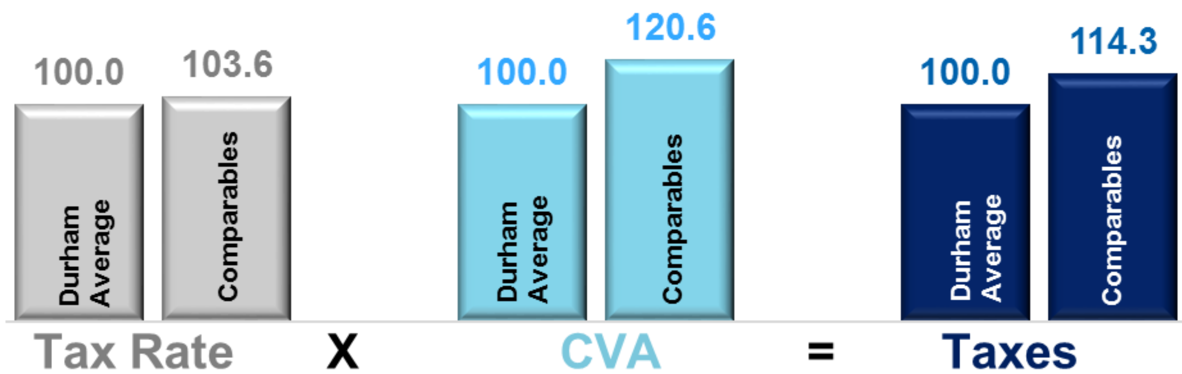


The wide range of tax rates and assessment in the previous two graphs, narrows considerably when actual tax dollars are compared. There are, of course, still differences due to the other factors not captured in this analysis, but it is clear from the average property taxes paid that Durham Region's commercial property rates are competitive.

In summary (Figure 21), the comparable municipalities' average commercial tax rate was slightly higher (3.6 per cent) than Durham's. Assessment values in comparators were found to be approximately 20 per cent higher. The resultant average property tax difference is approximately 14 per cent with Durham being lower.

Figure 21

2018 Commercial Sample Average: Tax Rate, Assessment and Taxation



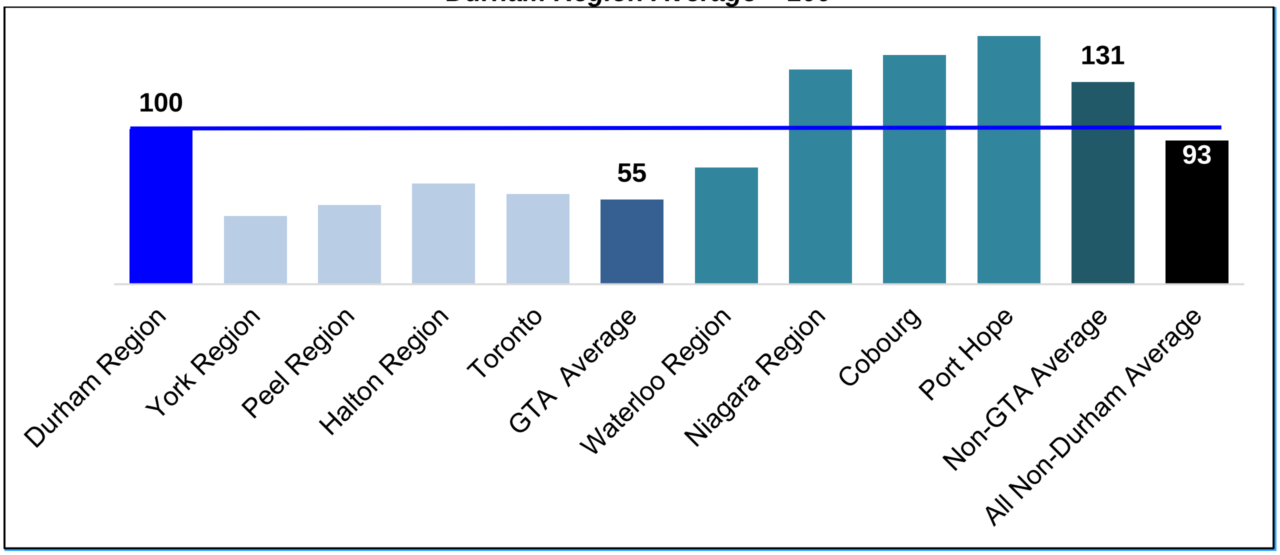
Industrial Property Tax Comparisons

The industrial class municipal tax ratio (Report section 6.1), is not as competitive in Durham Region as the commercial class's ratio. This is the reason that Regional Council used the increased municipal tax revenues from the vacant and excess subclass discount phase-out (2018-2020) to lower the industrial broad occupied municipal tax ratio by approximately 10 per cent by 2020.

Similar to the residential comparison, an industrial comparison based on 12 properties was conducted. As shown in Figure 22 and 23 on the following page, tax rates and assessment vary significantly between municipalities. Again, in general, they are inversely related (higher assessments allow for a lower tax rate to generate the same tax dollars).

Figure 22 illustrates the significant differences in industrial property tax rates across the comparator municipalities.

Figure 22
2018 Industrial Property Tax Rates for Comparator Municipalities
Durham Region Average = 100



The average total property tax rate for the non-Durham municipal comparators used in this analysis is 93 per cent of Durham Region's average industrial property tax rate.

Figure 23 shows the average of the comparable assessments (CVA) provided by MPAC for the 12 sample industrial properties. On average, the municipal comparators had 23 per cent higher assessments.

Figure 23
2018 Estimate of CVA Average of Industrial 12 Property Sample
Durham Region Average = 100

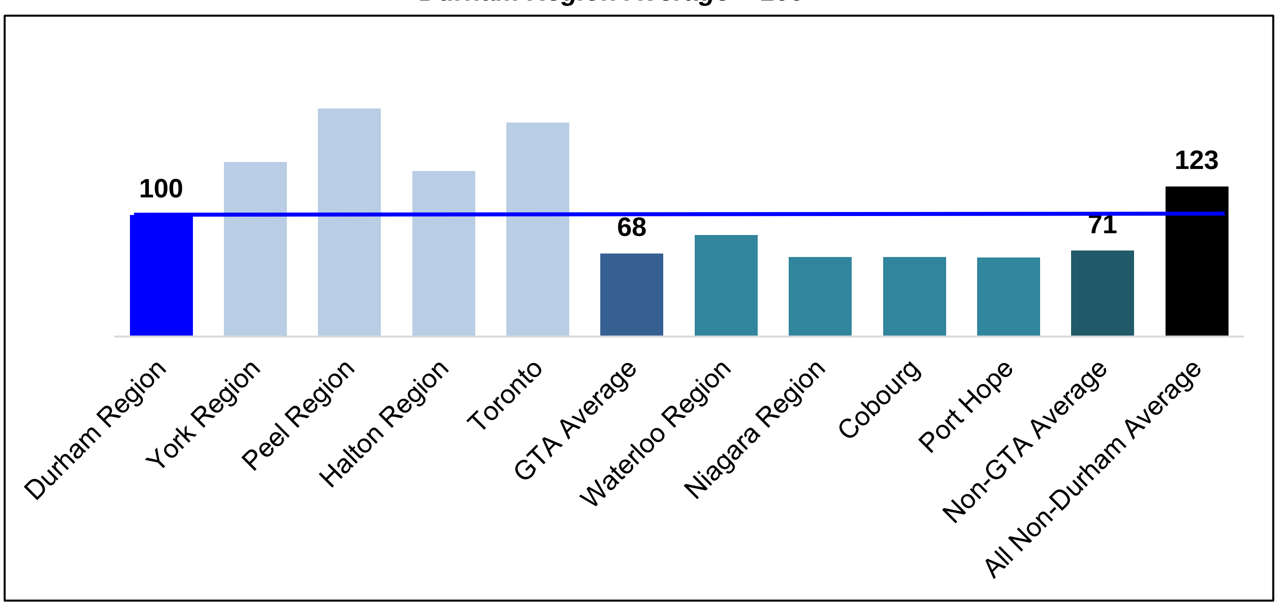
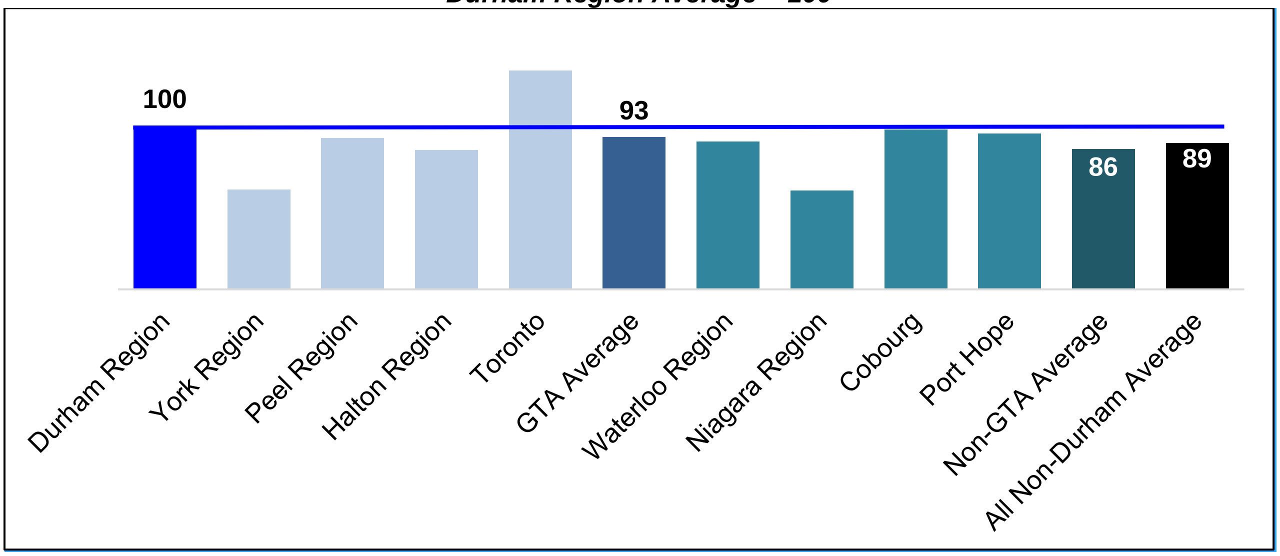


Figure 24 shows the average total property taxes paid by the 12 sample industrial properties. Durham's property taxes are on average 11 per cent more than the comparators.

Figure 24

2018 Estimated Total Property Taxes: Average of Industrial 18 Property Sample

Durham Region Average = 100

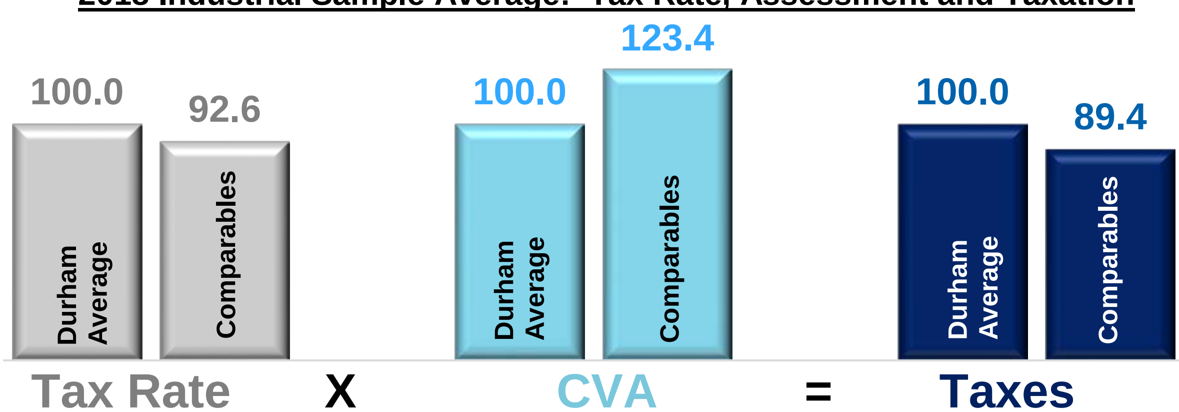


In summary (Figure 25), the comparable municipalities' average industrial tax rate was 7.4 per cent lower than Durham's and the assessment values were 23.4 per cent higher.

However, due to the significant differences across the comparators, the resultant average industrial property taxes in Durham's compactors was approximately 10.6 per cent less than in Durham.

Figure 25

2018 Industrial Sample Average: Tax Rate, Assessment and Taxation



It is expected that Durham's industrial ratio reductions in 2019 and 2020 (approximately 3.3 per cent per year) will materially improve the Region's overall industrial property tax competitiveness.