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The Regional Municipality of Durham
Report

To:	Finance and Administration Committee
From:	Commissioner of Finance
Report:	#2020-F-03
Date:	February 11, 2020

Subject:

2020 Strategic Property Tax Study

Recommendations:

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

A) For the 2020 property taxation year, the municipal property tax ratios for the following property classes for the Regional Municipality of Durham be set as follows 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

Report:

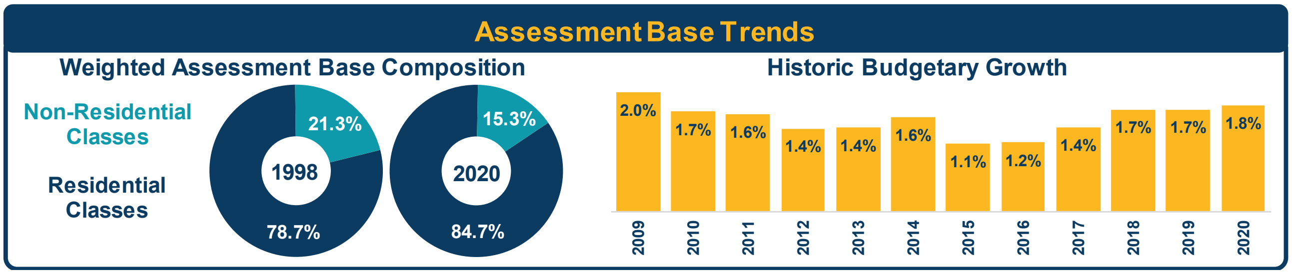
1. Purpose

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 2019, budgeted Regional property tax revenue was $669.1 million or 54.7 per cent of the total $1.225 billion gross expenditures for Regional property tax supported services.

1.2 The 2020 Strategic Property Tax Study provides information and analyses 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;
- Impacts from the 2016 reassessment phase-in for the 2020 taxation year and information on the upcoming 2019 reassessment for the property taxation years 2021 to 2024;
- Update on the vacancy policy phase-out (third and final year) for commercial and industrial properties;
- Update on the current value assessment (CVA) at risk in assessment dispute processes;
- Review of Durham's municipal tax ratios and comparison to comparable municipal jurisdictions;
- Comparison of average residential home and non-residential property taxes across comparable municipalities;
- Heritage property tax rebate matching request from a local municipality; and
- Impact of the Provincial 2020 education property tax rates.

2. The Assessment Base



Assessment Growth

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.

2.2 For 2020, the estimated total weighted assessment growth is 1.95 per cent.

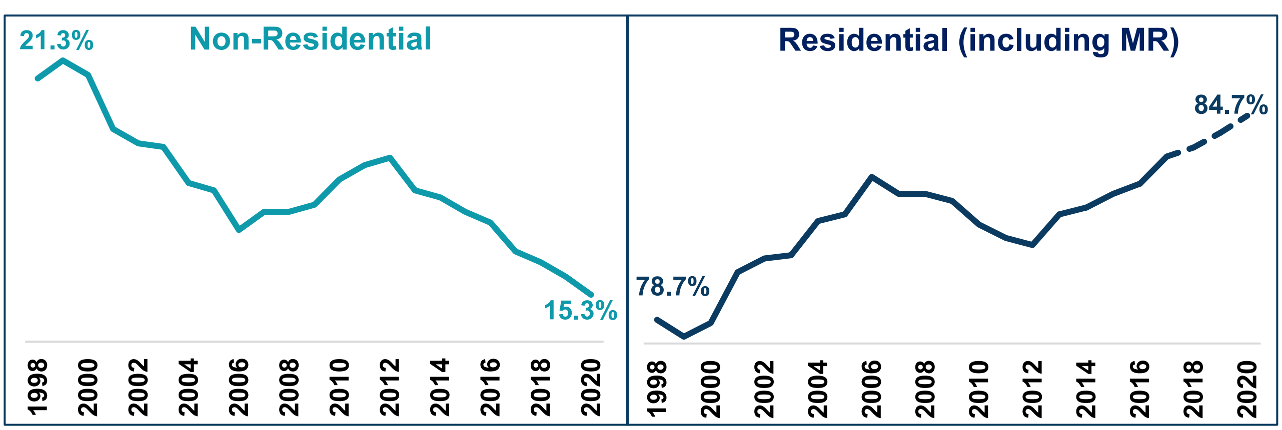
2.3 Continuing Council's direction contained in Report #2018-COW-19, the 0.17 per cent of the 2020 growth attributed to the Seaton community has been deferred until Regional departments begin incurring annual operating expenditures related to the Seaton development.

- 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 the Seaton community and the intense and rapid planned development that will have a measured impact on the Regional expenditures in the near term.

Non-Residential Share of Regional Assessment and Taxation Base

2.4 Figure 1 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 1
Share of Regional Property Taxes 1998-2020

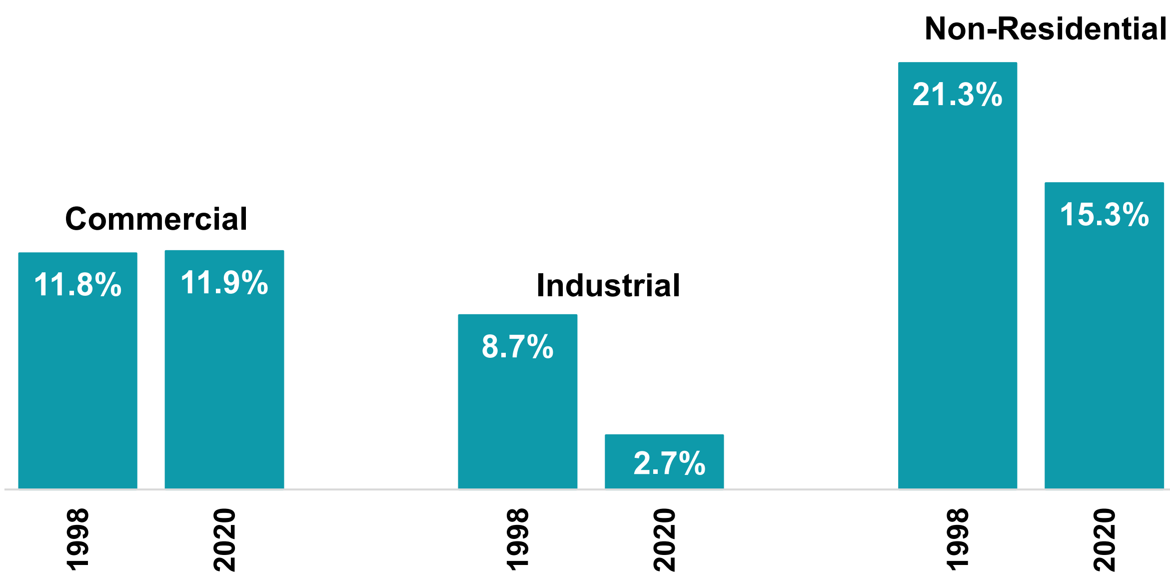


2.5 The only exception to the decline in the non-residential share was between 2006-2012 when non-residential properties experienced a higher valuation increase due to reassessment. A significant number of these reassessment increases were partially reversed through Assessment Review Board (ARB) decisions which contributed to the continued decreasing non-residential share from 2012.

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

Figure 2

Non-Residential Share of Regional Property Taxes 1998-2020

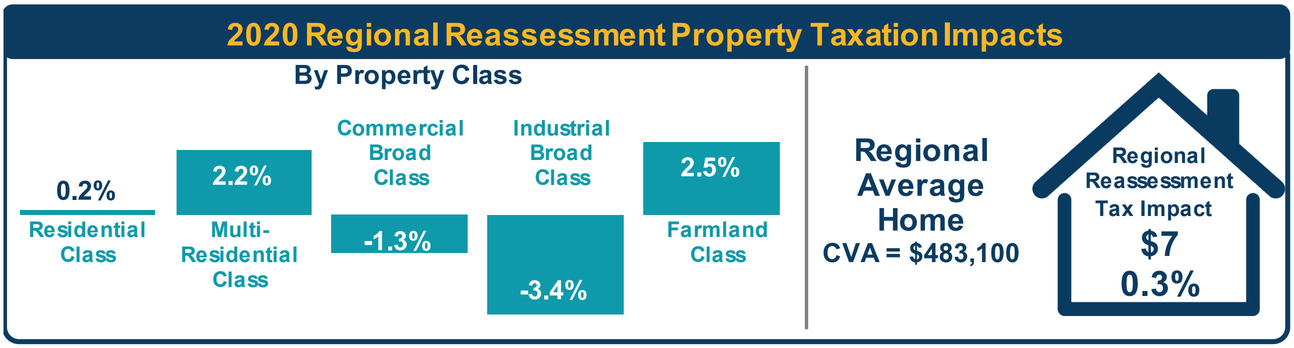


2.7 The decrease in the non-residential share places upward pressure on the residential property tax rate and has a direct impact when comparing relative tax load as discussed in section 7.10 to 7.14 of this report.

2.8 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.

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). 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).

3.2 2020 is the fourth and final year of the four-year phase-in of the 2016 CVA reassessment. MPAC is currently working on the next reassessment with a January 1, 2019 valuation date which will be phased-in over the 2021 to 2024 taxation years.

Reassessment Impacts

3.3 Reassessment does not result in a change in the total municipal taxation. Municipalities do not collect any additional revenues as a result of reassessment valuation increases.

3.4 Rather, the previous year's municipal tax rates are discounted by the *"Taxation Average"* to ensure that the overall reassessment is revenue neutral to municipalities.

- For the taxation year 2020, the Regional Taxation Average is 6.12 per cent and the 2019 Regional property tax rates will be discounted accordingly.

3.5 Reassessment does result in shifts amongst individual taxpayers and, as a result, Regional taxation shifts occur across property classes and across municipalities.

3.6 A property's reassessment impact is calculated as follows:

$$\textbf{Property Reassessment Impact} = \frac{\textbf{Property's CVA Change} - \textbf{Taxation Average}}{\textbf{One} + \textbf{Taxation Average}}$$

3.7 There are different taxation averages for each taxation jurisdiction (region/local municipal and provincial education) as the assessment base for each taxation jurisdiction is different. The reassessment impacts discussed in this report are for the Regional taxation portion of the property tax bill only.

3.8 A property with a CVA increase of 6.12 per cent in 2020 will have no Regional reassessment taxation impact, as the 2020 Regional taxation average is also 6.12 per cent.

3.9 Figure 3 provides a summary of anticipated Regional taxation shifts that will occur between property classes as a result of the 2020 reassessment phase-in.

Figure 3
Estimated Regional Property Taxation Shifts Across Property Tax Classes

Property Class	2020 (fourth/final Year of phase-in)		2017-2020 (full reassessment)	
	$m	%	$m	%
Residential *	1.06	0.2%	6.95	1.4%
Multi-Residential	0.61	2.2%	2.93	12.2%
Commercial Residual	(0.85)	(1.6%)	(5.08)	(8.9%)
Shopping Centre	(0.14)	(0.6%)	(0.59)	(2.5%)
Office Buildings	(0.07)	(4.2%)	(0.41)	(20.5%)
Parking Lots **	-	1.1%	0.01	5.4%
All Commercial	**(1.06)**	**(1.3%)**	**(6.07)**	**(7.3%)**
Industrial Residual	(0.37)	(3.2%)	(2.14)	(16.3%)
Large Industrial	(0.26)	(3.8%)	(1.73)	(21.5%)
All Industrial	**(0.63)**	**(3.4%)**	**(3.87)**	**(18.3%)**
Farmland	0.07	2.5%	0.30	13.1%
Other	(0.05)	(3.1%)	(0.24)	(13.3%)
Total	-	-	-	-

* The residential class contains multiple property types, including ones that are typically not thought of as being 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 2020 Regional reassessment impact is estimated at 0.3 per cent, not the 0.2 per cent estimated for the full residential property tax class shown in the above table.

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

3.10 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	2020 (fourth/final year of phase-in)		2017-2020 (full reassessment)	
	$m	%	$m	%
Pickering	0.19	0.2%	1.05	1.0%
Ajax	0.30	0.3%	1.66	1.5%
Whitby	0.74	0.5%	3.64	2.7%
Oshawa	0.18	0.1%	0.62	0.5%
Clarington	(0.48)	(0.6%)	(2.13)	(2.5%)
Scugog	(0.35)	(1.4%)	(1.76)	(7.1%)
Uxbridge	(0.36)	(1.3%)	(1.99)	(6.8%)
Brock	(0.22)	(2.0%)	(1.09)	(9.5%)
Total	-	-	-	-

Region-Wide Average Home Impact

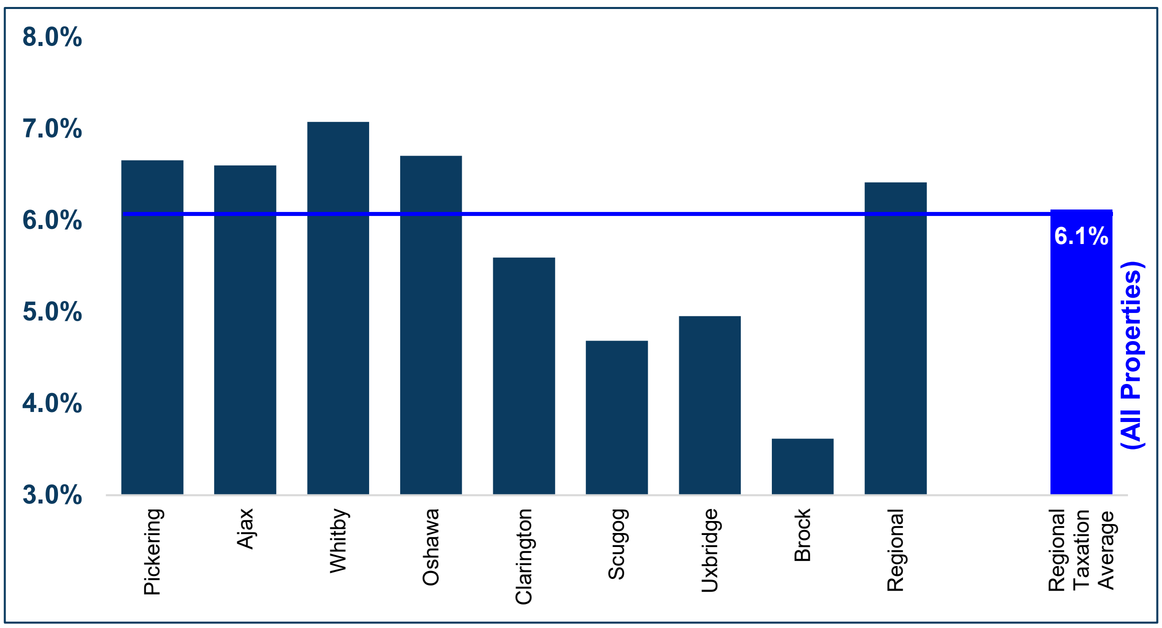
3.11 The average Region-wide single-family detached home will have a CVA of $483,100 in 2020 and an estimated 0.3 per cent, or approximately $7 increase in its Regional property taxes as a result of the reassessment.

3.12 The 2016 reassessment showed a more significant degree of variability and larger redistributions than previous reassessments. This was especially true for the single-family detached home which, on average, will experience a 0.3 per cent increase in 2020 Regional taxes due to reassessment. However, this average does not convey the large range of impacts across geographical areas. For example, the average single-family detached home Regional reassessment tax impact ranges from a high of a 0.9 per cent increase in Whitby to a low of a 2.3 per cent decrease in Brock.

3.13 The variance in Regional reassessment taxation impact are a direct result of the variance in the average CVA change of the local specific average home as shown in the figure 5.

Figure 5

Average Home 2020 CVA Changes due to Reassessment



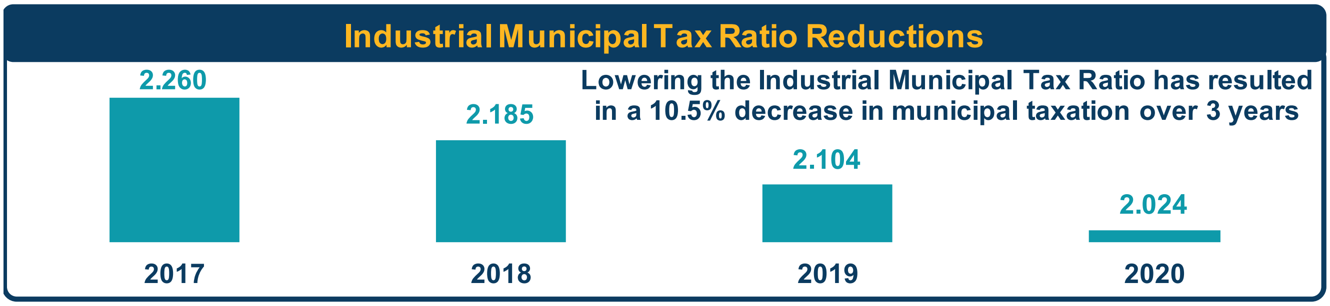
Upcoming MPAC Reassessment

3.14 On April 23, 2019, the Province changed the upcoming reassessment date from January 1, 2020 to January 1, 2019. 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.

3.15 It is anticipated the municipalities will be able to analyze and report on the preliminary results of the reassessment that will impact the taxation years 2021 - 2024 in the late summer or early fall of 2020.

3.16 The resulting CVA changes from the upcoming reassessment for this reduced three-year period will still be phased-in over four tax years (2021-2024).

4. Completion of Vacancy Discount Phase-Out and Municipal Tax Ratio Reduction 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 a three-year (2018-2020) 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 2020 property taxation year, the discount will be eliminated for both the Commercial and Industrial broad property tax classes and the vacant and excess land subclasses within the broad classes will have the same tax rate as the applicable occupied tax class.
- 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. Over the three-year phase-out program, the industrial broad class occupied municipal tax ratio was reduced by 10.5 per cent assisting in the overall competitiveness of the Regional property tax structure.
- Regional Council also approved a two-year phase-out (2018-2019) of the vacant unit property tax rebate program available to eligible units in the broad Commercial and broad Industrial property tax classes. This program was eliminated in 2019.

4.2 Figure 6 on the following page, 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 6

2020 Estimated Impact on Total Municipal Property Taxes
Resulting from the Vacant Policy Changes and Industrial Ratio Reduction

$ millions

	2020 Estimated Municipal Taxes (after ratio adjustment & with no budgetary increase)	2020 Estimated Change in Municipal Taxes	2020 Estimated % Change in Municipal Taxes
Residential	919.43	0.00	0.0%
Multi-Residential	50.98	0.00	0.0%
Commercial (broad)			
Occupied	131.65	0.00	0.0%
Vacant Land	4.43	0.49	11.1%
Excess Land	1.51	0.17	11.1%
Commercial Subtotal	**137.59**	**0.66**	**0.5%**
Industrial (broad)			
Occupied	26.83	(1.02)	(3.8%)
Vacant Land	3.17	0.28	8.9%
Excess Land	0.87	0.08	8.9%
Industrial Subtotal	**30.87**	**(0.66)**	**(2.2%)**
Other	7.31	0.00	0.0%
Total	**1,146.18**	**0.00**	**0.0%**

- Vacant properties and excess land parcels in the broad commercial classes will experience an 11.1 per cent increase in municipal taxes or $0.66 million in 2020.
- Vacant properties and excess land parcels in the broad industrial classes will experience an 8.9 per cent increase in municipal taxes or $0.36 million in 2020.
- All properties in the broad occupied industrial property classes will experience a 3.8 per cent decrease in municipal taxes or $1.02 million in 2020.
- There is no impact on the occupied commercial, residential, multi-residential or farmland property taxes classes as a result of this policy changes.

4.3 Due to the significant uptake in the elimination of the municipal tax rate discounts applied to the vacant and excess land subclasses, the Province recently eliminated the corresponding reduction on the education taxes province-wide (previously the Province simply matched a municipal reduction in the discounts).

5. Municipal Property Tax Reduction for "On Farm" Property Class (Farm Value Added Activities)

5.1 In the 2017 Ontario Economic and Fiscal Review (November, 2017), the Province announced a policy change that provided "*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.*"

5.2 The provincial regulations (Ont. Regulation 361/18) required to implement this new flexibility were filed on May 3, 2018. The Province implemented the full reduction with respect to provincial education taxation in 2018.

5.3 MPAC completed the property inspections and issued the revised assessment notices in the spring of 2019. The 2018 and 2019 Regional property tax strategy reports deferred the decision whether the Region would adopt the municipal discount for these new subclasses until MPAC had identified the eligible properties and an impact analysis could be completed by the Region.

5.4 There are a very limited number of On-Farm class properties in the Region of Durham. MPAC returned seven properties on the 2020 assessment roll that had assessment in the On-Farm subclass.

- All these properties had CVA in the Commercial On-Farm subclass, while one property also had CVA in the Industrial On-Farm subclass.
- The seven properties are located in Clarington (4), Brock (2) and Scugog (1).
- The total assessment in the combined On-Farm classes is less than $315,000.

5.5 Should the optional municipal discounted tax rate be adopted, the estimated taxation shifts from these seven properties is $2,400 for the Regional portion of property taxes and a total of $1,400 for the three lower tier's portions. Relative to the size of the taxation bases, the tax shifts are immaterial and would amount to less than $0.01 for the average Regional home.

5.6 Due to the small number of qualifying properties in Durham Region, the limited incentive nature in this program and the local municipal administrative burden associated with adopting the optional municipal tax rate discount, there is little justification to institute the municipal portion of this program.

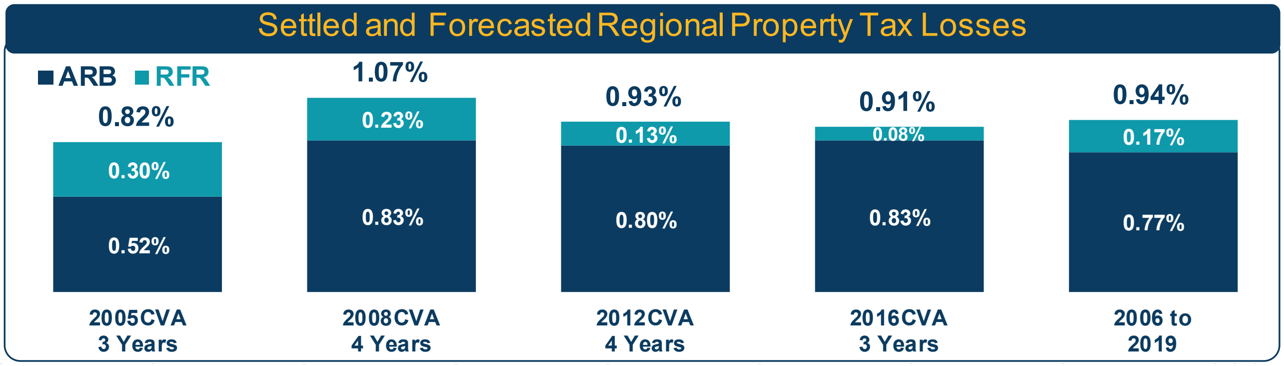
5.7 It is possible in the future that the Province may change the parameters of this program. However, it is not clear that municipalities will have the opportunity to re-evaluate their participation in an expanded program at that time.

5.8 The program parameters put in place by the Province have the potential to create an inequity amongst similar properties. For example, a property valued at $1,000,100 CVA is not eligible for this reduction, while one valued at $999,900 may be.

5.9 The abrupt application of this threshold or the "cusp" issue make it difficult to justify municipal involvement in this program as the Region of Durham attempts, as much as possible, to treat similar properties in a similar manner.

5.10 For these reasons, it is recommended that the Region of Durham not adopt the municipal property tax rate reduction option for the Commercial and Industrial On-Farm subclasses at this time. Regional staff discussed this recommendation with the Area Treasurers in 2019 who raised no objections.

6. Assessment at Risk Update



Based on medium risk scenario.

Assessment Disputes

6.1 At any given point in time, five to ten per cent of the Region's assessment base can be involved in an assessment or classification dispute. This represents a significant financial risk to the Region and the Area Municipalities.

6.2 More specifically, the dispute process and the resulting assessment settlements, which are 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 more years of municipal taxes that are required to be rebated.
- The most material complaints 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.

6.3 There are two processes by which taxpayers can pursue 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. Through this review, one of the following two outcomes could occur.
    - MPAC may offer to 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, they have 90 days to file an appeal to the Assessment Review Board (ARB).
    - 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. The owner has 90 days to accept the Minutes of Settlement or move on to the next part of the dispute process (ARB appeal).

- The second process is an appeal to the ARB, which is an independent adjudicative body within the Ministry of the Attorney General that decides assessment and 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-type complaints resulting in processes that stretch far beyond the current four-year assessment phase-in period.

6.4 In response to the increased volume of assessment appeals and based on stakeholder feedback, in 2017 and 2019, the ARB initiated processes to modify its Rules of Practice and Procedure with the key objective of more timely appeal resolutions.

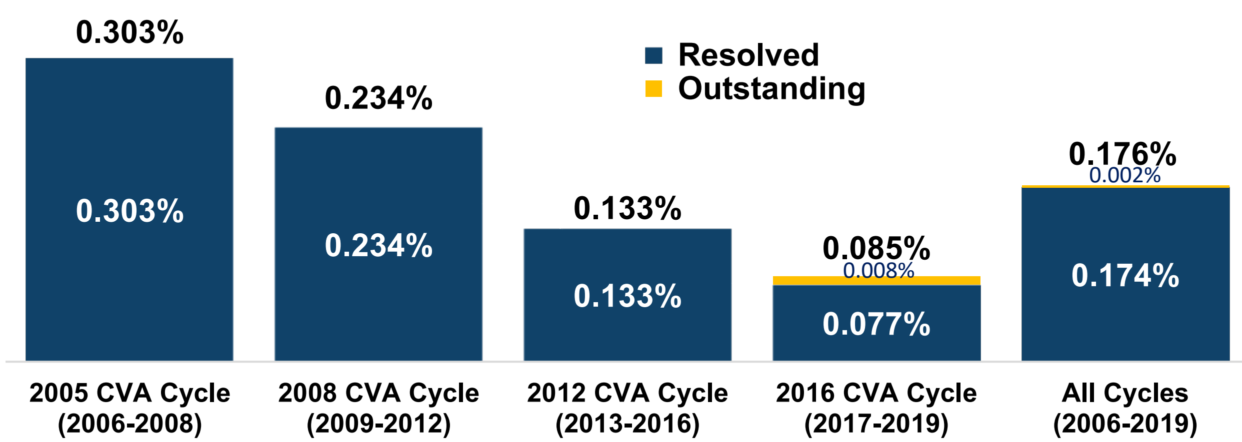
6.5 Although the number of dispute claims are fairly evenly split between the RfR process (52.1 per cent) and the ARB process (47.9 per cent), the total Assessment at Risk in the ARB process is almost eight times (88.4 per cent) that of the RfR process (11.6 per cent). Further, the estimated Regional taxation losses over the period 2006-2019 in the ARB process ($53 million) are almost four times the losses in the RfR process based on historical analysis ($14 million).

6.6 The next section briefly summarizes the RfR (primarily residential) historical disputes, and the remainder of this section focuses on the higher risk ARB (primarily non-residential) disputes.

Request for Reconsideration Process (RfR) Summary

6.7 Figure 7 provides a summary of the estimated Regional taxation losses for the four CVA cycles over the period 2006 to 2019 including both the losses on resolved RfR disputes and the estimated losses on the outstanding RfR disputes based on a medium risk scenario.

Figure 7
Request for Reconsideration (RfR): Estimated 2006-2019
Regional Property Taxation Losses as a Share of Total Regional Taxation



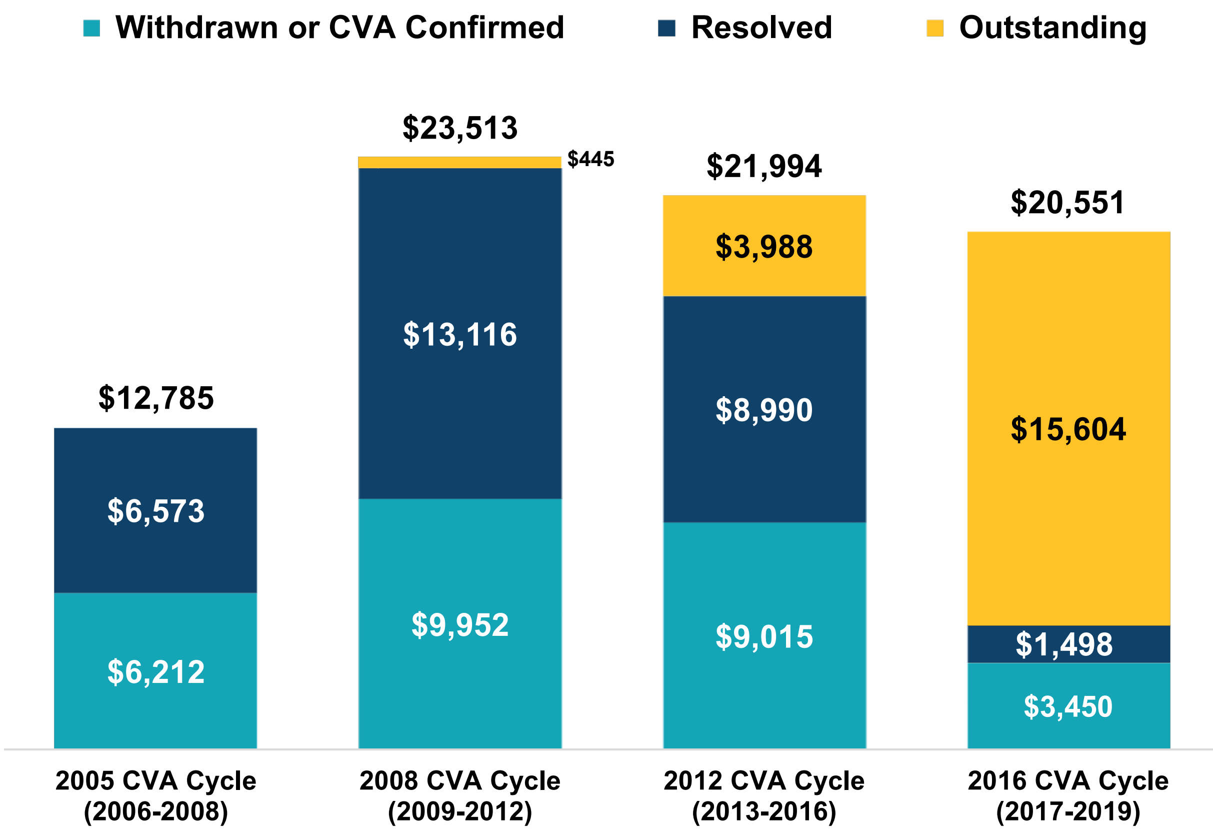
6.8 The Regional taxation loss due to the RfR process has continued to decline since the 2005 CVA cycle as shown above. A review by the Ontario Ombudsman in 2006 resulted in significant changes to the MPAC RfR process which is believed to have significantly contributed to this decline.

Assessment Review Board (ARB) Disputes

6.9 The following analysis covers the last four reassessment cycles (2005, 2008, 2012 and 2016) encompassing taxation years 2006 to 2019.

6.10 Figure 8 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 8
Assessment at Risk in ARB Disputes 2006-2019 ($m)

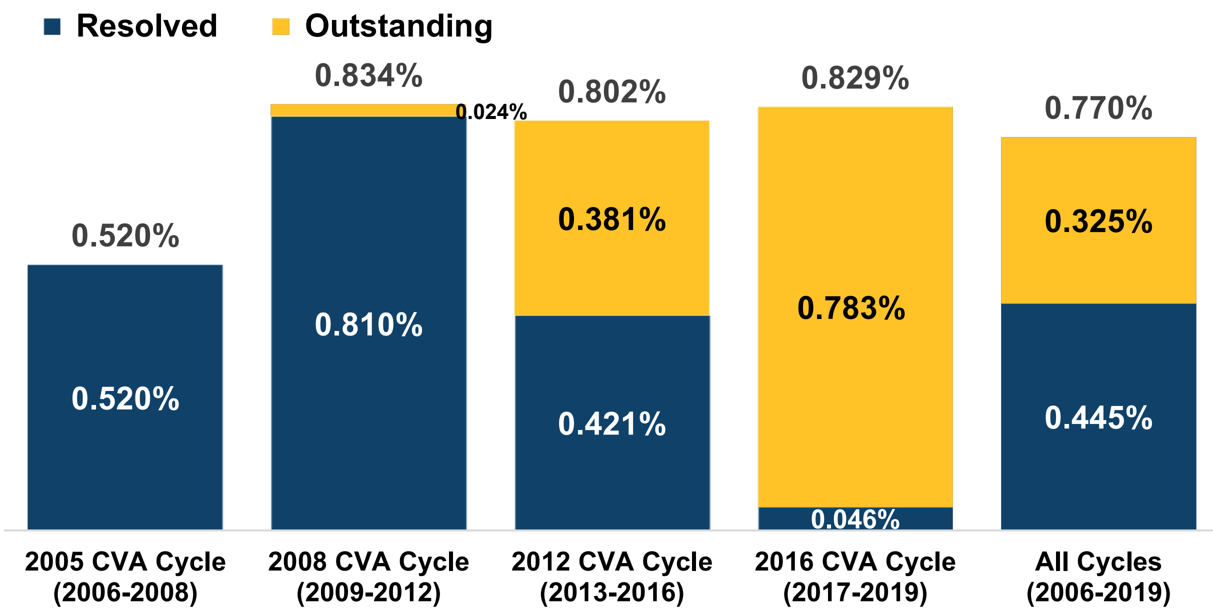


6.11 The backlog of ARB disputes has decreased over the previous two years, however there is still a material backlog in the 2012 CVA cycle. The majority of the ARB appeals for the 2016 CVA cycle are currently in the appeal process and limited settlements have been reached thus far.

6.12 As illustrated in Figure 9, on the following page, the Regional taxation loss due to the ARB settled disputes over the four CVA cycles is $34.2 million. It is estimated that the outstanding ARB disputes will result in additional Regional taxation losses of $24.9 million under the medium risk scenario (high risk scenario estimate is $29.3 million; while low risk scenario estimate is $19.9 million).

Figure 9

ARB Appeals: Estimated 2006-2019: Regional Property Taxation Loss
As a Share of Total Regional Taxation Under a Medium Risk Scenario



6.13 The estimated 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.

6.14 The Region has a property tax appeal reserve to mitigate this risk and to fund abnormally high rebates of previous year's Regional property taxes. The Region has also included an additional provision in its annual budgets since 2016 (the "*Adjustment to Assessment Base*") to mitigate property taxation shifts from the reassessment that may be reversed in the appeal process specific to large properties.

6.15 Region staff, through the review of the assessment at risk, examined the sustainability of the Region's Property Tax Appeal Reserve including the annual contribution to this reserve. Based on this analysis, staff is recommending, as part of the 2020 Property Tax Supported Business Planning and Budget submission, a $195,000 reduction in the annual contribution to the Property Tax Appeal Reserve. This reduction results in an annual contribution of $1.0 million to the reserve in the 2020 Budget.

6.16 Although there is much uncertainty with respect to the outstanding ARB disputes, it is anticipated that the above proposed changes to the current Property Tax Appeals Reserve is appropriate and will assist in mitigating the impact of these taxation losses. Regional staff will continue to monitor the assessment appeals.

Regional Role in Assessment Disputes

6.17 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. The Region has ongoing dialogue with the local municipalities when feasible.

6.18 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.

6.19 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.

General Motors of Canada

6.20 In late December 2019, General Motors Canada (GM) produced the last vehicle from its Oshawa manufacturing facility.

6.21 GM has begun work on constructing an oval test track for electrical and autonomous vehicles at the site which will support GM's Canadian Technical Centre campuses located in Oshawa and Markham. Other activities may have been informally referenced, but to date have not been confirmed.

6.22 The 2020 CVA on the property has not been adjusted by MPAC to reflect the change in use of the property. Further, the property is still subject to appeals for all taxation years subsequent to 2012 (two full assessment cycles).

6.23 Finance staff will continue to work in collaboration with Regional Economic Development, City of Oshawa, and MPAC staff on this important file. As more information becomes available, staff will develop more detailed impact analysis and report back to the Finance and Administration Committee, as appropriate.

7. Inter-Municipal Comparisons

Municipal Tax Ratios

7.1 The calculation of property taxes is based on a property's CVAs as included in the returned assessment roll provided by 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.

7.2 The upper-tier municipality (e.g. Durham 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.

7.3 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 10

<u>2019 Municipal Tax Ratio Comparison</u>

	Multi-Residential		Commercial		Industrial		Farmland	
	Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank
Durham: (Recommended 2020)	**1.8665**	**4**	**1.4500**	**2**	**2.0235**	**4**	**0.2000**	**2**
Toronto	2.3444	9	2.7800	10	2.7632	9	0.2500	5
Peel Region (Mississauga)	1.3461	2	1.5007	4	1.6266	2	0.2500	5
Halton Region	2.0000	7	1.4565	3	2.3599	6	0.2000	2
York Region	1.0000	1	1.2794	1	1.5704	1	0.2500	5
Ottawa *	1.3990	3	1.8576	6	2.4358	7	0.2000	2
Niagara Region	1.9700	6	1.7349	5	2.6300	8	0.2500	5
Waterloo Region	1.9500	5	1.9500	7	1.9500	3	0.2500	5
Hamilton **	2.5671	10	1.9800	8	3.3696	10	0.1767	1
Windsor ***	2.0000	7	2.0187	9	2.3200	5	0.2500	5
Average	1.8443		1.8008		2.3049		0.2277	

Ratios in table have been rounded to three decimal places.
* Ottawa has special classes, the broad class ratios are shown
** Hamilton has a Large Industrial class with a ratio of 3.951
*** Windsor has a Large Industrial class with a ratio of 2.938

7.4 As illustrated in Figure 10, Durham Region has a competitive Multi-Residential ratio of 1.867. Durham's ratio is marginally above the average of the similar municipal comparators. 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.

7.5 Durham Region has a competitive commercial ratio of 1.4500. Durham's ratio is 20 per cent below the average of the comparators (1.8008) in the above table. Durham has the second lowest ratio and is just slightly lower than Halton's ratio of 1.4565. In several instances, municipalities may be raising the municipal tax ratios to partially offset the inter-class shifting that occurs in a reassessment which is permitted by the Province in special circumstances.

7.6 Durham Region's 2020 recommended industrial municipal ratio is 12 per cent below the average of the comparators (2.3049) in the table. Durham is higher than Mississauga, York Region and Waterloo Region. Of note, there are higher ratios for the large industrial class in Hamilton and Windsor which are not considered in this analysis (Durham industrial and large industrial ratios are the same). The phase-out of the vacancy programs resulted in a 10.5 per cent decrease in Durham's Industrial broad class ratio over the past three years.

7.7 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 as a support to the agricultural industry within Durham.

7.8 The remainder of this section provides a summary of the property tax comparisons across comparable municipalities adjusting for the varying market values which then shows the degree to which the market values affect tax rates.

7.9 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, urban/rural compositions, geographical density and size, and financial sustainability).
- As such, these comparisons can be useful in showing the impact the assessment base has 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.

Residential Home Property Tax Comparison

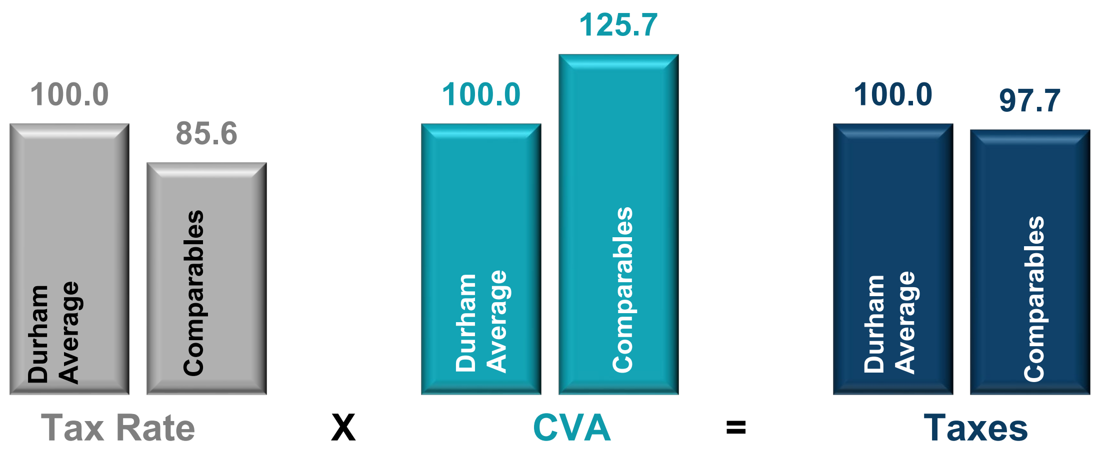
7.10 The following residential home property tax comparison is based on the comparison of 10 "average" homes from across all of Durham's local municipalities. The homes were chosen to reflect, as closely as possible, that municipality's average home in terms of assessment, age, size and building quality. MPAC provided the CVAs for the comparator municipalities on which the following analysis is based.

7.11 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).

7.12 The residential home comparison found that the comparable municipalities' average residential tax rate was 14.4 per cent lower than Durham's. However, assessment values for the comparators were found to be 25.7 per cent higher. The resultant average property tax ($) difference between Durham and the comparator's average is very minor, at approximately 2.3 per cent, as illustrated in Figure 11 on the following page.

Figure 11

Residential Home Sample Average: Tax Rate, Assessment and Taxation



7.13 The majority of the large gap in tax rates can be explained by Durham's much lower market values (assessments). The gap of 14.4 per cent is reduced to 2.3 per cent when Durham's lower assessments are considered.

7.14 As noted in section 2.7, the lower non-residential share in Durham Region puts upwards pressure on the residential to a greater degree than the comparators.

Non-Residential Property Tax Comparisons

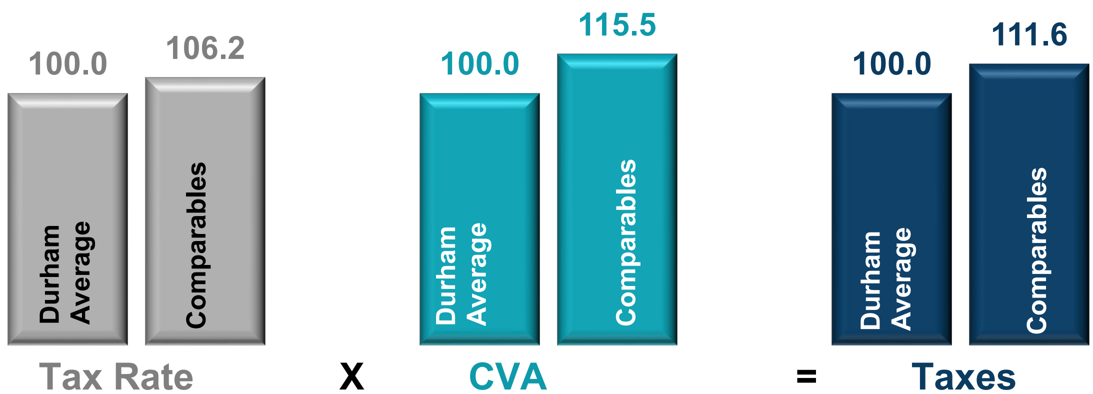
7.15 It is difficult to provide a valid non-residential property tax comparison. The primary issue is the uniqueness of the individual properties and the lack of robust sales transactions on which MPAC can base the assessments.

7.16 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).

7.17 However, the 2019 municipal ratio analysis 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.

7.18 Similar to the residential comparison, a commercial comparison based on 18 properties was conducted. As shown in Figure 12 on the following page, tax rates and assessment vary significantly between municipalities.

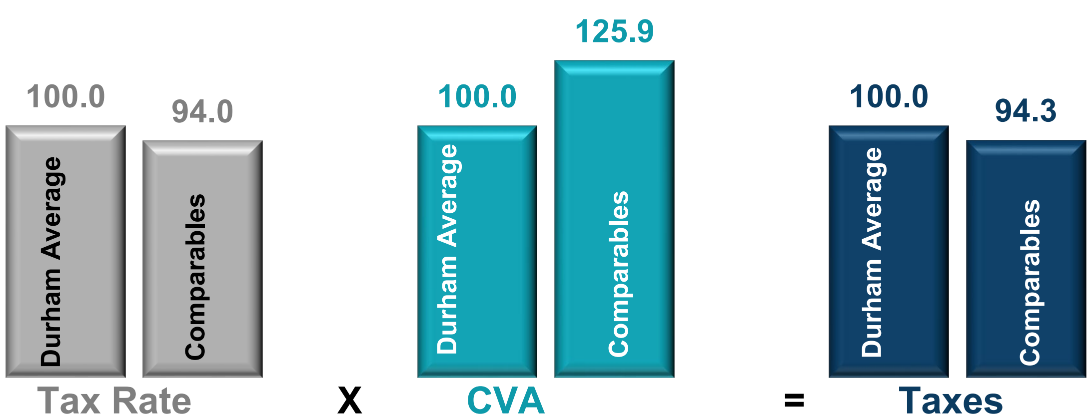
Figure 12
<u>Commercial Sample Average: Tax Rate, Assessment and Taxation</u>



7.19 Although the commercial sample showed a high degree of variability, the average comparator municipal tax rates were 6.2 per cent higher than Durham's, while the average CVA was also higher by 15.5 per cent. The resultant property tax average of the comparators is approximately 11.6 per cent higher than in Durham Region.

7.20 An industrial comparison based on 12 properties was also conducted. Again, as shown in Figure 13, tax rates and assessment vary significantly between municipalities.

Figure 13
<u>Industrial Sample Average: Tax Rate, Assessment and Taxation</u>



7.21 A high degree of variability exists in the sample, however the averages show that the Durham Region tax rate is 6.0 per cent higher than the comparators', while the CVA is 25.9 per cent lower. The resultant property tax average on the comparators is approximately 5.7 per cent lower than Durham Region.

7.22 The relative historical weakness of Durham's industrial property tax competitiveness is the reason for Council's decision to lower the industrial tax ratio approximately 10.5 per cent between 2018 and 2020 as highlighted in section 4.0.

As noted previously, property taxation does not appear to be the significant driver in an industrial business determination of site selection.

8. Heritage Property Tax Rebates

8.1 On November 29, 2019, the Clerk of the Town of Whitby advised the Regional Clerk that the Council of the Town of Whitby adopted the following resolution (#323-19) on November 25, 2019.

"That the Region of Durham be requested to support heritage preservation by adopting a by-law to provide a Regional property tax rebate for designated heritage properties, including those properties within heritage conservation districts.

8.2 At the December 10, 2019, the correspondence was considered by the Regional Finance and Administration Committee and referred to staff for consideration in the 2020 Property Tax Study.

8.3 During the 14 years since heritage property tax rebate programs have existed in certain lower tier municipalities, Regional Finance staff have regularly consulted the Local Area Treasurers with respect to these programs.

8.4 Historically, Regional Council, in 2006 and 2014, has opted not to adopt a matching heritage property tax rebate program based on the principle that, as much as possible, Regional property taxation policy should treat similar properties across the Region in a similar fashion.

8.5 The legislative authority to grant a heritage rebate comes from Section 365.2 (1) of the *Municipal Act, 2001* which empowers a local municipality to implement a program of property tax reductions for eligible heritage properties.

8.6 The upper tier municipality is restricted under Section 365.2 (7) to matching an existing lower tier program and cannot create a rebate program in a local municipality that does not have an existing program.

8.7 Currently, in the Region, there are three local municipal heritage property tax rebate programs with different parameters within each program. Below are the estimated enrollments of the current local programs.

- Ajax 2 properties
- Whitby 30 properties
- Oshawa 8 properties

8.8 For clarity, if Durham Region were to match the existing three local programs, it would be in a position of providing property tax relief (funded by all Regional taxpayers) to heritage properties in three municipalities while not being able to provide similar relief to similar properties in the other five municipalities. Further, the legislation requires the upper tier to "*authorize a similar reduction*", so the Regional rebates in each of the three local tiers could also be different (tied to heritage program parameters tailored to meet local objectives and therefore, having unique features as set by the individual local Councils).

8.9 Therefore, in keeping with the Regional objective of treating similar properties in a similar fashion across its jurisdiction, it is recommended that the Region not match any of the local municipal heritage property tax rebate programs at this time. Staff will continue to monitor the evolution of these local programs.

9. Provincial Education Tax Rates

9.1 On January 20, 2020, the 2020 education tax rates were enshrined in Ontario Regulation 6/20. Figure 14, on the following page, provides the 2020 provincial education tax rates.

2020 Residential Ontario Education Tax Rates

9.2 The residential and multi-residential education property tax rate will be 0.153 per cent in 2020, down from 0.161 per cent in 2019. It is estimated that the Average Region-wide home will experience a 1.1 per cent, or $8 increase in residential education taxes as a result of the 2020 Ontario education property tax rates.

2020 Commercial Education Tax Rates: Durham Region Rates

9.3 The commercial broad class education tax rate (for shopping centres, office buildings, parking lots, on-farm and residual) is set at the provincial target rate of 0.98 per cent in 2020, down from 1.03 in 2019 resulting in an average decrease of approximately 0.7 percent in education taxes for the commercial occupied class.

2020 Industrial Education Tax Rates: Durham Region Rates

9.4 For 2020, the Province lowered the education tax rate for the industrial broad class in Durham Region to the provincial 2020 uniform ceiling rate of 1.25 per cent (down from 1.29 per cent in 2019) resulting in an average decrease of approximately 0.9 per cent in education taxes for the industrial occupied class. New construction in the Industrial broad class receives the lower provincial target property tax rate of 0.98 per cent.

9.5 It is worth noting, that reduction in Provincial education tax rates also reduces the education revenue retained by the local municipalities on eligible payment-in-lieu (PIL) properties.

Figure 14

2020 Ontario Education Property Tax Rates			
	Property Class		**Education Tax Rate**
	Residential		0.00153000
	Multi-Residential		0.00153000
COMMERCIAL	Commercial	Occupied, Vacant & Excess Land	0.00980000
	Shopping Centres	Occupied & Excess Land	0.00980000
	Office Buildings	Occupied & Excess Land	0.00980000
	Parking Lots (Commercial)	Occupied & Excess Land	0.00980000
	New Construction	Occupied, Vacant & Excess Land	0.00980000
INDUSTRIAL	Industrial	Occupied, Vacant & Excess Land	0.01250000
	Large Industrial	Occupied & Excess Land	0.01250000
	New Construction	Occupied, Vacant & Excess Land	0.00980000
	Pipelines		0.00980000
	Farmland		0.00038250
	Commercial On-Farm		0.00245000
	Industrial On-Farm		0.00245000
	Managed Forests		0.00038250
	Farmland Awaiting Development Phase 1		0.00114750

10. Looking Forward

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

- the January 1, 2019 valuation date and 2019 CVA reassessment to be phased-in over the property tax years 2021 to 2024;
- outstanding and future 2016 CVA assessment appeals and related settlements (for tax years 2017 to 2020) at the ARB;
- impacts of General Motors closure of the majority of its auto manufacturing activities and related facilities in Durham Region and potential reuse of the properties; and

10.2 An information report is forthcoming to Regional Council to elaborate on issues surrounding the changing nature of work in the new economy and its potential impacts on property taxation (primarily non-residential) and municipal revenues.

Respectfully submitted,

Original Signed By

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Commissioner of Finance

Recommended for Presentation to Committee

Original Signed By

Elaine C. Baxter-Trahair
Chief Administrative Officer