

2017 PROPERTY TAX RATIO POLICY

PRESENTATION TO GENERAL COMMITTEE

FEBRUARY 21, 2017

AGENDA

- 1) PURPOSE
- 2) EXECUTIVE SUMMARY
- 3) BACKGROUND - TAX RATIOS
- 4) TAX RATIO ANALYSIS 2017 - 2020
- 5) SUMMARY
- 6) RECOMMENDATION
- 7) NEXT STEPS

1. PURPOSE

The purpose is to provide General Committee;

1. Background information related to property tax ratios; and
2. Indication of the relative tax burden resulting from the 2016 reassessment; and
3. Potential mitigating options

Terms and Definitions

- Tax Burden: the property tax revenue collected from each property class
- Tax Shift: the move of a tax burden from one property class to another
- Property Class – includes residential, commercial and industrial classes

2. EXECUTIVE SUMMARY

Property taxes are calculated by multiplying the CVA by the total tax rate (City, Region and Education)

$$\text{Assessed Value (CVA)} \times \text{Total Tax Rate} = \text{Total Taxes}$$

Property taxes are annually impacted by:

1. Budget Impact – City of Markham
2. Budget Impact – Region of York
3. Budget Impact – Province (Education)
4. Reassessment – Property assessments that increase higher than the city-wide average, will realize an increase in their property taxes due to reassessment
5. Tax Ratios – Property reassessments create tax shifts
 - Between property tax classes
 - Between the local municipalities within the Region

2. EXECUTIVE SUMMARY



In 2016, a typical \$600,000 home would have paid **\$4,697** in property taxes

Region's Proposed Method

| | 2016 Property Taxes | 2017 Tax Increase (Budget Related) | 2017 Tax Increase (Tax Shifting) | 2017 Property Taxes |
|-----------------------|---------------------|------------------------------------|----------------------------------|---------------------|
| Markham | \$1,186 | \$41 | \$15 | \$1,242 |
| Region | \$2,383 | \$68 | \$53 | \$2,504 |
| Education | \$1,128 | - | - | \$1,128 |
| Total Tax Levy | \$4,697 | \$109 | \$68 | \$4,874 |

Markham's 3.46% tax increase will cost an average Markham home \$41 in 2017, therefore...

A \$68 INCREASE IS EQUIVALENT TO AN ADDITIONAL 5.7% TAX INCREASE ON THE CITY PORTION OF THE TAX BILL IN 2017 (OR A 17.6% TOTAL TAX INCREASE OVER THE NEXT FOUR YEARS)

2. EXECUTIVE SUMMARY



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| | 2016 Property Taxes | 2017 Tax Increase (Budget Related) | 2017 Tax Increase (Tax Shifting) | 2017 Property Taxes |
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| Markham | \$1,186 | \$41 | \$3 | \$1,230 |
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| Education | \$1,128 | - | - | \$1,128 |
| Total Tax Levy | \$4,697 | \$109 | \$31 | \$4,837 |

Markham's 3.46% tax increase will cost an average Markham home \$41 in 2017, therefore...

A \$31 INCREASE IS EQUIVALENT TO AN ADDITIONAL 2.6% TAX INCREASE ON THE CITY PORTION OF THE TAX BILL IN 2017 (OR A 8.0% TOTAL TAX INCREASE OVER THE NEXT FOUR YEARS)

2. EXECUTIVE SUMMARY

Property tax impact

- An average Markham home with a 2016 CVA of \$600,000 will pay \$566 dollars more because of tax shifting over the next four years
- Markham's proposed policy would reduce the \$566 impact to \$257, for a \$309 savings to an average Markham home
- Would reduce the equivalent tax impact due to tax shifting from 17.6% to 8.0%

Benefits of adjusting the tax ratios

- Adjusting the tax ratios will assist in mitigating the tax shift to the residential class, which represents 85% of the assessment base in Markham
- It will have minimal impact to the commercial and industrial classes from an economic development perspective
- York Region will still maintain the lowest tax ratios of GTA municipalities

2. EXECUTIVE SUMMARY

Markham's recommendation

- Whereas Markham assumes that the property assessment for the residential class will continue to increase at a greater amount than that of the non-residential classes for the foreseeable future
- Therefore, Markham proposes that York Region amend its current Tax Ratio Policy as follows:
 - To maintain a relative tax burden (revenue neutral) between all property classes while ensuring a non-residential competitive advantage based on relative tax ratios amongst GTA municipalities (Peel, Halton, Durham and Toronto)
 - This policy will ensure that the property taxes collected year over year will be the same in each class as long as York Region maintains the lowest tax ratios of GTA municipalities.

3. BACKGROUND – TAX RATIOS

- In 1998, the province implemented property assessment reform known as “Current Value Assessment” CVA. With this reform, the province also introduced tax ratios
 - Tax ratios were implemented to prevent shifts in tax burden between property classes as a result of the assessment reform
- Tax ratios represent how tax rates of property classes compare to the residential tax class.
 - The residential class tax ratio is always equal to **“1”**
- Responsibility for establishing tax ratios rests with the Region of York

How Tax Ratios Work

| | Residential Class | Commercial Class | Industrial Class |
|----------------------------|--------------------------|------------------|------------------|
| Property Value (CVA) | \$100,000 | \$100,000 | \$100,000 |
| Tax Ratio | 1.00 (Legislated) | 1.1172 | 1.3124 |
| Tax Rate (Markham Portion) | 0.1976% | 0.2208% | 0.2593% |
| Total Taxes | \$197.61 | \$220.77 | \$259.35 |

3. BACKGROUND – TAX RATIOS

Provincial Target: “Ranges of Fairness”

- In 1998, the Province also established target ranges or “Ranges of Fairness” for tax ratios, with the objective to achieve a level of fairness between property classes for all jurisdictions in Ontario
 - The “Ranges of Fairness” represents what the Province determines to be a fair level of taxation for the Non-Residential property classes relative to the tax burden on the Residential class
- The following chart illustrates Provincial “Ranges of Fairness”

| Residential | Commercial | Industrial |
|-------------|------------|------------|
| 1 | 0.6 to 1.1 | 0.6 to 1.1 |

3. BACKGROUND – TAX RATIOS

Mitigating tax shifts due to reassessment:

- Provincial legislation governs how municipalities adjust “tax ratios” for the commercial, industrial and multi-residential property classes

Provincial tax ratio adjustment rules

1. Tax ratios should move towards or within the Ranges of Fairness
2. Tax ratios may move away from the Ranges of Fairness, only when the change is to “achieve a Revenue Neutral tax position” in each tax year

Revenue Neutral = the relative tax burden for each property class will be the same after reassessment as it was before the reassessment

3. If the ratios are greater than the “Revenue Neutral” ratios, approval from the Minister of Finance is required

3. BACKGROUND – TAX RATIOS

York Region Policy

Region of York report dated March 20, 2013

- “In recent years, York Region’s position has been to move tax ratios closer to the provincial Ranges of Fairness”
- “Doing so reduces the relative tax burden on the commercial and industrial classes to strengthen the Region’s economic competitiveness”

3. BACKGROUND – TAX RATIOS

YORK REGION'S TAX RATIO HISTORY

| Property Class | 2004 - 2009 Ratio | 2010 Ratio | 2011 Ratio | 2012 Ratio | 2013 - 2016 Ratios | Ranges of Fairness |
|-------------------|-------------------|---------------|---------------|---------------|--------------------|--------------------|
| Residential | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Commercial | 1.2070 | 1.1800 | 1.1431 | 1.1172 | 1.1172 | 0.6 to 1.1 |
| Industrial | 1.3737 | 1.3575 | 1.3305 | 1.3124 | 1.3124 | 0.6 to 1.1 |

YORK REGION'S COMMERCIAL AND INDUSTRIAL TAX RATIOS HAVE BEEN DECLINING SINCE 2009

3. BACKGROUND – TAX RATIOS

- When a reassessment occurs, the following types of property tax shifts will likely occur:
 1. Between property tax classes
 - When a property class experiences a reassessment increase more than another property class, a greater burden of taxes will shift from one class to another.
 - Residential class will pay more taxes as a result of larger CVA increases
 2. Between the local municipalities within the Region
 - When a municipality within the Region has a reassessment increase in a property class greater than in other municipalities.
 - Richmond Hill's and Markham's residential class has increased more than other municipalities within York Region

MARKHAM'S RESIDENTIAL CLASS WILL PAY PROPORTIONATELY MORE THAN OTHER MUNICIPALITIES DUE TO TAX SHIFTING

3. BACKGROUND – TAX RATIOS

Tax Ratio Adjustment Options

- Option 1: Leave tax ratios Unchanged;
 - leaving the tax ratios the same as the previous year will result in tax shifts to other property classes due to reassessment
- Option 2: Adjust tax ratios to a “Revenue Neutral” tax position
 - Revenue Neutral = the relative tax burden for each property class will be the same after reassessment as it was before reassessment

ADJUSTING TAX RATIOS MITIGATES TAX SHIFTS RESULTING FROM REASSESSMENT

3. BACKGROUND – TAX RATIOS

Option 1: Example of leaving tax ratios **“Unchanged”** – (for illustration purposes only)

- if a reassessment results in a larger increase to the residential class than the commercial class
 - this option will result in an increased tax burden to the residential class and a decrease to the non-residential class.

| TAX RATIO - “UNCHANGED “ | | | | |
|---------------------------------|-----------------|-------------------|-----------------|------------------|
| 2016 | Residential | Non - Residential | Total | Tax Ratio |
| CVA | \$5,000,000 | \$1,000,000 | | 1.1172 |
| Tax Rate | 0.80% | 0.89% | | |
| Taxes Collected | \$40,000 | \$8,938 | \$48,938 | |
| 2016 Reassessment Change | 47% | 18% | | |
| 2017 | Residential | Non - Residential | Total | Tax Ratio |
| CVA | \$7,350,000 | \$1,180,000 | | 1.1172 |
| Tax Rate | 0.56% | 0.63% | | |
| Taxes Collected | \$41,495 | \$7,443 | \$48,938 | |
| IMPACT | \$1,495 | (\$1,495) | \$0 | No change |

RESULTS IN A TAX INCREASE TO THE RESIDENTIAL CLASS

3. BACKGROUND – TAX RATIOS

Option 2: Example of adjusting tax ratios to “Revenue Neutral” (for illustration purposes only)

- If a reassessment results in larger increase to the residential class than the commercial class
 - This option will mitigate the tax shift on the residential class

| TAX RATIO – “REVENUE NEUTRAL” | | | | |
|---------------------------------|-----------------|-------------------|-----------------|-----------------------|
| 2016 | Residential | Non - Residential | Total | Tax Ratio |
| CVA | \$5,000,000 | \$1,000,000 | | 1.1172 |
| Tax Rate | 0.80% | 0.89% | | |
| Taxes Collected | \$40,000 | \$8,938 | \$48,938 | |
| 2016 Reassessment Change | 47% | 18% | | |
| 2017 | Residential | Non - Residential | Total | Tax Ratio |
| CVA | \$7,350,000 | \$1,180,000 | | 1.3918 |
| Tax Rate | 0.54% | 0.76% | | |
| Taxes Collected | \$40,000 | \$8,938 | \$48,938 | |
| IMPACT | \$0 | \$0 | \$0 | Ratio Increase |

RESULTS IN THE SAME TAX BURDEN AFTER REASSESSMENT AS IT WAS BEFORE

3. BACKGROUND – TAX RATIOS

- In previous years, York Region has mitigated tax shifts resulting from reassessments by adjusting the tax ratios

2003 - (Taxation Years 2004 - 2009)

- Residential class increased **15%** , Business classes increased **3%**
- ✓ Tax ratios were set to “Revenue Neutral”

Result: Residential class tax shift increase was mitigated

2008 - (Taxation Years 2010 – 2012)

- Residential class increased **19%**, Business classes increased **31%**
- ✓ Tax ratios were set to “Revenue Neutral”

Result: Tax shift onto the residential class

2013 - (Taxation Years 2013 – 2016)

- Residential class increased **27%**, Business classes increased **15%**
- ✓ Tax ratios were set to “Unchanged” - same as previous year

Result: Tax shift onto the residential class

4. TAX RATIO ANALYSIS 2017 - 2020

2016 reassessment results by municipality

| Municipality | Residential (% Change) | Commercial (% Change) | Total (% Change) |
|------------------------|---------------------------|--------------------------|---------------------|
| Aurora | 41.2% | 17.9% | 38.6% |
| East Gwillimbury | 41.8% | 21.7% | 39.9% |
| Georgina | 35.2% | 21.2% | 34.7% |
| King | 29.4% | 48.2% | 31.1% |
| Markham | 46.7% | 17.9% | 41.8% |
| Newmarket | 39.7% | 27.5% | 37.5% |
| Richmond Hill | 50.1% | 20.3% | 46.5% |
| Vaughan | 35.6% | 18.9% | 31.4% |
| Whitchurch-Stouffville | 40.9% | 23.5% | 39.0% |
| York Region | 42.2% | 19.6% | 38.3% |

- The 2016 reassessment resulted in significant property assessment increases
 - Residential class 42.2% (Region-wide), Commercial class of 19.6% (Region-wide)

Note: all reassessment and tax shift data included within section 5 has been provided by the Region of York.

4. TAX RATIO ANALYSIS 2017 - 2020

York Region preliminary tax ratio analysis

- A tax ratio analysis was completed on the preliminary 2016 reassessment data by Regional Staff
 - *The analysis assumed leaving the tax ratios (1) unchanged, (2) revenue neutral and (3) moving closer to the ranges of fairness*

Leaving the Tax Ratios “Unchanged” indicate;

- Tax shift off of the commercial class and to the residential class
 - ❖ Increases the residential tax burden in five (5) out of the nine (9) lower-tier municipalities in the Region
- Residential: will result in a property tax increase to the majority homes with high assessment values and a tax decrease to homes with lower CVA's, such as residential condominiums.
- Commercial: will result in a tax shift away from large retail and office properties, and to small commercial properties, such as commercial condominiums

4. TAX RATIO ANALYSIS 2017 - 2020

Tax Shift: “Unchanged” Ratios

| MUNICIPALITY Tax Shift (\$000) | RESIDENTIAL | COMMERCIAL | TOTAL |
|-----------------------------------|---------------|-----------------|--------------|
| Aurora | 471 | (718) | (557) |
| East Gwillimbury | (409) | (177) | (657) |
| Georgina | (209) | (146) | (453) |
| King | (1,609) | 40 | (1,559) |
| Markham | 15,615 | (5,461) | 7,959 |
| Newmarket | 1,265 | (431) | 124 |
| Richmond Hill | 13,592 | (1,935) | 10,864 |
| Vaughan | (3,031) | (7,477) | (16,114) |
| Whitchurch-Stouffville | 863 | (237) | 391 |
| York Region | 26,550 | (16,542) | 0 |

- Leaving the Tax Ratios “Unchanged”;
 - Results in a tax shift to the residential class for Markham and Richmond Hill
 - Tax shift off of King where house values have increased less than the average
 - Shift off of Vaughan due the increase of industrial and commercial properties

4. TAX RATIO ANALYSIS 2017 - 2020

Tax shift: "Revenue Neutral" Ratios

| MUNICIPALITY Tax Shift (\$000) | RESIDENTIAL | COMMERCIAL | TOTAL |
|-----------------------------------|--------------|--------------|--------------|
| Aurora | (791) | (17) | (884) |
| East Gwillimbury | (907) | 65 | (851) |
| Georgina | (888) | 64 | (901) |
| King | (2,346) | 193 | (2,069) |
| Markham | 8,018 | 178 | 7,226 |
| Newmarket | (201) | 719 | 225 |
| Richmond Hill | 8,460 | 471 | 8,649 |
| Vaughan | (10,230) | (47) | (11,299) |
| Whitchurch-Stouffville | (174) | 137 | (97) |
| York Region | 941 | 1,762 | 0 |

- Adjusting the tax ratios to revenue neutral reduces the tax shift to the residential class by \$7.6M
- Revenue neutral ratios results in a nominal tax impact to the commercial class

4. TAX RATIO ANALYSIS 2017 - 2020

Comparison of the 2016 property tax ratios

| PROPERTY CLASS | YORK REGION | HALTON REGION | DURHAM REGION | PEEL REGION | | | CITY OF TORONTO |
|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| | | | | Mississauga | Brampton | Caledon | |
| Commercial | 1.1172 | 1.4565 | 1.4500 | 1.4098 | 1.2971 | 1.3124 | 2.9044 |
| % higher than York | | 30.4% | 29.8% | 26.2% | 16.1% | 17.5% | 160.0% |

- York Region maintains the lowest tax ratios in the GTA
- As such, there is an opportunity to adjust the tax ratios which will reduce the tax shift on the residential property class, while still maintaining the Region's economic competitiveness for the commercial and industrial classes

4. TAX RATIO ANALYSIS 2017 - 2020

2017 property assessment

(Proportion of Residential / Non-Residential Taxable Assessment)

| Municipality | Residential | Non- Residential |
|------------------------|---------------|------------------|
| King | 95.63% | 4.37% |
| Georgina | 94.18% | 5.82% |
| Whitchurch-Stouffville | 91.65% | 8.35% |
| East Gwillimbury | 90.77% | 9.23% |
| Richmond Hill | 90.15% | 9.85% |
| Aurora | 88.29% | 11.71% |
| Markham | 85.43% | 14.57% |
| Newmarket | 85.29% | 14.71% |
| Vaughan | 78.55% | 21.45% |
| Regional Total | 85.14% | 14.86% |

4. TAX RATIO ANALYSIS 2017 - 2020



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Region's Proposed Method

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Benefits of adjusting the tax ratios

- Adjusting the tax ratios will assist in mitigating the tax shift to the residential class, which represents 85% of the assessment base in Markham
- It will have minimal impact to the commercial and industrial classes from an economic development perspective
- York Region will still maintain the lowest tax ratios of GTA municipalities

5. SUMMARY

- The 2016 reassessment will result in tax shifts
 - Shift to the residential class from commercial and industrial classes
 - ❖ Impacts the residential tax burden for five (5) out of the nine (9) municipalities in York Region
 - ❖ Significant tax shifts to the residential class in Markham and Richmond Hill
- Adjusting tax ratios mitigates tax shifts
 - Adjusting tax ratios to “Revenue Neutral” will mitigate the tax shift on the residential class
 - ✓ Results in the relative tax burden for each property class being the same after reassessment as it was before reassessment
- York Region maintains the lowest tax ratios in the GTA
 - Staff recommend that the Region amend its current tax ratio policy; and
 - ✓ Adopt a Revenue Neutral approach to ensure the relative tax burden for each property class is the same after reassessment as it was before; and
 - ✓ The revised policy will still maintain the Region’s economic competitiveness for the commercial and industrial classes

6. RECOMMENDATION

Whereas Markham assumes that the property assessment for the residential class will continue to increase at a greater amount than that of the non-residential classes for the foreseeable future; and,

Whereas Markham proposes that York Region amend its current Tax Ratio Policy as follows:

- 1) To maintain a relative tax burden (revenue neutral) between all property classes while ensuring a non-residential competitive advantage based on relative tax ratios amongst GTA municipalities (Peel, Halton, Durham and Toronto)
- 2) This policy will ensure that the property taxes collected year over year will be the same in each class as long as York Region maintains the lowest tax ratios of GTA municipalities.

6. RECOMMENDATION

Now therefore be it resolved that:

- 1) The presentation entitled "Property Tax Ratios" be received; and,
- 2) Council support setting the Region-wide tax ratios to "revenue neutral" such that the relative tax burden of each property class in York Region is the same after the reassessment as it was before the reassessment; and,
- 3) This resolution be forwarded to the Region of York; and further,
- 4) Staff be authorized to and directed to do all things necessary to give effect to this resolution .

7. NEXT STEPS

- City of Markham next steps
 - Council support setting the tax ratios to “Revenue Neutral” and that a copy of the resolution be sent to the Region of York
- York Region next steps
 - Committee of the Whole meeting on March 9th will include the 2017 – 2020 tax ratio policy and 2017 tax rate reports
 - Regional Council meeting on March 23rd