MARKHAM

Report to: General Committee

Report Date: March 13, 2013

SUBJECT: Property Tax Ratios

PREPARED BY: Paul Wealleans, Director, Taxation

RECOMMENDATIONS:

THAT the report entitled "Property Tax Ratios" be received;

AND THAT Council support setting tax ratios in 2013 to achieve Region-wide "revenue neutrality" such that the relative tax burden of each property class is the same after the reassessment as it was before the reassessment;

AND THAT this resolution be forwarded to the Region of York;

AND THAT staff be authorized to and directed to do all things necessary to give effect to this resolution.

PURPOSE:

The purpose of this report is to inform Council of the requirement to set 2013 tax ratios in York Region. The tax impact is related solely to the Region portion of the tax bill.

BACKGROUND:

Tax ratios represent the amount of taxation borne by each property class in relation to the residential class. Each property class has a specific ratio. The ratio for the residential class is always 1.0. In 2012, the commercial class ratio was 1.172 which means the commercial tax rate is 1.172 times the residential tax rate. The tax ratios must be set before tax rates can be struck.

The chart below shows the tax ratios for the Region of York from 2004 to 2012. It also shows the Ranges of Fairness that were established by the Provincial Government. Unless Provincial approval is obtained, municipalities may only move their ratios closer to the Ranges of Fairness with one exception – to achieve "revenue neutrality" which is explained later in this report. The ratios for the Region of York are closer to the ranges than any of the other Greater Toronto Area (GTA) regions.

Region's Tax Ratios Since 2004

Property Class	2004 - 2009 Ratios	2010 Ratios	2011 Ratios	2012 Ratios	Ranges of Fairness
Residential	1	1	1	1	1
Multi-Residential	1	1	1	1	1.0 to 1.1
Commercial	1.207	1.18	1.1431	1.1172	0.6 to 1.1
Industrial	1.3737	1.3575	1.3305	1.3124	0.6 to 1.1
Pipelines	0.919	0.919	0.919	0.919	0.6 to 0.7
Farmland	0.25	0.25	0.25	0.25	0.25
Managed Forests	0.25	0.25	0.25	0.25	0.25

The Region of York must pass a bylaw annually to set the tax ratios for the Region and the lower tier municipalities. The ratios are the same for both. Although the responsibility for setting tax ratios rests with upper tier governments, the Region does consult with the lower tiers prior to setting them. Tax ratios are always reviewed in the first year of a new reassessment cycle to determine the impact of tax shifts caused by the reassessment. 2013 is the first year of the 4 year cycle (2013 to 2016). The Region held meetings on March 8th and March 13th with staff from the lower tier municipalities (including Markham) and presented the Region's preferred option for tax ratios for 2013. This report addresses the options.

OPTIONS/ DISCUSSION:

The Region of York has adopted a practice of adjusting tax ratios to achieve "revenue neutrality" so that the relative tax burdens of each class was the same after reassessment as before. A report from Regional Finance staff to Regional Council on December 16, 2009 stated this principle. The excerpt reads:

1. Assessment is calculated differently in the residential and business classes. While reassessment may more accurately reflect the relative value of properties within a class, it does not reflect differences in the classes, particularly in the cost of delivering services;
2. Reassessment looks at a snapshot of the value of properties at a point in time. Major economic events can temporarily increases or decreases the value of business properties relative to the residential class;
3. Historically, the Region has adopted tax ratios that result in revenue neutrality such as in 2004 when the value of business properties had declined relative to the residential class.

<u>History: 2004 to 2009</u>

With each reassessment year, there are shifts in assessment in individual property classes due to value changes. These assessment shifts also cause a shift in the tax burdens for each class. In both 2004 and 2009, the practice was to change the tax ratios so that the result was "revenue neutral" meaning that the burden for each property class remained the same after the reassessment as before.

In 2004, the Region-wide residential class increased by 15% while the business classes increased by about 3% causing a tax shift to the residential class. City Council recommended "revenue neutral" ratios and the Region's ratios were set to decrease the shift to residential and back to the business classes.

In 2009, the reassessment caused 31% increase to the Region-wide business class and a 19% increase to the residential class causing a tax shift to the business classes. Again, the tax ratios were set to achieve "revenue neutrality" so that the relative tax burdens of each class was the same after reassessment as before. The business class ratios were reduced such that the tax shift to the business classes was mitigated.

Current Situation (2013 to 2016)

The current reassessment cycle for the 2013 to 2016 tax years resulted in almost the exact opposite situation to 2009. The Region-wide increase in the residential class increased by 27% while the business classes have increased by 15%. For the City of Markham, the residential class increased 31.7% and the business classes increased by about 16%.

The Region has put forth two options to address the reassessment:

Option 1 is the status quo which means the tax ratios would stay the same as they are currently. This option holds the tax ratios constant for 2013 to 2016 and would create a change in the relative tax burdens of $13 million to the residential class and away from the business classes. This represents a cumulative change over the four years of $40 or $10 per year for an average residential home (Region-wide average). Of the $13 million increase, $2.3 million will be borne by owners of residential vacant lands. Holding the tax ratios constant maintains York Region's competiveness relative to other GTA regions.

The impact is a tax shift to the residential class of $13 million of which Markham residents would bear $10 million. The reason there is a much higher impact to Markham is because of the greater difference between the increase in residential class values compared to the business class values. The average increase to a residential property would be $28 in 2013. This tax increase is in addition to the 1.50% budget increase by the City, 1.94% budgetary increase by the Region as well as any increase in Current Value Assessment (CVA) above the residential class average of 7.86%.

Option 2 is the practice that has been adopted by the Region since 2004 in which the tax ratios are adjusted to achieve "revenue neutrality". While this option will not eliminate the tax shift to the residential class, it will mitigate it. It will also shift some taxes back to the business classes. The impact is a tax shift to the residential class of $10 million of which Markham residents would bear $6 million which is $4 million less than under Option 1. The average increase to a residential property would be $21 in 2013.

The following table shows the 2013 average tax impact on various property types in Markham:

2013 Average Tax Impact on Markham Property Owners – By Type		
	Option 1	Option 2
Single family detached	$38	$31
Semi-detached	$24	$19
Townhouse	$22	$17
Average Residential	$28	$21
Business Class Types		
Commercial Condominium	-$47	-$70
Big Box	-$2,857	$249
Shopping Centre	-$961	-$236
Average Commercial	-$195	-$20
Average Industrial	-$50	$12

The difference between the two options is that under Option 2, the tax ratios for the business classes would have to be moved away from the Ranges of Fairness. Current legislation does allow this movement as long as the ratio change results in "revenue neutrality" which is what Option 2 achieves. The restriction is that a tax ratio can only be adopted for the 2013 year. It is not possible to adopt a "revenue neutral" tax ratio that would apply to all four years of the reassessment cycle (2013 to 2016) under current Provincial legislation in the time available. A regulation to do this must be passed in the Provincial Legislature and there is no time to have it adopted prior to the issuing of final tax bills. The Region will have to calculate a "revenue neutral" tax ratio for each year between 2014 and 2016.

Region of York staff prefer Option 1 in which the tax ratios are held constant.

Markham staff support the option that achieves "revenue neutrality" for the following reasons: it mitigates the tax increase to the residential class; it is not felt that the shift to the business class is significant enough to warrant no change; and, "revenue neutrality" has been the past practice in York Region in setting tax ratios.

It is recommended that Council support setting tax ratios in 2013 to achieve Region-wide "revenue neutrality" such that the relative tax burden of each property class is the same after the reassessment as it was before the reassessment.

FINANCIAL CONSIDERATIONS:
Not applicable.

HUMAN RESOURCES CONSIDERATIONS:
Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:
Not applicable.

BUSINESS UNITS CONSULTED AND AFFECTED:
None.

RECOMMENDED BY:

X

Joel Lustig
Treasurer

X

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS: None