Date 9 April 2010

City Council
Committee Report

To: Mayor Compton & Members of Council

Fr: Karen Brown

Re: Tax Ratios and Rates

Recommendation:
That Council hereby provides three readings to the following By-laws:

A By-law to set tax ratios and to set tax rate reductions for prescribed property classes and subclasses for municipal purposes for the year 2010; and

A By-law to adopt the estimates for all sums required for the year, to establish rates to be levied for same and to provide for penalty and interest in default of payment thereof for 2010; and further

That in accordance with Notice By-law #144-2007, public notice is hereby given of Council's intention to set tax ratios and tax rates for 2010 at its April 19 meeting.

Background:
Historically, the City was required under the Municipal Act to have its tax ratios set by April 30th of the year to which they relate. For 2010, this has changed. The new requirement is that the tax ratios must be passed within the year to which they apply.

Generally, the City levies its final taxes in early June, making the May Council meeting the last meeting, without calling a special Council meeting, at which the City can set their tax rates in order to ensure the final levy is done on schedule. At this time, the City believes it has all the information it will receive prior to the May 2010 Council meeting that could impact the tax rates, and is therefore bringing forward the proposed 2010 tax ratios and rates for approval.

Budget Updates:
Kenora's 2010 Operating Budget and Five Year Capital Plan were passed at a special meeting of Council on February 8, 2010. At the time, it was recognized

that the City had yet to receive final budget requests from two of the external organizations, namely the District of Kenora Home for the Aged (Pinecrest) and the Kenora District Services Board (KDSB). In addition, the City had yet to receive the education tax rates, which can also affect the municipal tax levy through the collection of payments in lieu. As such, while the budgets were being passed, the decision was made to hold the tax rates and ratios until such time as the final information was received. At that time, Council would review the difference to the budget and determine if a budget amendment would be done with a corresponding adjustment to the draft tax rates.

Since that time, the City has received the budget from Pinecrest. The final allocation to the City of Kenora on the request is $1,363,693.94. The approved budget allocation was $1,385,983, resulting in a net savings of $22,289.06.

In addition, the Province has now passed and posted the education tax rates. The rates have dropped considerably, with 2010 education tax rate reductions ranging from 4.37% to 36.44% in comparison with the 2009 tax rate. While this is good news overall for the City and our ratepayers, unfortunately, the net impact to the City's municipal tax levy was a loss of $50,937 in municipal tax room related to these rate reductions.

At this time, the KDSB budget is still being amended by staff based on Board direction. Following City budget approval, the City received an amended budget from the KDSB. This budget reflected a net increase in City costs of $15,014, calculated by applying the 2009 amended sharing ratios to the 2010 amended budget. This budget was defeated, and the KDSB administration was directed to reduce the budget. The City has been notified by the KDSB administration that the next budget meeting will not be held until May 13th. Unfortunately, if the City waits to receive that budget information, it will likely result in a delay in the final tax levy. Since the KDSB administration has been directed to bring back a reduction in the budget, it is recommended that the amounts contained in the original budget be used to calculate the final tax rates.

A budget amendment to reflect the reduction related to the Pinecrest levy will be brought forward to the May 2010 Council meeting for approval. For information purposes, a copy of the amended General Purpose Tax Levy requirement, as well as a copy of an analysis showing the change in the property tax rates from 2009 to 2010 has been attached for your reference.

Tax Ratio Background:

Before reviewing options related to tax ratios, it is important to have an understanding of tax ratios. For those of you who would like some additional information on tax ratios, there is an explanation attached to this report.

Revenue Neutral Tax Ratios

In any given year, the City has a number of tax policy decisions available. The year 2010 represents the second year of the phase in resulting from the new assessment from 2009. When a reassessment or phase in of reassessment occurs, it may (and generally does) cause shifting in the tax burden between property classes. This happens as the assessment generally changes in each class differently than it does in the others. Traditionally, for Kenora, the trend has been a shifting in tax burden to the residential class. This year is no exception. For 2010, impacts to the total residential levy continue to be higher than those to commercial properties. With the reduction in industrial rates, the industrial levy continued to show modest decreases.

In order to address this issue, the Province has introduced legislation that enables municipalities to restate their tax ratios to maintain the same tax burden by property class. The restatement results in what the Province refers to as "revenue neutral tax ratios".

For 2010 for the City, implementing revenue neutral tax ratios results in a further shift of the City's tax ratios away from the range of fairness. For the industrial class, it would push the current broad class ratio up higher over the provincial average, from 2.681591 to 2.783043 (provincial average is 2.63). In the case of the commercial class, the broad class ratio would also exceed the provincial average, up from 1.970326 to 2.004076 (provincial average is 1.98), resulting in the City's inability to pass on any increases to those ratepayers without first dropping the ratio back to below the provincial average.

Of particular concern is the City's large industrial class. A restatement of the tax ratios would shift additional burden onto the large industrial category, resulting in further concern for the City with regards to our largest remaining taxpayer.

Given the current implications of adjusting the tax ratios to be revenue neutral, it is recommended that the City not pursue this option. This will ensure that the City remains with the intent reflected in reviewing the tax rate during the City's budget discussions.

50% Flow-Through for Levy Restricted Classes

Another option the City has available is to pass on 50% of any tax increase to the levy restricted classes. For the City, specifically this is the industrial property classes. This means that 50% of any increase to the tax rates could also be passed on to the amended 2010 starting industrial rates. Strategically, the City has been using the current restrictions under the tax legislation to help slowly draw down the industrial and large industrial tax rates. It consistently has chosen to not pass any increase onto the industrial taxpayers. Of particular concern is the potential to pass on any increase to our Large Industrial taxpayer. This option is once again not recommended in 2010. Rather, it is recommended that the City continue to draw down the industrial rates until the broad class ratio falls below the provincial average, and then the potential for passing on any increases be reviewed at that time. This will ensure that the City remains with the intent reflected in reviewing the tax rate during the City's budget discussions.

Sources of Financing
There is no cost related to passing these by-laws. These are the by-laws that enable the municipality to levy municipal property taxes within the City for 2009.

Communication Plan / Notice By-law Requirements
Notice will be provided in accordance with the notice provisions of the City's notice by-law.

Cc: Bill Preisentanz
Pat Geisel

Tax Ratios
When the new Current Value Assessment (CVA) property tax system was introduced in 1998, the new legislation created the use of tax ratios for the purposes of setting tax rates in different classes. The tax ratio for each class is a multiplier, if you will, to determine the tax rate as compared to the residential tax rate. For example, the City's current commercial class tax ratio is 1.9330. This means that in order to determine the commercial municipal tax rate, you would take the residential municipal tax rate and multiply by 1.9330:

2010 proposed residential rate of .01380257 x 1.9330 = 2010 proposed commercial rate of .02668037

In other words, a commercial property owner pays 1.9330 times as much municipal tax on their property as does a homeowner with the same assessment.

This calculation works for each class, with the exception of those that are protected by the "hard cap" ("restricted classes"), which for the City would be our Industrial properties. The concept of restricted classes is discussed further below.

At the time the new legislation was introduced, municipalities were given the option of adopting what was referred to as "transition ratios". These were designed to maintain tax burden by class as a result of the new CVA tax system. Although these were adopted by the former Town of Kenora (and I believe also Keewatin and Jaffray Melick), there was still a shift of close to 4% in tax burden to the residential class in 1998 as a result of the new system. At the same time, the Province introduced a "range of fairness" (ie, the range within the Province believes the ratio should fall for each class in order to represent fair taxation to those ratepayers) and implemented tax legislation that would restrict movement away from the range of fairness, and in some situations force municipalities to move some ratios closer to the range of fairness. The rule is, you can always move a broad class ratio towards the range of fairness, but you cannot move it back away, unless the Province sets out exceptions allowing you to do so.

When the City amalgamated on January1, 2000, the Province created new tax ratios for the consolidated City that would, again, roughly maintain the tax levy burden by class for the amalgamated City.

Today, the tax ratios for the City look like this (on the top of the following page, rounded to 4 decimals):

Class	Range of Fairness	Ratio Prescribed At Amalgamation	2010 Proposed Tax Ratio
Residential	1.0	1.0000	1.0000
Multi-Residential	1.0 – 1.1	1.7173	1.7173
Commercial	0.6 – 1.1	1.9930	1.9330
Office Building	0.6 – 1.1	2.4082	2.3359
Shopping Centre	0.6 – 1.1	2.8312	2.7463
Parking Lot / Vacant Land	0.6 – 1.1	1.6485	1.5992
Industrial	0.6 – 1.1	3.4727	2.1390
Large Industrial	0.6 – 1.1	4.5170	2.7822
Pipeline	0.6 – 0.7	1.2712	1.2712
Farmlands	0.25	0.25	0.25
Managed Forest	0.25	0.25	0.25

As you can see from the table, the tax ratios for the commercial (ie, commercial, office building, shopping centre and parking lot / vacant land) and the industrial (ie, industrial and large industrial) property classes have been reduced following amalgamation. This occurred as, at the time of amalgamation, both the commercial and industrial classes were considered restricted classes under the CVA tax legislation.

As noted previously, with the introduction of the tax ratios came the introduction of the range of fairness. In addition, the tax system was also designed to move municipalities with very high tax ratios to the range of fairness. This was done through the introduction of "provincial average" tax ratios by broad class category for categories that were subject to the capping legislation (ie, commercial, industrial, multi-residential classes). At amalgamation, the City found itself slightly over the provincial average of 1.98 for the commercial class and significantly over the provincial average of 2.63 for the industrial class. As a result, these classes became "restricted" from any tax levy increase until their broad class ratio fell below the provincial average. Ultimately, this meant the tax rates did not see any increases, and each year the ratios were forced downward towards the provincial average (and ultimately the rates were forced down as well). In the case of the commercial class, the City made a decision to move the broad class ratio to the provincial average so that increases could be passed on to that class. In the case of the industrial class, the difference between the City's broad class ratio and the provincial average was so great that the City could not afford the lost tax revenue that would occur with restating the ratio to the Provincial average. Rather, the City has used this legislation to help slowly reduce the industrial ratio, maintaining or reducing our industrial rates each year.

Fortunately for the City, the Province has not restated the Provincial averages since they were first introduced. Any restatement would only result in a lowering of the averages, and a further requirement by the City to lower the ratios on any classes restricted as a result of that restatement.