



**Date 3 April 2012**

## **City Council Committee Report**

**To: Mayor Canfield & Members of Council**

**Fr: Melissa Shaw**

**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 2012; 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 2012; 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 2012 at its April 16th, 2012 meeting.

### **Background:**

Historically, the City was required under the Municipal Act to have its tax ratios set by April 30<sup>th</sup> of the year to which they relate. This requirement was changed in 2010 and now, 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.

### **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 2012 represents the fourth and last 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. Although 2012 is not a reassessment year, there appears to be shifting on the residential class, overall impact to the total residential levy appear to be higher than the commercial and industrial properties.

### **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, historically, the industrial property classes were restricted under this provision of the legislation, and the City used those restrictions under the tax legislation to help slowly draw down the industrial and large industrial tax rates. It consistently chose to not pass any increase onto the industrial taxpayers. In 2010 it was recommended that the City continue to draw down the industrial rates until the broad class ratio fell below the provincial average. In 2011, the industrial rates fell below provincial average, for that reason the industrial property classes were no longer subject to this restriction. Accordingly, the City had the opportunity to pass on a tax increase to the industrial classes; this option was recommended to proceed in 2012. Having said that, if the City chooses to pursue revenue neutral tax ratios, this restriction would once again come into effect, as the commercial and industrial broad classes would exceed Provincial averages.

### **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 2012.

### **Communication Plan / Notice By-law Requirements**

Notice will be provided in accordance with the notice provisions of the City's notice by-law.

Cc: Karen Brown

## **Tax Ratios and Range of Fairness**

When the new Current Value Assessment (CVA) property tax system was introduced in 1998, the new legislation created the use of tax ratios. The purpose of the property classes is to allow municipalities to set different tax rates for the different categories of properties. The tax ratio for each class is a multiplier, if you will, to determine the tax rate as compared to the residential tax rate. This calculation works for each class.

For example, The City's current commercial class tax ratio is 1.9330. In order to determine the commercial municipal tax rate, take the residential municipal tax rate and multiply by 1.9330:

2012 proposed Residential Rate (0.01424091) x the current Commercial Tax Ratio (1.9330) = 2012 Commercial Tax Rate of .02752768

If a commercial property and a residential property were to have equal assessed values, the Municipal Tax levied on a commercial property is 1.9330 times more than the municipal tax levied on an equally assessed residential property.

While the City of Kenora has the ability to set different tax rates for the different classes, they must do so within parameters defined by the Province. In 1998, through the Fair *Municipal Finance Act* (Bill 79), the Province established target ranges of tax ratios referred to as "ranges of fairness".

The table below provides the City of Kenora 2012 Proposed Tax Ratios and the ranges of fairness as prescribed by the Province. The ranges of fairness represent the ultimate destination point for the municipal tax levels of each property class; they are expressed as tax ratio in relation to the tax rate of the residential property class. An example, the Provincial goal is to bring the municipal tax rate of the commercial property class down to 0.6 to 1.1 times the residential tax rate.

<b>Class</b>	<b>Range of Fairness</b>	<b>Ratios Prescribed At Amalgamation</b>	<b>2012 Proposed Tax Ratio</b>
Residential	1.0	1.0000	1.0000
Multi-Residential	1.0 – 1.1	1.7173	1.7173
Commercial	0.6 – 1.1	1.9330	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	2.0526
Large Industrial	0.6 – 1.1	4.5170	2.6698
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 part of the *Continued Protection for Property Taxpayers Act, 2000*, the province created a new restriction prohibiting municipalities from levying municipal tax increases on commercial, industrial and multi-residential property classes if their respective tax burdens are above the provincial class average. The province has set these “Provincial Average Ratios” for each of the three classes of properties so that municipalities will know whether they are subject to the levy restrictions. The City of Kenora currently falls below the Provincial average ratios for all three classes as follows:

<b>Property Class</b>	<b>Provincial Average Ratios</b>	<b>2012 Proposed Tax Ratio</b>
Commercial (Broad Class)	1.98	1.968361
Industrial (Broad Class)	2.63	2.584802
Multi-residential	2.74	1.717300