CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JANUARY 28, 2014

Item 1, Report No. 2, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on January 28, 2014.

1 ADJUSTING PROPERTY TAX RATIOS TO IMPACT PROPERTY TAX RATES

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Acting Commissioner of Finance and City Treasurer and the Director of Financial Services, dated January 20, 2014:

Recommendation

The Acting Commissioner of Finance and City Treasurer and the Director of Financial Services, in consultation with the Manager of Property Tax & Assessment recommend:

1. THAT this report be received for information purposes.

Contribution to Sustainability

Not applicable.

Economic Impact

This report does not have any financial impact.

Communications Plan

Not applicable.

Purpose

The purpose of this report is to inform the Mayor and Members of Council with respect to the relationship of property tax ratios to the property tax rates, provincially mandated legislation and restrictions and provide background regarding comparative differences with City of Toronto tax ratios.

Background - Analysis and Options

Council Resolution

Council, on December 10th, 2013, adopted the following resolution:

Whereas, residential tax rates in the City of Vaughan have historically been higher than in the City of Toronto, because growth in the City of Vaughan beginning in the 1970's was, for all intents and purposes in the residential sector only, with major industrial development coming later; and

Whereas, major industrial growth is slated in the Vaughan Enterprise Zone and the Highway 400 Employment Lands; and

Whereas, the City of Vaughan continues to lead the Region of York in employment growth;

Therefore be it resolved, that the Acting Commissioner of Finance & City Treasurer bring forward a report to a 2014 Committee of the Whole (Working Session) meeting, exploring options whereby an adjustment in the comparative residential/industrial/commercial rates may be of benefit to residential tax payers;

Property Tax Ratios

To effect change in the comparative residential/commercial/industrial tax rates that may benefit the residential taxpayer, the first step required is to alter the property tax ratios. Therefore, an overview on property tax ratios, the legislation involved and the overall effect of changing the tax ratios in municipalities in general is provided. Also included is research with respect to Toronto and their tax ratios and policies.

Tax ratios represent the amount of taxation to be borne by each property class in relation to the Residential class. The residential class tax ratio always has to equal “one” (1.0000), as mandated by provincial legislation.

The setting of the tax ratios is a Regional (upper tier) responsibility and it has the authority to use tax ratio policy to offset or mitigate reassessment related tax shifts. A tax shift can occur, as a result of reassessment every 4 years, when one property tax class experiences an overall valuation increase more or less than another property tax class, which then causes a greater burden of taxes from one class to another. In terms of budget, that tax burden can be shifted onto the commercial/industrial class from the residential class by increasing the ratios in the commercial/ industrial classes. However, as specified in the Provincial Regulation, the Region can only move the ratios within or closer to the “Range of Fairness”. See Chart #1.

Further, the Region’s ability to adjust the tax ratios is limited by the following statutory provisions:

- Any change moves the ratios within or closer to the Province’s “Range of Fairness”
- The residential class must remain at 1.0000
- The multi-residential class maintains the same tax level as the residential property tax class
- The pipeline class has been set at 0.9190 since 1999; a change to this ratio would require the approval of the Province
- The farmland class has been set at the provincially prescribed tax ratio of 0.2500 and cannot be changed
- The managed forest class is prescribed by the Province at 25% of the residential tax rate

The following chart shows the current tax ratios as approved by Regional Council (April 2013) for the tax years 2013 to 2016. The provincially mandated Ranges of Fairness are also included:

Chart # 1
Approved Tax Ratios

Property Class	2013 – 2016 Ratios	Ranges of Fairness
Residential	1.0000	1.0000
Multi-Residential	1.0000	1.0 to 1.1
Commercial	1.1172	0.6 to 1.1
Industrial	1.3124	0.6 to 1.1
Pipelines	0.9190	0.6 to 0.7
Farmland	0.2500	0.2500
Managed Forest	0.2500	0.2500

…/3

Mandatory Capping Program

In 1998, the Province imposed a mandatory capping program on all commercial, industrial and multi-residential properties in order to phase-in the tax increases resulting from the introduction of the current value assessment system. Property tax increases are capped and the caps are funded by clawing back the decreases property owners would be otherwise entitled to as a result of current value assessment (CVA). The Region of York (upper tier) is also responsible for approving decisions and policy with respect to this program.

Tax ratio options have an effect on the capping program. For example, by approving the tax ratios as seen in Chart #1, more properties have moved to true CVA level taxes and the amount of capping protection (region-wide) is expected to fall from 2012 actuals. As per the Region's analysis, since 2008 the City of Vaughan has been obligated to support other York Region municipalities in the capping program (known as "bankering"). This has put an increased burden on all non-residential properties within Vaughan. The more quickly properties can be taxed at true CVA level taxes, the more quickly all properties will then actually pay according to their market value and not more (clawback) or less (cap).

Tax Ratios Analysis

As a result of analysis conducted by the Region in 2013, it was concluded that increasing commercial and industrial tax ratios may reduce the Region's business tax competitiveness relative to other GTA municipalities, but more importantly, if the Region wished to increase the commercial/industrial tax ratios, approval under regulation of the Minister of Finance is required as the increased tax ratio would move further away from the legislated ranges of fairness.

York Region maintains the lowest tax ratios in the Greater Toronto Area (GTA) and is among the lowest in the Province. This is in support of the City's desire to promote economic development. In addition to providing a fairer approach to sharing the property tax burden, it will also allow the Region and all local municipalities to assist in the economic recovery over the next few years.

City of Toronto comparison

The following chart outlines a comparison of tax ratios within York Region and Toronto:

Comparison of Property Tax Ratios

Broad Property Class	YORK	TORONTO
Residential	1.0000	1.0000
Multi-Residential	1.0000	3.1814
Commercial	1.1172	3.1185
Industrial	1.3124	3.1185
Pipelines	0.9190	1.9236
Farmland	0.2500	0.2500
Managed Forests	0.2500	0.2500

The City of Toronto ratios for the Commercial/Industrial (and Multi-Residential) classes have been historically high in comparison to other GTA municipalities since the beginning of the new Current Value Assessment (CVA) regime in 1998. The commercial, industrial and multi-residential classes in Toronto historically bore a significantly higher tax burden than residential prior to 1998.

…/4

When CVA came into effect, legislation permitted municipalities to maintain tax ratios ("transition" ratios) above the ranges of fairness in order to avoid immediate impacts on the residential class. However, this could only be done with the understanding that the tax ratios outside the ranges of fairness would be gradually decreased over time, to align with the legislated ranges of fairness. For example, in 1998, the industrial and commercial ratios in Toronto were much higher, 6.0 and 4.28 respectively, which illustrates this gradual transition. To date, however, Toronto has continued with high ratios in the commercial/industrial and multi-residential classes, a state which has resulted in higher tax rates (in those classes), versus other GTA municipalities, which then has further implications for business location/relocation decisions, and long-term business competitiveness.

As part of its overall strategy and commitment to enhance Toronto's business climate, a long-term strategy, documented in their report "Enhancing Toronto's Business Climate", was approved in 2006 to reduce the ratio between the municipal commercial and industrial and residential property tax rates that is to be fully implemented by 2020. According Toronto's website, the strategy encompasses the following:

1. Limit municipal budgetary tax increases for commercial and industrial property owners to a maximum of one third of any residential budgetary tax increase.

2. Shifts property tax away from the commercial/industrial property class onto the residential property class, which is anticipated to offset budgetary tax increases for commercial and industrial property owners.

It must also be noted that the City of Toronto is different from all other municipalities in Ontario in that they have their own legislative authority under the *City of Toronto Act,* 2006. They have a different ability to alter, modify, and charge their taxpayers and apply tax policy than other municipal jurisdictions.

Relationship to Vaughan Vision 2020

In consideration of the strategic priorities related to Vaughan Vision 2020, analysis of all possible Tax Policy strategies serve to enhance:

- Organizational Excellence: Ensure Financial Sustainability;
  Manage Growth and Economic Well-Being

Regional Implications

There are no implications with respect to the Region.

Conclusion

The setting of the tax ratios is a Regional (upper tier) responsibility. Analysis conducted by the Region concluded that the tax ratios for the 2013-2016 tax years remain the same as the 2012 tax year. Increasing the tax ratios further away from legislated ranges of fairness requires approval by regulation by the Minister of Finance.

In researching the City of Toronto, it was found that there is a strategy in place to decrease the Commercial and Industrial tax ratios by the year 2020 which shifts the property tax burden away from the commercial/industrial property classes onto the residential property class. This strategy has been in place since 2006 and limits budgetary tax increases for commercial and industrial property owners in order to enhance the City of Toronto business competitiveness.

…/5

Attachments

None

Report prepared by:

Maureen E. Zabiuk, A.I.M.A., CMTP
Manager, Property Tax & Assessment
Ext. 8268

ADJUSTING PROPERTY TAX RATIOS TO IMPACT PROPERTY TAX RATES

Recommendation

The Acting Commissioner of Finance and City Treasurer and the Director of Financial Services, in consultation with the Manager of Property Tax & Assessment recommend:

1. THAT this report be received for information purposes.

Contribution to Sustainability

Not applicable.

Economic Impact

This report does not have any financial impact.

Communications Plan

Not applicable.

Purpose

The purpose of this report is to inform the Mayor and Members of Council with respect to the relationship of property tax ratios to the property tax rates, provincially mandated legislation and restrictions and provide background regarding comparative differences with City of Toronto tax ratios.

Background - Analysis and Options

Council Resolution

Council, on December 10th, 2013, adopted the following resolution:

Whereas, residential tax rates in the City of Vaughan have historically been higher than in the City of Toronto, because growth in the City of Vaughan beginning in the 1970's was, for all intents and purposes in the residential sector only, with major industrial development coming later; and

Whereas, major industrial growth is slated in the Vaughan Enterprise Zone and the Highway 400 Employment Lands; and

Whereas, the City of Vaughan continues to lead the Region of York in employment growth;

Therefore be it resolved, that the Acting Commissioner of Finance & City Treasurer bring forward a report to a 2014 Committee of the Whole (Working Session) meeting, exploring options whereby an adjustment in the comparative residential/industrial/commercial rates may be of benefit to residential tax payers;

Property Tax Ratios

To effect change in the comparative residential/commercial/industrial tax rates that may benefit the residential taxpayer, the first step required is to alter the property tax ratios. Therefore, an overview on property tax ratios, the legislation involved and the overall effect of changing the tax ratios in municipalities in general is provided. Also included is research with respect to Toronto and their tax ratios and policies.

Tax ratios represent the amount of taxation to be borne by each property class in relation to the Residential class. The residential class tax ratio always has to equal “one” (1.0000), as mandated by provincial legislation.

The setting of the tax ratios is a Regional (upper tier) responsibility and it has the authority to use tax ratio policy to offset or mitigate reassessment related tax shifts. A tax shift can occur, as a result of reassessment every 4 years, when one property tax class experiences an overall valuation increase more or less than another property tax class, which then causes a greater burden of taxes from one class to another. In terms of budget, that tax burden can be shifted onto the commercial/industrial class from the residential class by increasing the ratios in the commercial/ industrial classes. However, as specified in the Provincial Regulation, the Region can only move the ratios within or closer to the “Range of Fairness”. See Chart #1.

Further, the Region’s ability to adjust the tax ratios is limited by the following statutory provisions:

- Any change moves the ratios within or closer to the Province’s “Range of Fairness”
- The residential class must remain at 1.0000
- The multi-residential class maintains the same tax level as the residential property tax class
- The pipeline class has been set at 0.9190 since 1999; a change to this ratio would require the approval of the Province
- The farmland class has been set at the provincially prescribed tax ratio of 0.2500 and cannot be changed
- The managed forest class is prescribed by the Province at 25% of the residential tax rate

The following chart shows the current tax ratios as approved by Regional Council (April 2013) for the tax years 2013 to 2016. The provincially mandated Ranges of Fairness are also included:

Chart # 1
Approved Tax Ratios

Property Class	2013 – 2016 Ratios	Ranges of Fairness
Residential	1.0000	1.0000
Multi-Residential	1.0000	1.0 to 1.1
Commercial	1.1172	0.6 to 1.1
Industrial	1.3124	0.6 to 1.1
Pipelines	0.9190	0.6 to 0.7
Farmland	0.2500	0.2500
Managed Forest	0.2500	0.2500

<u>Mandatory Capping Program</u>

In 1998, the Province imposed a mandatory capping program on all commercial, industrial and multi-residential properties in order to phase-in the tax increases resulting from the introduction of the current value assessment system. Property tax increases are capped and the caps are funded by clawing back the decreases property owners would be otherwise entitled to as a result of current value assessment (CVA). The Region of York (upper tier) is also responsible for approving decisions and policy with respect to this program.

Tax ratio options have an effect on the capping program. For example, by approving the tax ratios as seen in Chart #1, more properties have moved to true CVA level taxes and the amount of capping protection (region-wide) is expected to fall from 2012 actuals. As per the Region’s analysis, since 2008 the City of Vaughan has been obligated to support other York Region municipalities in the capping program (known as “bankering”). This has put an increased burden on all non-residential properties within Vaughan. The more quickly properties can be taxed at true

CVA level taxes, the more quickly all properties will then actually pay according to their market value and not more (clawback) or less (cap).

Tax Ratios Analysis

As a result of analysis conducted by the Region in 2013, it was concluded that increasing commercial and industrial tax ratios may reduce the Region's business tax competitiveness relative to other GTA municipalities, but more importantly, if the Region wished to increase the commercial/industrial tax ratios, approval under regulation of the Minister of Finance is required as the increased tax ratio would move further away from the legislated ranges of fairness.

York Region maintains the lowest tax ratios in the Greater Toronto Area (GTA) and is among the lowest in the Province. This is in support of the City's desire to promote economic development. In addition to providing a fairer approach to sharing the property tax burden, it will also allow the Region and all local municipalities to assist in the economic recovery over the next few years.

City of Toronto comparison

The following chart outlines a comparison of tax ratios within York Region and Toronto:

Comparison of Property Tax Ratios

Broad Property Class	YORK	TORONTO
Residential	1.0000	1.0000
Multi-Residential	1.0000	3.1814
Commercial	1.1172	3.1185
Industrial	1.3124	3.1185
Pipelines	0.9190	1.9236
Farmland	0.2500	0.2500
Managed Forests	0.2500	0.2500

The City of Toronto ratios for the Commercial/Industrial (and Multi-Residential) classes have been historically high in comparison to other GTA municipalities since the beginning of the new Current Value Assessment (CVA) regime in 1998. The commercial, industrial and multi-residential classes in Toronto historically bore a significantly higher tax burden than residential prior to 1998.

When CVA came into effect, legislation permitted municipalities to maintain tax ratios ("transition" ratios) above the ranges of fairness in order to avoid immediate impacts on the residential class. However, this could only be done with the understanding that the tax ratios outside the ranges of fairness would be gradually decreased over time, to align with the legislated ranges of fairness. For example, in 1998, the industrial and commercial ratios in Toronto were much higher, 6.0 and 4.28 respectively, which illustrates this gradual transition. To date, however, Toronto has continued with high ratios in the commercial/industrial and multi-residential classes, a state which has resulted in higher tax rates (in those classes), versus other GTA municipalities, which then has further implications for business location/relocation decisions, and long-term business competitiveness.

As part of its overall strategy and commitment to enhance Toronto's business climate, a long-term strategy, documented in their report "Enhancing Toronto's Business Climate", was approved in 2006 to reduce the ratio between the municipal commercial and industrial and residential property tax rates that is to be fully implemented by 2020. According Toronto's website, the strategy encompasses the following:

1. Limit municipal budgetary tax increases for commercial and industrial property owners to a maximum of one third of any residential budgetary tax increase.
2. Shifts property tax away from the commercial/industrial property class onto the residential property class, which is anticipated to offset budgetary tax increases for commercial and industrial property owners.

It must also be noted that the City of Toronto is different from all other municipalities in Ontario in that they have their own legislative authority under the *City of Toronto Act,* 2006. They have a different ability to alter, modify, and charge their taxpayers and apply tax policy than other municipal jurisdictions.

Relationship to Vaughan Vision 2020

In consideration of the strategic priorities related to Vaughan Vision 2020, analysis of all possible Tax Policy strategies serve to enhance:

- Organizational Excellence: Ensure Financial Sustainability;
  Manage Growth and Economic Well-Being

Regional Implications

There are no implications with respect to the Region.

Conclusion

The setting of the tax ratios is a Regional (upper tier) responsibility. Analysis conducted by the Region concluded that the tax ratios for the 2013-2016 tax years remain the same as the 2012 tax year. Increasing the tax ratios further away from legislated ranges of fairness requires approval by regulation by the Minister of Finance.

In researching the City of Toronto, it was found that there is a strategy in place to decrease the Commercial and Industrial tax ratios by the year 2020 which shifts the property tax burden away from the commercial/industrial property classes onto the residential property class. This strategy has been in place since 2006 and limits budgetary tax increases for commercial and industrial property owners in order to enhance the City of Toronto business competitiveness.

Attachments

None

Report prepared by:

Maureen E. Zabiuk, A.I.M.A., CMTP
Manager, Property Tax & Assessment
Ext. 8268

Respectfully submitted,

____
John Henry, CMA
Acting Commissioner of Finance/City Treasurer

____
Barry E. Jackson, CGA
Director of Financial Services