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The Regional Municipality of Durham Report

To:	Finance and Administration Committee
From:	Commissioner of Finance
Report:	#2021-F-4
Date:	February 9, 2021

Subject:

2021 Strategic Property Tax Study

Recommendation:

That the Finance and Administration Committee recommend to Regional Council:

A) For the 2021 property taxation year, the municipal property tax ratios for the following property classes for the Regional Municipality of Durham be set as follows and the requisite by-law be prepared, and approval be granted,

Multi-Residential	1.8665
New Multi-Residential	1.1000
Landfill	1.1000
Pipelines	1.2294
Farmland	0.2000
Managed Forests	0.2500

Commercial Broad Class
(including Shopping Centres, Office Buildings, Parking Lots and Residual)

Occupied	1.4500
Vacant Land	1.4500
Excess Land	1.4500
On Farm	1.4500

Industrial Broad Class
(including Large Industrial and Residual)

Occupied	2.0235
Vacant Land	2.0235
Excess Land	2.0235
On Farm	2.0235

B) To achieve greater fairness and equity in the Current Value Assessment (CVA) system and property taxation policy, the Province be requested to:

- update the Provincial statutory rate applicable to nuclear generating facilities;
- institute an annual mechanism to ensure the rate continues to be updated in the future;
- redirect proxy property tax payments currently paid by the Region's two nuclear generating facilities to the Ontario Electricity Financial Corporation (OEFC) for the Ontario Hydro stranded debt to the host municipalities and the Region following retirement of the stranded debt; and
- ensure the education retained rate applied to provincial and federal properties frozen at 2020 rates be verified to remain at the higher rate for all such properties.

Report:

1. Purpose

1.1 The annual Strategic Property Tax Study accompanies the annual Business Plans and Budgets and provides an update on various property tax items. As one of the Region's primary revenue sources, it is important to, where possible, ensure a sustainable property tax assessment base and when, considering property tax policy decisions consider the long-term impacts on the assessment base and on all regional property taxpayers.

1.2 In 2020, budgeted Regional property tax revenue was $698.3 million or 48.4 per cent of the total $1.443 billion gross expenditures for Regional property tax supported services.

1.3 The 2021 Strategic Property Tax Study provides information and analyses on numerous property tax items, including:

- assessment base trends including growth and the declining non-residential share which places upward pressure on the residential property tax rates;
- the provincial postponement of the 2020 current value assessment (CVA) reassessment;
- resources available to assist property taxpayers impacted by the COVID pandemic;
- overview of provincial policy changes announced in 2020 including reductions in the 2021 Business Education Tax Rate (BET) for commercial and industrial properties; the introduction of a new optional Small Business property tax subclass; the extension of the existing property tax exemption for Ontario branches of the Royal Canadian Legion to other veteran organizations; and business assessment in redevelopment areas tools;
- update on the CVA at risk in assessment disputes;
- review and comparison of Durham's municipal tax ratios;

- average residential home and non-residential property tax comparison; and
- looking forward and next steps.

1.4 There are no proposed changes to the property tax ratios for the 2021 taxation year.

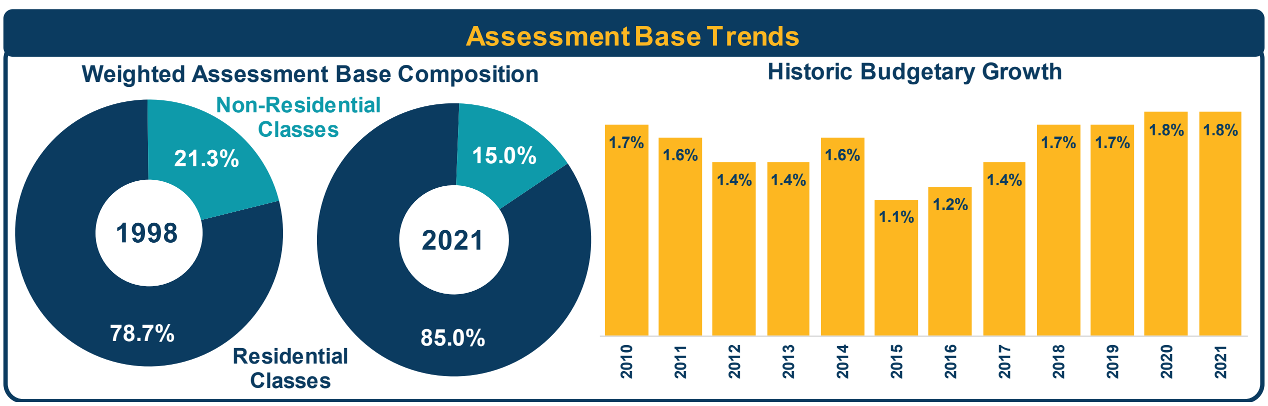
2. Previous Reports and Decisions

2.1 Strategic Property Tax Studies are prepared and presented annually. The 2020 Property Tax Strategy (Report 2020-F-03) was presented on February 11, 2020.

3. Background

3.1 Property taxation is the single largest source of funding for Regional services and this study is produced annually to keep key stakeholders, including Regional Council informed on recent developments in property assessment and taxation policy as well as long-term trends and financial impacts.

4. The Assessment Base



<u>Assessment Growth</u>

4.1 Historically, Durham Region's residential growth has been strong relative to the non-residential growth, contributing to a continual decrease in the proportionate share of non-residential assessment in the assessment base.

4.2 For 2021, the estimated total taxable weighted assessment growth is 2.06 per cent. This is higher than originally projected due in part to MPAC extending the cut-off date for capturing 2020 assessment adjustments by almost two weeks. This may result in lower assessment growth in 2021 as some of the growth that would previously have been captured in 2021 was instead captured in 2020.

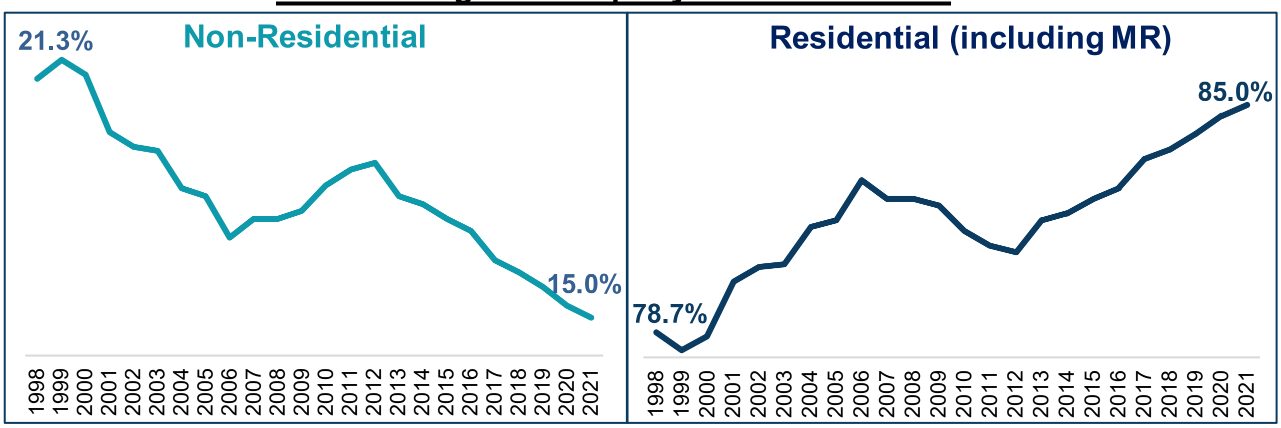
4.3 Of the 2.06 per cent weighted assessment growth for 2020, 0.30 per cent is attributable to weighted assessment in the Seaton community. Continuing Council's direction (Report #2018-COW-19), this 0.30 per cent of the 2021 weighted assessment growth has been deferred until the Region begins incurring annual operating expenditures related to the Seaton development.

- This will ensure long term financial sustainability by better matching growth and the related property tax revenue from the Seaton community with the budgeted Regional operating costs to service this community.
- This treatment is unique due to the large scale of the Seaton community and the intense and rapid planned development that will have a measured impact on Regional expenditures in the near term.

Non-Residential Share of Regional Assessment and Taxation Base

4.4 Figure 1 shows the significant decline in the non-residential share of the Region's property tax base since 1998 and the corresponding increase in the residential share of the tax base.

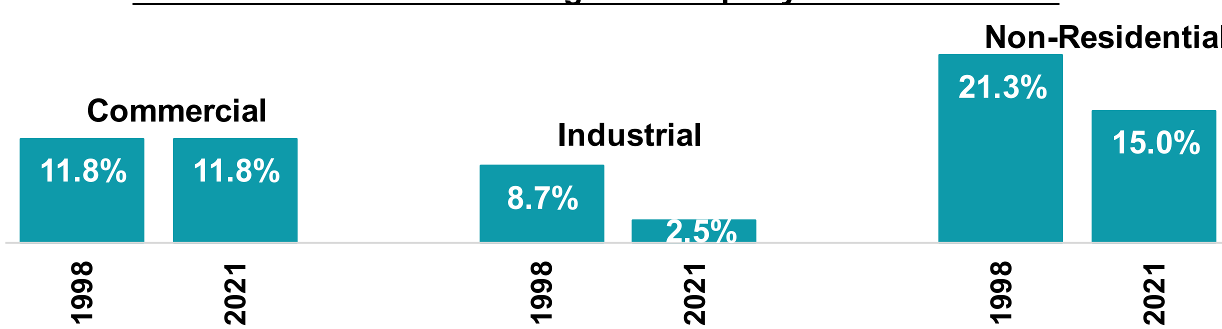
Figure 1
Share of Regional Property Taxes 1998-2021



4.5 The only exception to the decline in the non-residential share was between 2006-2012 when non-residential properties experienced higher valuation increases due to reassessments. A significant number of these were partially reversed through Assessment Review Board (ARB) decisions which contributed to the continued decreasing share from 2012 (see Section 12 Assessment at Risk Update).

4.6 The decrease in the non-residential share is primarily the result of declines in the industrial property class share as shown in Figure 2.

Figure 2
Non-Residential Share of Regional Property Taxes 1998-2021



4.7 The decrease in the non-residential share places upward pressure on the residential property tax rate and has a direct impact when comparing relative tax load as discussed in Section 13 (Municipal Property Tax Comparisons) of this report.

4.8 The changes in Regional property class taxation shares are the result of:

- differences in assessment growth across the property classes;
- different valuation changes across the property classes from reassessments;
- ARB assessment appeal decisions; and
- changes to municipal tax ratios.

4.9 For 2021, the share of property taxes paid by the industrial broad class dropped significantly to 2.5 per cent from 2.7 percent in 2020. This decrease resulted from the settlement of longstanding property assessment appeals for the automotive sector that occurred in late 2020 covering the time period from 2012 to 2020.

4.10 The increased assessment risk of the automotive assembly and large retail properties was acknowledged in the 2016 business planning and budget process where Council approved allocating a share of that year’s assessment growth (0.25 per cent or $1.46 million) in anticipation of significant future assessment losses.

4.11 The settlement of these significant assessment appeals resulted in a decrease in the overall weighted assessment base for 2021 of approximately 0.15 per cent. To mitigate against this impact and lessen the resulting property tax shifts to the other Regional property taxpayers, the proposed 2021 Business Plans and Budget includes a significant reduction in the provision for adjustments to the assessment base by $1.07 million to fully mitigate the impact of the auto sector assessment appeal settlements on the remaining Regional property taxpayers. With this reduction there remains a small provision ($0.39 million) to mitigate against future significant assessment appeals.

4.12 Municipal concerns with the decreasing non-residential tax base have come to the forefront with the Ontario Regional and Single Tier Treasurers (ORSTT) and the Association of Municipalities of Ontario (AMO) creating a website that tracks the changes in non-residential taxation by local/single tier municipality from 2001 to 2017 (webpage, Who’s paying the bills in your community is available to the public at http://amo.on.ca/taxmap/). The COVID pandemic has the potential to further advance this shift.

4.13 Academia is also beginning to research these trends as indicators of a larger shift to a “*new digital economy*”. Of note are two papers by Munk School of Global Affairs and Public Policy including a paper done in partnership with the Region of Peel that looks specifically at municipal historical trends and potential future shifts.

- *Robots, Revenues & Responses Ontario and the Future of Work (*2018 Mowat Centre, Munk School of Global Affairs and Public Policy, University of Toronto).

- *Rethinking Municipal Finance for the New Economy* (2019 Mowat Centre, Munk School of Global Affairs and Public Policy, University of Toronto).

4.14 It is believed that the pandemic may accelerated the progress towards the "*new digital economy*". Staff continue the research that began prior to the onset of the pandemic, including collaborating with partners on this important issue and will report back to Council later in 2021. This is also on the 2021 ORSTT workplan.

5. Provincial Postponement of the 2020 CVA Reassessment

5.1 In the March 2020 Economic and Fiscal Update, the Province postponed the 2021 property tax reassessment update which was to be completed by MPAC in 2020 for the 2021 property tax year. As a result of this postponement, 2021 taxes will be based on an updated return roll using the fully phased-in January 1, 2016 current value assessments (CVA) as opposed to January 1, 2020 values as planned before the pandemic. To date, the Province has not provided any further direction on the timing or base year for the next reassessment.

5.2 The Province, in the 2020 Ontario Budget released on November 5, 2020, included a proposed amendment to the *Assessment Act* that provides the Ministry of Finance with the authority to adjust the current reassessment phase-in rules.

5.3 As Council is aware, the current assessment cycle is four years with assessment increases phased-in evenly over four taxation years and any assessment decreases applied fully in the first year. Any changes in the phase-in parameters may impact the magnitude of the tax shifts that can occur with reassessments.

5.4 While the postponement was necessary during the pandemic, it is important that, once the economy stabilizes, the Province return to regular scheduled reassessments to ensure the assessment base remains current and to avoid future significant property tax shifts amongst taxpayers.

5.5 Regional staff will provide an update to Council on the timing of the reassessment and any changes to the phase-in parameters once announced by the Province.

6. Pandemic Resources Available to Assist Property Taxpayers

6.1 The COVID-19 pandemic has caused considerable impact to local, provincial, national and international economies as well as significant financial strain and stress on many Durham residents and businesses.

6.2 In response to COVID-19, both the federal and provincial governments have provided significant funding to businesses, not-for-profit organizations and individuals experiencing economic hardship as a result of the pandemic.

6.3 Since the start of the pandemic, senior levels of government have created multiple individual and business support programs. The Region's Economic Development team continue to work closely with local Economic Development departments to assist local businesses in navigating and applying for these programs. The Invest Durham website (https://investdurham.ca/covidresponse) has a section dedicated to COVID-19 response including a detailed listing of government support and funding.

6.4 There are a number of senior government support programs that provide supports to businesses to assist with property taxes, including:

- The Canada Emergency Rent Subsidy (CERS) includes property tax payments under a net lease to be a qualifying rent expense (available until June 2021).
- The Canada Emergency Business Account (CEBA) includes property tax payments as an eligible non-deferrable expense (available until March 31, 2021).
- The Ontario Main Street Relief Grant provides up to $1,000 for PPE or for property tax or energy rebates in affected regions.
- $600 million in property tax and energy cost rebates to help eligible businesses in Control, Lockdown or Provincewide Shutdown regions.
- The Ontario Small Business Support Grant will provide a minimum of $10,000 and up to $20,000 to help eligible small business owners who are required to close or significantly restrict services.

6.5 To provide greater flexibility during the COVID-19 pandemic, Regional Council on March 27, 2020, through By-law 17-2020, delegated authority to the Regional Chair and/or CAO acting together with the Commissioner of Finance/Treasurer to modify and/or defer property tax remittance dates. Pursuant to this authority, the Commissioner of Finance worked with local municipalities to adjust the timing of the 2020 property tax remittances to the Region to ease the cash flow pressures resulting from local municipalities actions to defer property tax due dates.

6.6 The Commissioner of Finance/Treasurer meets bi-weekly with the Durham local Treasurers to discuss various financial matters resulting from the COVID-19 pandemic. This group continues to monitor property tax collection rates across the Region. Staff will bring forward any further recommendations to Committee/Council as needed.

7. Overview of 2020 Provincial Policy Changes

7.1 The Province has been conducting a review of Ontario’s property tax and assessment system to

- explore opportunities to support a competitive business environment,
- enhance the accuracy and stability of property assessments, and
- strengthen the governance and accountability of the Municipal Property Assessment Corporation (MPAC).

7.2 The Provincial government took early actions on several initiatives arising from this review in the 2020 Ontario budget delivered on November 5, 2020. These initiatives are discussed in subsequent sections of this study and include:

- reductions in the 2021 Business Education Tax (BET) rates;
- the introduction of a new optional small business property subclass;

- the extension of the existing property tax exemption for Ontario branches of the Royal Canadian Legion to another veteran organization; and
- business assessment tools in redevelopment areas.

8. Provincial Business Education Tax (BET) Reduction

8.1 Historically, Ontario has not had uniform BET rates across the province. Stakeholders have indicated that this impacts business competitiveness. In the November 5, 2020 budget statement, the Provincial government announced significant reductions in the 2021 BET by materially lowering the highest rates in the Province to a common ceiling rate of 0.88 per cent.

8.2 The Province estimates the overall Province-wide reduction will result in $450 million in total savings for approximately 200,000 businesses in 95 per cent of the municipal jurisdictions across Ontario.

8.3 Table 3 illustrates the estimated $15.2 million in property tax savings for Durham Region commercial and industrial property owners as a result of the reduction in the 2021 BET rates.

Table 3

Estimated 2021 Provincial Education Property Tax Reductions for Durham Commercial and Industrial Property Owners

Broad Property Class	2020 Education Tax Rate	2021 Education Tax Rate	Estimated 2021 Education Reduction	
			$ millions	%
Commercial	0.98%	0.88%	$10.0	10.2%
Industrial	1.25%	0.88%	$5.2	28.0%
Total			**$15.2**	

8.4 There was some initial concern by municipalities that the BET reduction would impact local municipalities who retain the education portion of property taxes on certain PIL (Payment in lieu of taxes) properties. In Durham Region this would have been particularly impactful to Pickering and Clarington who retain the education portion of the PIL payment on the nuclear facilities. Durham Region Council responded rapidly to this concern with a letter to the Premier on November 25th.

8.5 The Ministry of Finance provided further clarity on this issue by confirming that the BET reductions will not negatively impact municipalities, indicating that the Province will maintain BET rates at the 2020 level for properties whose PIL of education taxes is retained by single and lower-tier municipalities. While this is welcome news for local municipalities in Durham, municipalities and the Municipal Finance Officers Association of Ontario (MFOA) continue to be cautious as it is not clear that having a separate tax rate for PIL properties is legislatively compliant. MFOA members are worried that the federal government, financial corporations (hydro), and public utilities will continue to view the effective rate for the calculation of PILs as 0.88 per cent. This is based on an understanding that the legislation governing the payment of PILs includes provisions which prevent the application of separate BET rates in the calculation of PILs.

8.6 As of the writing of this report, the Province has not released the 2021 regulations related to the 2021 Provincial Education Tax Rates. Staff will provide updates to Committee/Council following the release of the regulations.

9. New Optional Small Business Property Tax Subclass

9.1 The Province, as part of the 2020 Ontario Budget released on November 5, 2020, announced a new optional small business property tax subclass that provides municipalities with the flexibility to target property tax relief to small business in a way that best reflects their local circumstances. As part of the budget, the Province indicated that it would consider matching any municipal reductions with similar education tax reductions.

9.2 The information provided to date by the Province indicates that:

- responsibility for this policy decision lies with the single or upper tier level of government;
- municipalities will be responsible for defining a “small business” and evaluating which businesses meet the municipality’s definition and are eligible for the reduction as well as potentially resolving any disputes that result from the classification, or lack of classification of a business as a “small business”; and
- any reductions to taxes for small businesses would be funded through a redistribution of property taxes to other property taxpayers.

9.3 The Province continues to consult with municipalities on the specific implementation details in advance of introducing the required regulations. The regulations will provide the specific parameters of the program that will allow municipalities to analyze the short and longer-term implications of introducing this optional property tax subclass including, how these implications align with the Region’s strategic objectives. The adoption of an optional property tax subclass is a long-term policy decision that must be carefully weighed and evaluated to avoid the introduction of potential inequities or lack of fairness within the property tax system. Some potential challenges include: how tenants who are small businesses, as opposed to property owners, would be affected; whether the definition of a small a small business considers property value only or also the number of employees, class of business, location of business, revenue generation etc.; and the role of municipalities in identifying and validating individual properties to MPAC.

9.4 In working with our municipal peers and municipal finance associations, staff continue to engage the Province on this new optional property tax subclass. Like our Regional peers, as more information becomes available, staff will undertake a comprehensive review of this option, in consultations with the local area municipal Treasurers, and will report back to Regional Council with a recommendation on the optional small business subclass for the 2022 property tax year and onwards.

10. Extension of the Existing Property Tax Exemption for Ontario branches of the Royal Canadian Legion

10.1 On November 5, 2020, the Province, as part of the Ontario Budget, proposed changes to the *Assessment Act* to extend the existing property tax exemption for Ontario branches of the Royal Canadian Legion to Ontario units of the Army, Navy and Air Force Veterans in Canada, for 2019 and subsequent tax years.

10.2 The Region and local municipalities have had a municipal tax exemption in place for the Royal Canadian Legion for almost two decades. The mandated extension of this exemption will not have a material impact on municipal taxes due to the small number of properties.

11. Business Assessment in Redevelopment Areas

11.1 The Province, as part of the November 5, 2020 Ontario Budget, announced additional new assessment tools to address concerns related to the impact of redevelopment and speculative sales on small business assessment. These concerns have been expressed through the ongoing Provincial review (see section 7.0 Overview of 2020 Provincial Policy Changes).

11.2 The Province will be proposing amendments to the *Assessment Act* that support the potential creation of these new assessment tools, however no detailed information on the proposed assessment tools has been released. The Province has indicated that it will continue to seek the input of stakeholders, including the municipal sector; as it develops this regulatory framework.

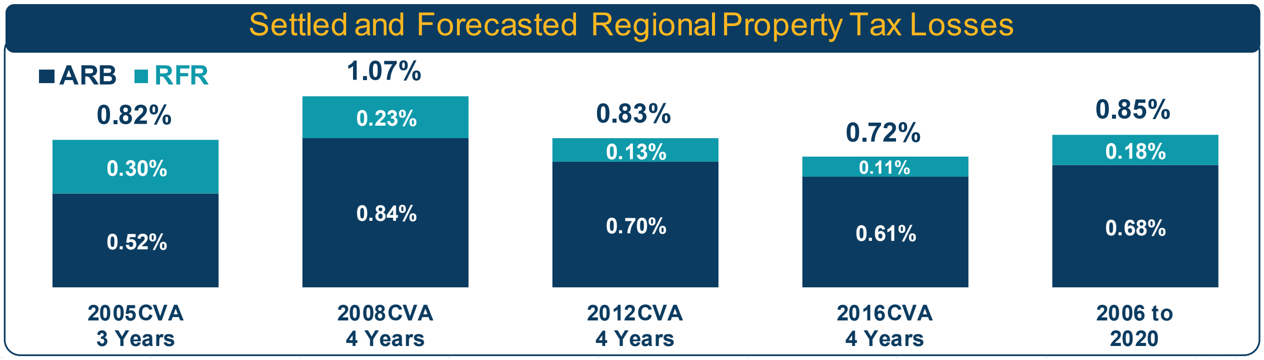
11.3 It is not clear if there will be a role for municipal decision making within this new flexibility or if the tool will be adaptable to local circumstances. In addition, it is not clear if the policy tool is even necessary in most Ontario municipalities outside of the higher density Greater Toronto Area (GTA) municipalities where land values are at a premium.

11.4 Regional staff will continue to monitor the development of this initiative and report back to Council on any subsequent material developments.

12. Assessment at Risk Update

12.1 MPAC and the Assessment Review Board (ARB) have indicated that they are receiving a higher than normal number of assessment complaints. This is in part due to a number of non-residential property owners indicating a decrease in the market value of their property as a result of the on-going pandemic. It is important to remember that the CVA used in the current taxation cycle (2017-2021) is based on valuations as of January 1, 2016 and in principal should not be subject to appeal for pandemic related changes that occur four years later. Staff are actively monitoring settlement and assessment board decisions to assess whether there is any increased risk to the Region as a result of this uptick in assessment complaints.

Assessment Disputes



Based on medium risk scenario

12.2 At any given point in time, five to ten per cent of the Region's assessment base can be involved in an assessment or classification dispute. This represents a significant financial risk to the Region and the local area municipalities.

12.3 More specifically, the dispute process and the resulting assessment settlements, which are typically reductions, represent the following three financial risks to the municipal sector:

- Municipalities are required to rebate the difference between the previously billed property tax amount based on the original CVA and the revised billing based on the revised CVA (typically lower). The longer the complaint has been outstanding, the more years of municipal taxes are rebated.
- The most material complaints are for non-residential assessment. CVA reductions on these types of properties further erodes the non-residential assessment base, shifting taxes to the residential property tax base.
- Finally, changes to previous assessment cycles have the potential to put downward pressure on the current assessment cycle values, which may result in reduced assessment growth going forward.

12.4 There are two processes by which taxpayers can pursue assessment disputes.

- The first process, which is mandatory for residential properties, is the Request for Reconsideration (RfR) process. This is an informal process whereby the property owner requests MPAC review the file and the owner ensures that MPAC has up-to-date and correct property information. Through this review, one of the following two outcomes could occur.
  - MPAC may offer to revise the returned assessment based on more current/accurate information or may confirm the returned assessment as accurate. Should the property owner not agree with the outcome, they have 90 days to file an appeal to the ARB.
  - If a change in the assessment is proposed by MPAC, a Minutes of Settlement Offer would be provided to the owner and, if it is agreed to by the owner, then the assessment is adjusted. The owner has 90 days to accept the Minutes of Settlement or advance to the next stage of the dispute process (ARB appeal).

- The second process is an appeal to the ARB, which is an independent adjudicative body within the Ministry of the Attorney General that decides assessment and classification complaints in Ontario. It can take several years for disputes to reach settlement at the ARB, with many of the more complex commercial and industrial-type complaints resulting in processes that stretch far beyond the current four-year assessment phase-in period.

12.5 In response to the increased volume of assessment appeals and based on stakeholder feedback, in 2017 and 2019, the ARB initiated processes to modify its Rules of Practice and Procedure with the key objective of more timely appeal resolutions.

12.6 Although the number of dispute claims are fairly evenly split between the RfR process (51.8 per cent) and the ARB process (48.2 per cent), the total Assessment at Risk in the ARB process is almost eight times (88.1 per cent) that of the RfR process (11.9 per cent). Further, the estimated Regional taxation losses over the period 2006-2020 in the ARB process ($57 million) are almost four times the losses in the RfR process based on historical analysis ($15 million).

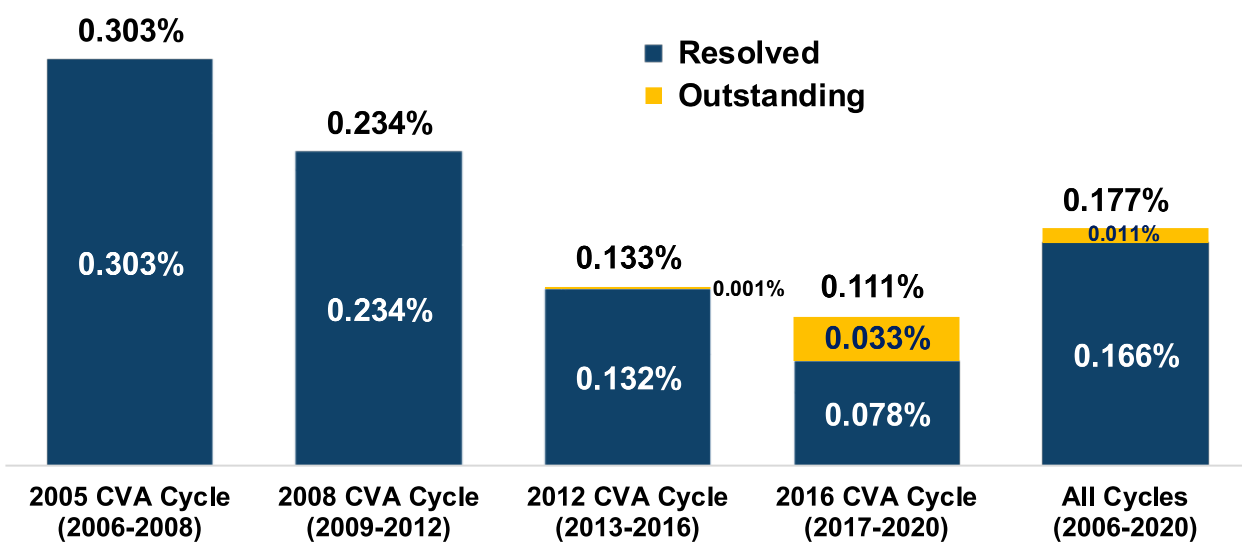
12.7 The next section briefly summarizes the RfR (primarily residential) historical disputes, and the remainder of this section focuses on the higher risk ARB (primarily non-residential) disputes.

Request for Reconsideration Process (RfR) Summary

12.8 Figure 4 provides a summary of the estimated Regional taxation losses for the four CVA cycles over the period 2006 to 2020 including both the losses on resolved RfR disputes and the estimated losses on the outstanding RfR disputes based on a medium risk scenario.

Figure 4

Request for Reconsideration (RfR): Estimated 2006-2020
Regional Property Taxation Losses as a Share of Total Regional Taxation



12.9 The Regional taxation loss due to the RfR process has generally declined since the 2005 CVA cycle as shown in the previous figure. A review by the Ontario Ombudsman in 2006 resulted in significant changes to the MPAC RfR process which is believed to have significantly contributed to this decline.

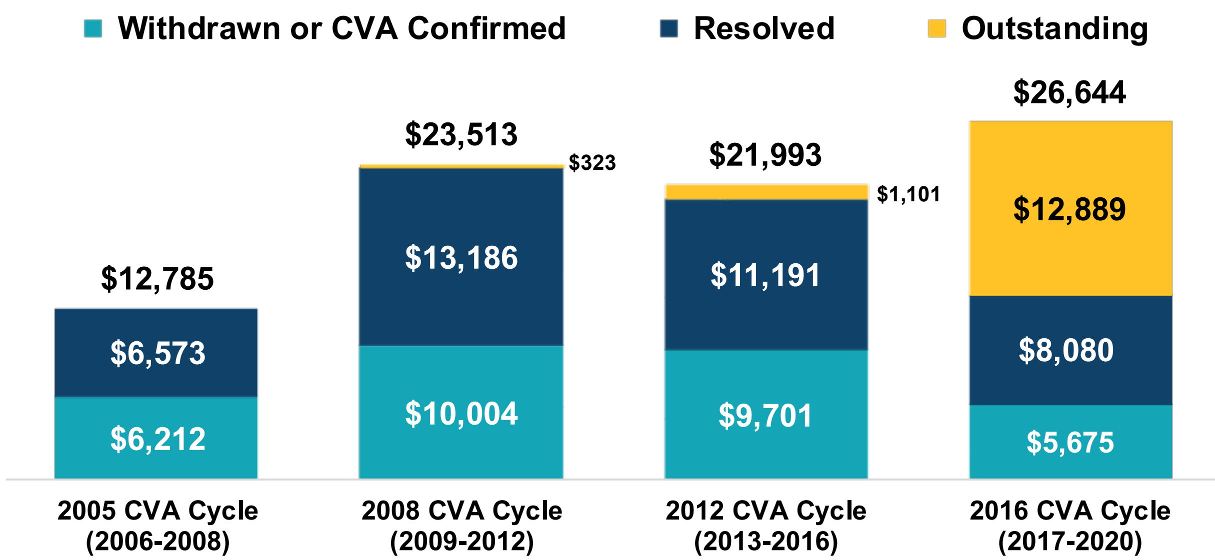
Assessment Review Board (ARB) Disputes

12.10 The following analysis covers the last four reassessment cycles (2005, 2008, 2012 and 2016) encompassing taxation years 2006 to 2020.

12.11 Figure 5 outlines the assessment at risk for each reassessment cycle. The significant jump in the assessment at risk in the 2008 CVA cycle was the result of the economic downturn, as well as large group appeals by owners who had significant properties across the Province. This was particularly apparent in the large retail sector. The non-residential disputes are also driven by various economic factors including the declining manufacturing sector and the changes in ‘brick and mortar’ retail sector, driven by on-line shopping.

Figure 5

Estimated Assessment at Risk in ARB Disputes 2006-2020 ($m)



12.12 The backlog of ARB disputes has decreased significantly in the last few years as major settlements were reached including a major automotive settlement agreed upon at the end of 2020.

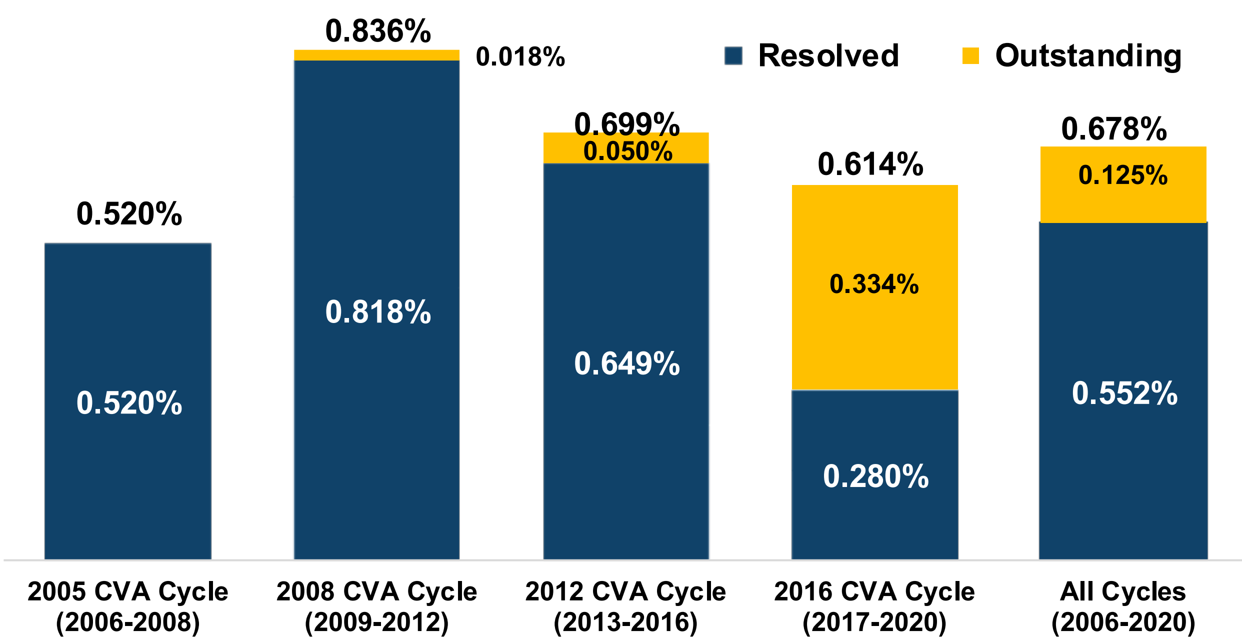
12.13 As illustrated in Figure 5, there still remains over 500 properties within the ARB process representing approximately $14.313 billion in weighted assessment at risk under the medium risk scenario. This represents a projected Regional property tax loss of $10.5 million. The majority of these losses pertain to the 2016 CVA cycle (2017-2020 tax years) at almost $9 million with the key risks detailed below:

- Multi-residential properties (including vacant land) which experienced a change in the calculation methodology for the 2016 CVA cycle. These properties represent over 20 per cent of the forecasted additional Regional property tax losses.
- Large retail and office buildings represent about 18 per cent of the forecasted additional losses.
- Standard industrial properties losses are estimated at 5 per cent and residential development land an additional 4 per cent.

12.14 As illustrated in Figure 6 the Regional taxation loss due to the ARB settled disputes over the four CVA cycles is estimated at 0.7 per cent ($46.3 million). It is estimated that the outstanding ARB disputes will result in additional Regional taxation losses of 0.125 per cent ($10.5 million) under the medium risk scenario (high risk scenario estimate is $12.6 million; while low risk scenario estimate is $8.4 million).

Figure 6

ARB Appeals: Estimated 2006-2020: Regional Property Taxation Loss
As a Share of Total Regional Taxation Under a Medium Risk Scenario



12.15 The estimated Regional taxation losses peaked with the 2008 CVA cycle and decreased as MPAC made corresponding updates for both the 2012 and 2016 CVA cycles.

12.16 The Region has a property tax appeal reserve to mitigate this risk and to fund abnormally high rebates of previous year's Regional property taxes. Region staff, through the review of the assessment at risk, examined the sustainability of the Region's Property Tax Appeal Reserve including the annual contribution to this reserve. Based on this analysis, staff are not recommending any change to the $1 million annual contribution to this reserve as part of the 2021 Property Tax Supported Business Planning and Budget submission.

Regional Role in Assessment Disputes

12.17 The Region's 48 per cent share of total property taxation relies on maintenance of the assessment base and any reduction due to appeals has a direct financial impact on Regional taxation revenues. The Region has ongoing dialogue with the local area municipalities on assessment disputes when feasible.

12.18 As discussed in previous years' studies, the Region's legislative disconnect from the assessment complaint and appeals process due to lack of upper tier inclusion in the relevant provincial legislation represents a financial risk. This impacts the Region's ability to accurately forecast potential financial losses and effectively monitor and protect the assessment base.

12.19 Regional Council has previously requested that the Province amend the *Assessment Act* to provide upper tier municipalities with the appeal rights that are commensurate with the responsibilities of the upper tier to set property taxation policy, as well as recognizing the upper tier's higher share of property tax revenues. To date, no response has been provided or action taken by the Province on this issue.

13. Municipal Property Tax Comparisons

Municipal Tax Ratios

13.1 The calculation of property taxes is based on a property's CVA as included in the returned assessment roll provided by MPAC under the authority of the *Assessment Act* and the *Municipal Act, 2001* where:

- MPAC is responsible for the classification and CVA assignment for all individual properties in Ontario; and
- Municipalities must use MPAC information along with budgetary requirements and municipal taxation ratios to calculate annual property tax rates applicable to individual property tax classifications.

13.2 A municipal tax ratio is the degree to which an individual property class is taxed relative to the Residential class. If the Commercial municipal tax ratio is 1.45, then its municipal property taxation rate will be 1.45 times the residential class tax rate. Since municipal tax ratios show the degree to which the non-residential classes are taxed relative to the residential class, the ratios have a direct impact on the competitiveness of municipal non-residential property taxes.

Table 7
2020 Municipal Tax Ratio Comparison

	Multi-Residential		Commercial		Industrial		Farmland	
	Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank
Durham:	**1.8665**	**4**	**1.4500**	**2**	**2.0235**	**4**	**0.2000**	**2**
Toronto	2.1361	9	2.6874	10	2.6529	9	0.2500	5
Peel Region (Mississauga)	1.2656	2	1.5170	4	1.6150	2	0.2500	5
Halton Region	2.0000	7	1.4565	3	2.0907	5	0.2000	2
York Region	1.0000	1	1.3321	1	1.5704	1	0.2500	5
Ottawa *	1.3867	3	1.8064	6	2.5023	7	0.2000	2
Niagara Region	1.9700	6	1.7349	5	2.6300	8	0.2500	5
Waterloo Region	1.9500	5	1.9500	7	1.9500	3	0.2500	5
Hamilton **	2.4876	10	1.9800	8	3.3153	10	0.1767	1
Windsor ***	2.0000	7	2.0187	9	2.3200	6	0.2500	5
Average	**1.8063**		**1.7932**		**2.2670**		**0.2277**	

Ratios in table have been rounded to four decimal places.
* Ottawa has special classes, the broad class ratios are shown
** Hamilton has a Large Industrial class with a ratio of 3.888
*** Windsor has a Large Industrial class with a ratio of 2.938

13.3 In several instances, the Durham municipal comparators shown in Table 7 may have altered their 2020 municipal tax ratios to partially offset the inter-class shifting that occurs in a reassessment year. Such ratio changes are permitted by the Province in special circumstances.

13.4 As illustrated in Table 7, Durham Region has a competitive Multi-Residential ratio of 1.867. Durham's ratio is marginally above the average of the similar municipal comparators. For a local area municipality with a large share of multi-residential assessment, any reduction in this ratio would shift significant local area municipal taxes to the residential property tax class. Additionally, all new multi-residential properties become classified in the Provincially mandated New Multi-Residential property tax class with a maximum ratio of 1.1.

13.5 Durham Region has a competitive commercial ratio of 1.4500. Durham's ratio is 19 per cent below the average of the comparators (1.7932). Durham has the second lowest ratio and is just slightly lower than Halton's ratio of 1.4565.

13.6 Durham Region's 2020 industrial municipal ratio is 11 per cent below the average of the comparators (2.2640) in the table. Durham is higher than Mississauga, York Region and Waterloo Region.

13.7 The Province has mandated a maximum farmland municipal tax ratio of 0.25. However, several Ontario municipalities (Durham included) have lowered their ratio from this provincial maximum as a support to the agricultural industry within their jurisdiction.

13.8 The remainder of this section provides a summary of the property tax comparisons across comparable municipalities adjusting for the varying market values which then shows the degree to which the market values affect tax rates.

13.9 Caution should be used in interpreting the results of any municipal property tax comparison as these comparisons do not consider municipal services or service levels and a whole range of other unique municipal characteristics (non-residential assessment levels, urban/rural compositions, geographical density and size, financial sustainability, etc.).

13.10 These comparisons can be useful in showing the impact the assessment base has on property tax rates and to garner an overall impression of general competitiveness, but the results should not in any way be considered a ranking of municipalities or commentary on municipal efficiency or service delivery.

Residential Home Comparison

13.11 The following residential home property tax comparison is based on the comparison of 10 “average” homes from across Durham’s municipalities. The homes were chosen to reflect, as closely as possible, the municipality’s average home in terms of assessment, age, size and building quality.

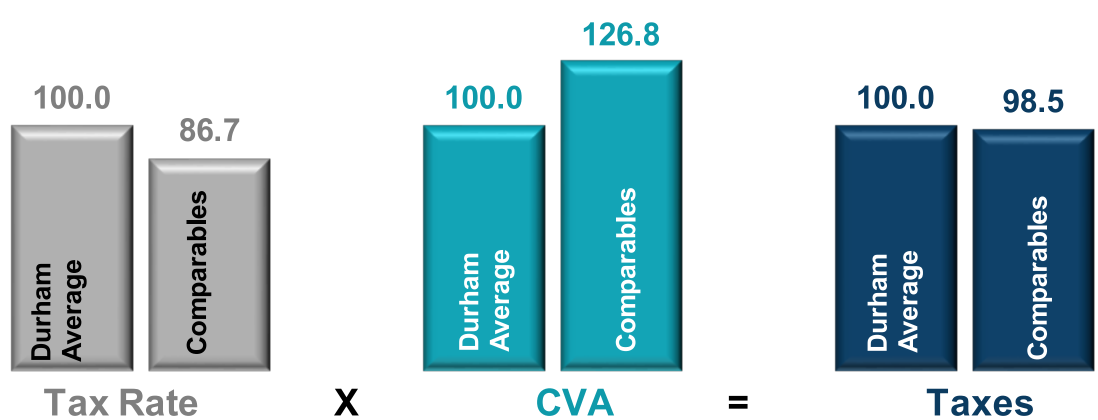
13.12 MPAC provided the CVAs for the comparator municipalities on which the following analysis is based. The comparison uses 2020 CVA and tax rates as 2021 municipal tax rates are not yet available.

13.13 Tax rates and assessments vary significantly between municipalities. In general, they are inversely related (higher assessments allow for a lower tax rate to generate the same tax dollars).

13.14 The residential home comparison found that the comparable municipal average residential tax rate was 13.3 per cent lower than Durham’s. However, assessment values for the comparators were 26.8 per cent higher. The resultant average property tax ($) difference between Durham and the comparator’s average is very minor, at approximately 1.5 per cent, as illustrated in Figure 8.

Figure 8

Residential Home Sample Average: Tax Rate, Assessment and Taxation



13.15 The majority of the large gap in tax rates can be explained by Durham's much lower market values (assessments). The gap of 13.3 per cent in tax rates is reduced to 1.5 per cent in tax dollars when Durham's lower assessments are considered.

Non-Residential Property Tax Comparisons

13.16 It is difficult to provide a valid non-residential property tax comparison. The primary issue is the uniqueness of the individual properties and the lack of robust sales transactions on which MPAC can base the assessments.

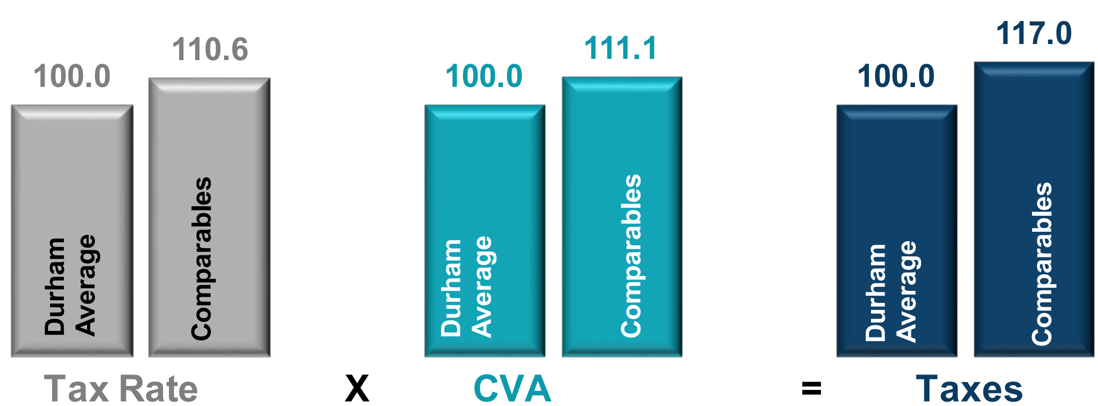
13.17 This difficulty has increased over the last few years, as a result of significant assessment appeals launched by the non-residential sector across Ontario for the previous three reassessment cycles and the resultant changes in both specific property assessments and MPAC methodology.

13.18 The 2020 municipal ratio analysis (see section 13.1) clearly showed that Durham's commercial ratio is very competitive with comparator jurisdictions. As well, it is believed that municipal taxation is a lesser consideration in a commercial location decision when compared to factors such as customer density and affluence. Further, commercial growth within the Region has kept pace with residential growth over the past two decades.

13.19 Similar to the residential comparison, a commercial comparison based on 18 properties was conducted. As illustrated in Figure 9 tax rates and assessment vary significantly between municipalities.

Figure 9

Commercial Sample Average: Tax Rate, Assessment and Taxation

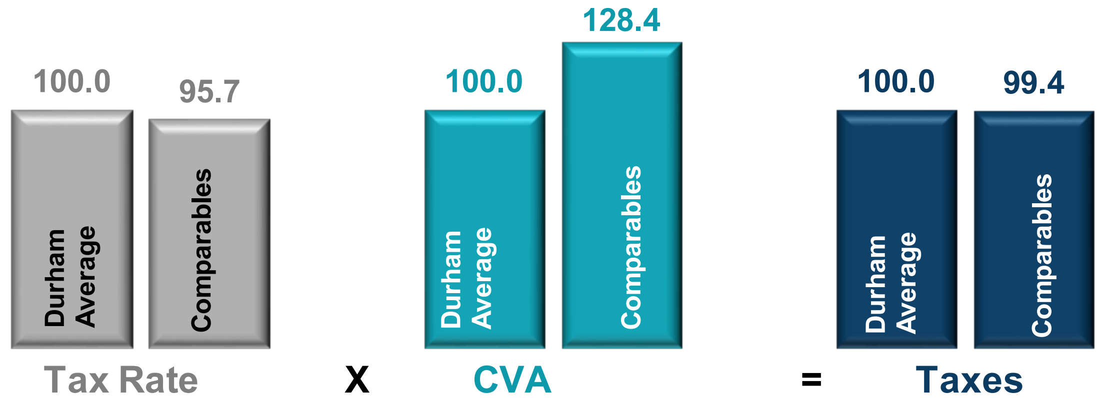


13.20 Although the commercial sample showed a high degree of variability, the average comparator municipal tax rates were 10.6 per cent higher than Durham's, while the average CVA was also higher by 111.1 per cent. The resultant property tax average of the comparators is approximately 17 per cent higher than in Durham Region.

13.21 An industrial comparison based on 12 properties was also conducted and the results are shown in Figure 10 on the following page.

Figure 10

Industrial Sample Average: Tax Rate, Assessment and Taxation



13.22 A high degree of variability exists in the sample, however the averages show that the Durham Region tax rate is 4.3 per cent higher than the comparators', while the CVA is 28.4 per cent lower. The resultant property tax average on the comparators is approximately the same as Durham Region.

13.23 As noted previously, property taxation does not appear to be the significant driver in an industrial business determination of site selection.

14. Property Tax Treatment of Nuclear Generating Facilities

14.1 The two Ontario Power Generation (OPG) nuclear generating stations (NGS) provide a material amount of PIL revenues to the Region. In addition, the City of Pickering and the Municipality of Clarington are also able to retain the education tax portion of these PIL properties.

14.2 In August of 2020, the Province announced its support for an extension of the operating period for the Pickering NGS which was scheduled for closure by the end of 2024. Subject to final CNSC approval, it is proposed that following the shutdown of Pickering Units 1 and 4 at the end of 2024, the remaining OPG Pickering Units 5 through 8 would continue to operate until the end of 2025.

14.3 As well, the Unit 2 refurbishment at the OPG Darlington facility in Clarington was completed in 2020 with Unit 3 refurbishment activities underway with the unit defueling completed in late 2020, ahead of schedule. The four-unit Darlington NGS refurbishment project is expected to be completed in late 2026.

14.4 In 2021, the Region along with City of Pickering and OPG will be undertaking a detailed review of the financial impacts of the closing of the Pickering NGS facility. Currently, it is unclear what the property taxation implications of the shut-down and closure will be as no Ontario nuclear plant has undergone this process.

Provincial Statutory Rate on Generating Facilities

14.5 The Province currently bases municipal payments for nuclear generating facilities on legislated statutory rates as outlined in the *Assessment* Act, rather than current value assessment.

- The prescribed statutory rate set by the Province for assessing nuclear generating facilities is $86.11 per m^2 of inside ground floor area of the actual generating and transformer station buildings. This rate was set in 1968 and has never been updated.
- As such, the prescribed statutory rate does not consider increased Regional service costs, the time value of money or the reassessment valuation changes of all other properties since 1998.

14.6 Of all the provincial statutory rates, those that are applicable to nuclear generating facilities are particularly inequitable to Durham taxpayers due to the presence of the majority of the Provinces nuclear generating capacity. This particular statutory rate continues to represent a financial inequity to the Region and its local area municipalities.

14.7 It is recommended that the Province, in consultation with the municipal sector, review and update the nuclear generating facility statutory rate of $86.11 and institute a process by which this rate is annually updated in the future.

Nuclear Generating Facilities Proxy Property Taxes

14.8 An additional issue related to the nuclear generating facilities is the alternative assessment and proxy property taxes related to the payment of stranded debt.

- PILs on specific generating structures are based on a statutory assessment rate and is paid to the hosting municipalities.
- Further proxy property taxes are levied and paid to the Ontario Electricity Financial Corporation (OEFC) and applied against the former Ontario Hydro stranded debt.
- Details of the alternative assessment are outlined in O. Reg. 423/11 under the Electricity Act, 1998. It is understood that proxy property taxes are the difference between the prescribed statutory rate for designated facilities and what would apply if taxed at its appropriate full CVA.

14.9 Given that proxy property tax payments to the OEFC are to be equivalent to what would have been payable by a private corporation based on an MPAC-derived alternative market valuation for these asset classes, Regional staff have previously requested confirmation from the Ontario Ministry of Finance that payments currently being made to the OEFC will instead be paid to the appropriate municipalities in respect of land located in those municipalities given Section 92(3) of the Electricity Act, 1998, which notes potential redirection of payment streams where it references tax treatment following the retirement of the stranded debt and repeal of Part V under Section 84.1 of the Act.

14.10 However, there remains a lack of clarity around the future redirection of these proxy property tax payment streams assuming the eventual retirement of the stranded debt. Any future amendments to the regulation that reduce revenues to impacted municipalities should be addressed through alternative sources of funding by the Province.

14.11 It is recommended that the Region continue to seek confirmation from the province that all existing proxy property tax payments made to the OEFC will be redirected to hosting municipalities and the upper tier, where applicable, following retirement of the stranded debt.

15. Relationship to Strategic Plan

15.1 This report aligns with/addresses the following strategic goals and priorities in the Durham Region Strategic Plan:

- Goal 3.1 Economic Prosperity – to position Durham Region as the location of choice for business. Property taxation is a consideration in building a strong and resilient economy that maximizes opportunities for business and employment growth, innovation and partnership; and
- Goal 5.1 Service Excellence – to provide exception value to Durham taxpayers through responsive, effective and financially sustainable service delivery.

16. Conclusion and Looking Forward

16.1 Staff will continue to monitor the following ongoing property taxation and assessment issues and will provide updates to Committee and Council as additional information becomes available:

- Non-residential declining share of the assessment base and impacts of the “new digital economy”;
- Future reassessment cycles;
- Provincial education taxes, including separate PIL education tax rate;
- New small business property subclass;
- Business assessment in redevelopment areas;
- Assessment disputes; and
- Nuclear generating facilities property tax treatment.

Respectfully submitted,

Original Signed By

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Recommended for Presentation to Committee

Original Signed By

Elaine C. Baxter-Trahair
Chief Administrative Officer