If this information is required in an accessible format, please contact 1-800-372-1102 ext. 2303

The Regional Municipality of Durham Report

To:	Finance and Administration Committee
From:	Commissioner of Finance
Report:	#2023-F-8
Date:	March 21, 2023

Subject:

2023 Strategic Property Tax Study

Recommendation:

That the Finance and Administration Committee recommend to Regional Council that:

A) For the 2023 property taxation year, the municipal property tax ratios for the following property classes and subclasses for the Regional Municipality of Durham be set as follows, consistent with the 2022 ratios, 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

<u>Commercial Broad Class</u>
(Including Shopping Centres, Office Buildings, Parking Lots and Residual)

Occupied	1.4500
Vacant Land	1.4500
Excess Land	1.4500
On Farm	1.4500

<u>Industrial Broad Class</u>
(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, and;
- 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.

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 assessment and taxation items. As one of the Region's primary revenue sources, it is important, where possible, to ensure a sustainable property tax assessment base. To achieve this property tax policy decisions must consider the long-term impacts on the assessment base and on all regional property taxpayers.

1.2 The 2023 Strategic Property Tax Study provides information and analyses on a number of property tax items, including:

- assessment base trends including growth and the declining non-residential share of municipal taxes which places upward pressure on the municipal residential property tax rates;
- an update on the CVA at risk in assessment disputes;
- the provincial postponement of the current value assessment (CVA) reassessment until at least the 2024 property taxation year and real estate market developments;
- a review and comparison of Durham's municipal property tax ratios;
- average residential home and non-residential property tax comparisons;
- an update on provincial policy initiatives including those related to the Province's housing strategy; and
- looking forward and next steps.

1.3 There are no recommended changes to the municipal tax ratios for the 2023 taxation year.

1.4 A Property Tax Reference Guide is included as Attachment 2 to this report and provides additional background on property taxes for Council's reference including information on key terms, roles and responsibilities, historical property tax information and various property tax policy items.

2. Previous Reports and Decisions

2.1 Strategic Property Tax Studies are prepared and presented annually. The 2022 Strategic Property Tax Study (Report #2022-F-03) was submitted on February 8, 2022.

2.2 In November 2021 Regional Council considered the following two substantive property tax policy items. The policy decisions made in response to these reports remain current today and inform the setting of the Region's 2023 property tax rates.

- Report #2021-F-28 – Regional Council approved that the multi-residential municipal property tax ratio remain at 1.8665 for the 2022 property taxation year. The report provides information on Durham Region's residential sector assessment and taxation.
- Report #2021-F-29 – Regional Council approved to not proceed with the small business property tax subclass. Information and analysis on the optional small business property subclass including impacts on other property owners and implementation and administrative challenges were outlined.

3. Background

3.1 Property taxation is the single largest source of funding for the Region, averaging approximately half of the annual funding required to deliver the property tax supported services. In 2022, budgeted Regional property tax revenue was $760.2 million or 43.9 per cent of the total $1.7 billion gross expenditures for Regional property tax supported services.

3.2 When evaluating potential property tax policy options or changes staff evaluate and consider taxpayer equity, market effects, competitiveness, and impacts on property owners.

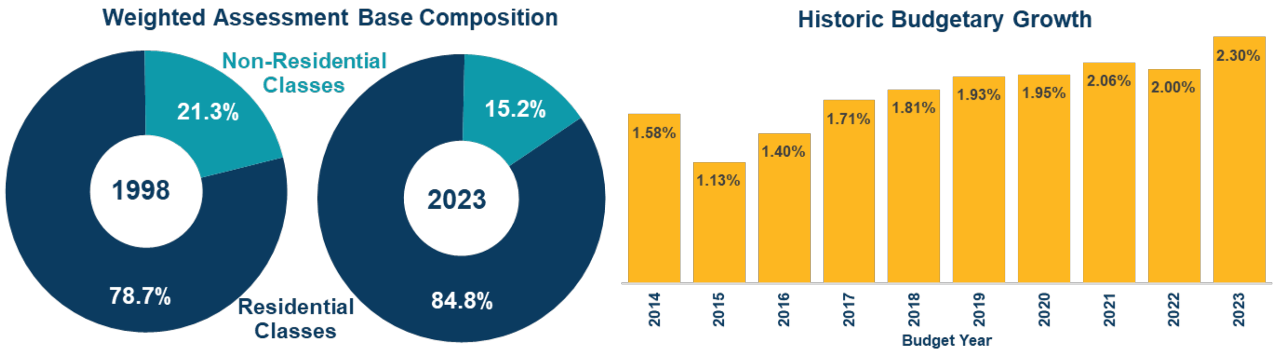
3.3 The Strategic Property Tax Study is produced annually to ensure key stakeholders, including Regional Council are kept informed on both recent developments as well as long-term trends, risks, and financial impacts.

4. The Assessment Base

Assessment Growth

4.1 Historically, Durham Region's residential growth and reassessment valuation changes have been strong relative to the non-residential growth, contributing to a continual decrease in the proportionate share of non-residential assessment. See the pie charts in Figure 1 below.

Figure 1
<u>Assessment Base Trends</u>



4.2 For the 2023 budget, the estimated total taxable weighted assessment growth is 2.30 per cent, an increase from the total taxable weighted assessment growth of 2.00 per cent for the 2022 budget. This slight increase is due, in part, to the beginning of the pandemic recovery and increased development in the Seaton community.

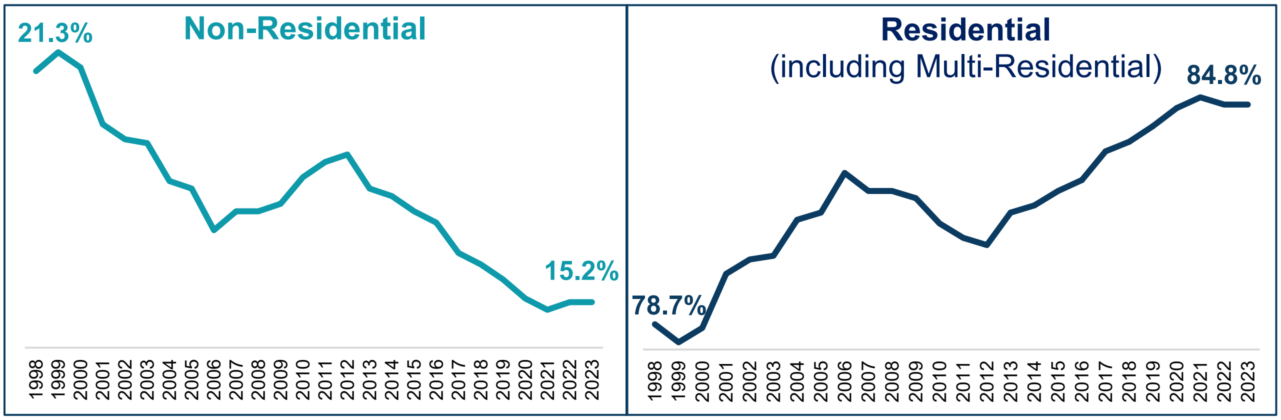
4.3 Of the 2.30 per cent weighted assessment growth for the 2023 budget, 0.20 per cent is attributable to the Seaton community, compared to 0.10 percent for the 2022 budget. Continuing Council's direction (Report #2018-COW-19), this 0.20 per cent of the weighted assessment growth for the 2023 budget has been deferred and will be brought into the annual budget in alignment with annual operating expenditures related to the Seaton development such as the operating costs for the Seaton Long-Term Care Home.

- This will promote 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.

<u>Non-Residential Share of Regional Assessment and Taxation Base</u>

4.4 Figure 2 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 2
Share of Regional Property Taxes 1998-2023

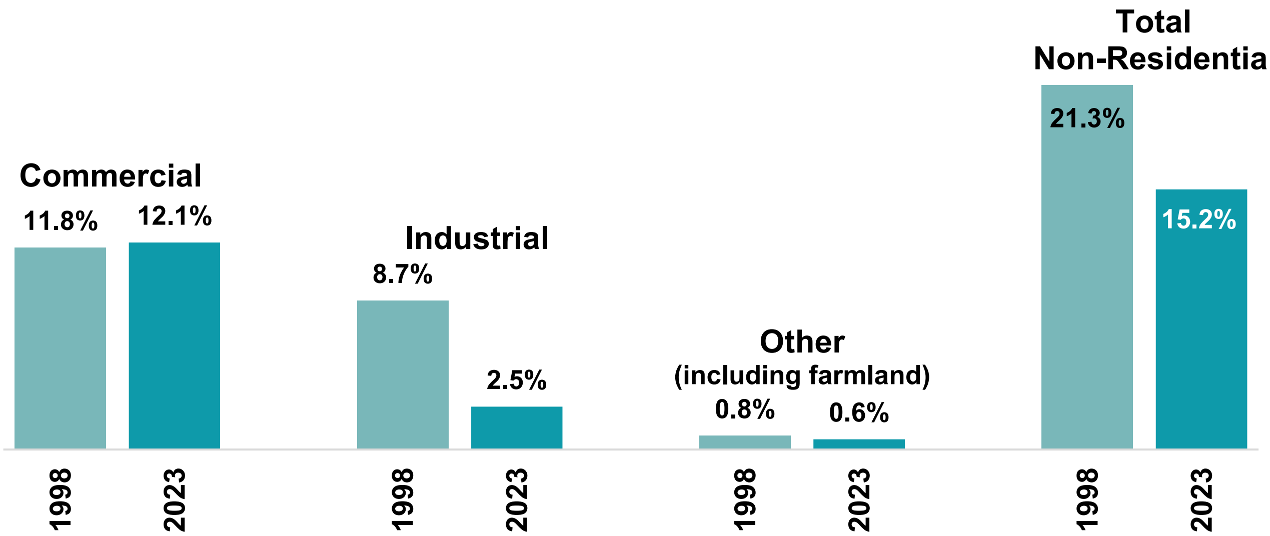


4.5 As illustrated in Figure 2 the decline in the non-residential share of regional property taxes has been consistent over the past 25 years with the following two notable exceptions:

- Between 2006 and 2012, non-residential properties experienced higher valuation increases due to reassessments compared to residential properties resulting in a slight increase in the non-residential share of regional property taxes. A number of non-residential property owners successfully appealed these increased assessments to the Assessment Review Board (ARB) which contributed to the continued decreasing share from 2012 onward.
- For 2022 and 2023, Durham had strong commercial growth as well as unusually high net industrial assessment growth for 2023 (5.0 per cent) resulting in a very slight increase in the non-residential share of Regional property taxes. This growth included a property tax classification change for a commercial warehouse in Pickering, the completion of a large industrial mall in Ajax and several reclassifications of residential to industrial vacant lands across Pickering, Ajax and Whitby, the three western local area municipalities.

4.6 The decrease in the non-residential share of Regional property taxes over the past 25 years is primarily the result of declines in the industrial property class share as shown in Figure 3. The share of the “Other” category decreased between 1998 and 2023 largely as a result of Regional Council’s decision to phase-down the Farmland municipal tax ratio by 20 per cent between 2005 and 2007.

Figure 3
Non-Residential Share of Regional Property Taxes 1998 and 2023



4.7 The decrease in the non-residential share places upward pressure on the residential municipal property tax rate and has a direct impact when comparing relative tax load as illustrated in Section 9 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.

Emergence of the New 'E'conomy

4.9 The Finance Department continues to advance a project which is focused on examining the anticipated impacts on Durham Region's non-residential property tax base resulting from the structural economic changes with the emergence of the 'e'conomy including the increasing prevalence of online retail, remote work, new technologies and the decline in brick-and-mortar stores and office buildings.

4.10 Building on the collaboration with Ontario Tech University in 2022, staff are partnering (over a series of academic semesters) with Trent University to perform statistical analysis to explore the potential relationship between online commercial activity and relative property value assessments. These insights will assist in building an evidence-driven foundation to explore innovative policy solutions and revenue tools to address these structural economic changes (both domestically and internationally) and assessing their suitability for Durham.

4.11 The Finance Department is committed to leveraging these insights and solutions gained through partnering with academic researchers, municipal partners, and relevant experts to inform future Regional policy decisions and advocacy work to mitigate against further shifts in regional property tax from the non-residential sector to the residential sector.

4.12 This work is aligned with and has the potential to help inform the work being advanced in support of the following January 17, 2023 direction from the Finance and Administration Committee:

Whereas an increased municipal capital program generates offsetting income tax and HST revenues to upper levels of government;

Whereas recent provincial legislation has reduced development charge revenues while increasing demand for infrastructure planning, delivery and maintenance;

That staff be directed to report back on the feasibility and implications of municipalities receiving a 10% share of annual HST revenue from either the Federal and/or Provincial governments and to investigate the feasibility and impact of the Province providing a full rebate on the Provincial share of the HST paid by Municipal governments.

5. Assessment at Risk Update

5.1 The calculation of property taxes requires a property's CVA which is included in the returned assessment roll provided by the Municipal Assessment Corporation (MPAC) under the authority of the *Assessment Act* and the *Municipal Act, 2001*. MPAC is responsible for both the classification and CVA for all individual properties in Ontario.

5.2 Staff use the CVA and property classification set by MPAC along with the annual budgetary requirements and municipal taxation ratios approved by Regional Council to calculate annual property tax rates applicable to individual property tax classifications.

5.3 At any given point in time, a material percentage of the Region's assessment base can be involved in an assessment or classification dispute. This can represent a significant financial risk to the Region and the local area municipalities.

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

- The first process (mandatory for residential properties) is the Request for Reconsideration (RfR). This is an informal process whereby the property owner requests MPAC to review the property's current assessment and/or classification to ensure that MPAC has current 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 of MPAC's review 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 tribunal established under the *Assessment Act* that decides assessment and property 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 complaints stretching beyond the current four-year assessment phase-in period.

Pandemic Not Relevant in Current Assessment Disputes

5.5 MPAC, the ARB and some municipalities have reported an increase in the number of assessment disputes filed by non-residential property owners claiming a decrease in the market value of their property as a result of the recent pandemic.

5.6 To date MPAC has supported the current assessment in these instances as the valuation date used in the current taxation cycle (2017 - 2023) is January 1, 2016, and, in principle, is not subject to appeal for pandemic related impacts that occur four years later. To date all ARB decisions, on these types of appeals, have supported MPAC's position and denied any adjustments to the 2016 CVA. Staff are actively monitoring settlement and ARB decisions to assess whether there is any increased risk to the Region.

Significant Reduction in Current Assessment Dispute Risk

5.7 MPAC and the ARB, through both rule and procedural changes over the last several years and the postponement of the 2021 property reassessment, have made considerable progress in reducing the previous backlog of assessment appeals at the ARB. The current volume of Durham disputes before the ARB is the lowest since the Region began analyzing the related risks in 2009.

Overview of Regional Assessment at Risk

5.8 Over the 17-year period from 2006-2023, there have been four reassessment cycles as follows:

- January 1, 2005 valuation date – used for 2006 – 2008 taxation (3 year cycle),
- January 1, 2008 valuation date – used for 2009 – 2012 taxation (4 year cycle),
- January 1, 2012 valuation date – used for 2013 – 2016 taxation (4 year cycle), and
- January 1, 2016 valuation date – used for 2017 – 2023 taxation (7 year cycle).

5.9 During this period (2006-2022) there have been approximately 43,700 assessment disputes of which 51 per cent had the assessment confirmed or the dispute withdrawn. Only 1.3 per cent remain outstanding as shown in Figure 4.

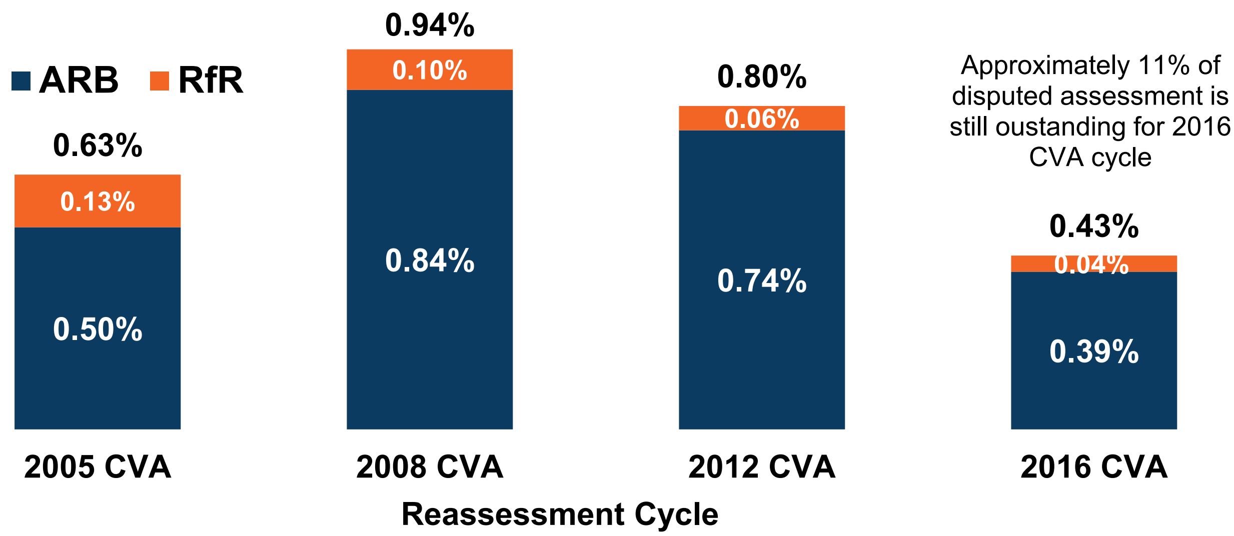
Figure 4
Number of Assessment Disputes from 2006 to 2022

	Request for Reconsideration (RfR)	Assessment Review Board (ARB)	Total	
CVA confirmed or dispute withdrawn	11,822	10,536	22,358	51.2%
Dispute settled	11,468	9,283	20,751	47.5%
Dispute outstanding	36	532	568	1.3%
Total	**23,326**	**20,351**	**43,677**	

5.10 The 20,751 settled assessment disputes between 2006 to 2022 have resulted in Regional property tax losses of $65.8 million. Over half of these disputes (55.3%) were settled through the informal RfR process and resulted in total Regional property tax losses of $6.9 million. The more complex non-residential disputes were settled at the ARB and account for $58.9 million (89.5 cent) of Regional property tax losses.

5.11 Figure 5 illustrates the per cent of total Regional property tax losses by reassessment cycle and dispute type for the settled disputes. There is an immaterial amount of disputed CVA outstanding in the 2012 CVA cycle and approximately 11 per cent of the disputed CVA in the 2016 CVA cycle remains outstanding.

Figure 5
Total Regional Property Tax Losses Resulting from Settled Assessment Disputes



Current Regional Risk in Outstanding Assessment Disputes

5.12 As of December 15, 2022, there were 172 properties with 568 outstanding assessment disputes in the Region of Durham for the taxation years 2017 to 2022. These disputes involve $4.4 billion in total CVA and a total of $39.7 million in Regional property taxes as detailed in Figure 6. The majority of this assessment at risk (94.2 per cent) is for Pickering, Ajax, Whitby and Oshawa properties.

Figure 6
Outstanding Assessment Disputes by Local Municipality from the 2016 Reassessment Cycle (2017 to 2022)

	Properties		CVA		Regional Taxes	
	#	**%**	**$m**	**%**	**$m**	**%**
Pickering	26	15.1%	805.8	18.3%	7.0	17.6%
Ajax	17	9.9%	1,125.1	25.5%	11.0	27.7%
Whitby	30	17.4%	690.7	15.7%	6.1	15.4%
Oshawa	26	15.1%	1,526.5	34.7%	13.5	34.0%
Clarington	19	11.0%	49.5	1.1%	0.4	1.0%
Scugog	2	1.2%	47.8	1.1%	0.5	1.3%
Uxbridge	49	28.5%	160.3	3.6%	1.2	3.0%
Brock	3	1.8%	1.5	0.0%	0.0	0.0%
Region	**172**	**100.0%**	**4,407.2**	**100.0%**	**39.7**	**100.0%**

5.13 2022 saw a significant reduction in outstanding assessment disputes in the RfR process. A number of these disputes were related to residential condominiums. As a result, and as illustrated in Figure 7, the majority of the outstanding disputes (83.7 per cent) and Regional taxes at risk (99.0%) are now in the ARB process.

Figure 7
Outstanding Assessment Disputes by Type from the 2016 Reassessment Cycle (2017 to 2022)

	Properties		CVA		Regional Taxes	
	#	**%**	**$m**	**%**	**$m**	**%**
Request for Reconsideration (RfR)	28	16.3%	49.1	1.1%	0.4	1.0%
Assessment Review Board (ARB)	144	83.7%	4,358.1	98.9%	39.3	99.0%
Total	**172**	**100.0%**	**4,407.2**	**100.0%**	**39.7**	**100.0%**

5.14 The Region's modelling suggests that, under a medium-risk scenario, the Region could see a reduction of $3.4 million in Regional property tax revenue representing an average CVA loss of 8.6 per cent on the outstanding disputes. Under a low-risk scenario, this is reduced to an estimated $2.6 million but increases to $4.3 million under a high-risk scenario. The Regional financial risk inherent in outstanding assessment disputes is adequately covered by the Region's Assessment Appeal Reserve.

5.15 Approximately 77.0 per cent of the Regional risk and estimated Regional property tax revenue losses are concentrated in the following three types of properties;

- Large commercial retail properties (27.0 per cent),
- Multi-residential properties and associated land (25.7 per cent), and
- Vacant land (24.3 per cent).

Gravel Pit Assessment Dispute

5.16 In March 2021, the ARB released an interim decision on a test case involving the valuation of gravel pits in the County of Wellington. The ruling significantly increased MPAC's assigned land value and also reclassified various residential land parcels to the industrial property tax class. This ARB decision supported the municipal position and was well received by the municipal sector.

5.17 In November 2021, MPAC sought leave to appeal the ARB decision in an effort to clarify the land classifications. On March 14, 2022, leave to appeal was granted and the Divisional Court hearing occurred in December 2022.

5.18 On February 3, 2023, the Divisional Court dismissed the appeal in its entirety and no appeals were filed by the February 21, 2023 deadline.

5.19 The statutory requirement for MPAC to implement decisions such as this are elastic, meaning that unless there is a specific requirement for MPAC to review the value of a property as of a specific date, such as an outstanding appeal, MPAC has flexibility when it implements these changes. MPAC, in discussion with municipalities, has indicated that they will keep municipalities informed of any assessment changes to gravel pit properties in their jurisdiction. MPAC has indicated that they expect to implement all of the appropriate changes for the 2024 assessment roll return (December 2023) and that properties with outstanding appeals will have the retroactive changes for those years under appeal.

5.20 There are almost 100 gravel pit properties in the Region of Durham that may be impacted by the ARB and Divisional Court decisions. Almost all of these are located in the northern Townships and the Municipality of Clarington. A summary of 2022 CVA and Regional taxes is shown by local area municipality in Figure 8. These properties generated approximately $780,000 in 2022 Regional property taxes. There are outstanding ARB appeals on 54 of the gravel pit properties in the Region covering the 2021 and 2022 property tax years. Ten of these properties are located in the Municipality of Clarington and 44 in the Township of Uxbridge.

Figure 8
Gravel Pit Properties by Local Municipality

	Properties	2022 CVA	2022 Regional Taxes
	#	**$,000's**	**$,000's**
Pickering	1	958	8
Ajax	-	-	-
Whitby	-	-	-
Oshawa	1	598	5
Clarington	26	20,006	150
Scugog	12	12,790	78
Uxbridge	44	59,530	399
Brock	13	20,312	140
Region	**97**	**114,194**	**780**

5.21 Although the Region is not recognized by Provincial legislation as a party to assessment disputes, Regional staff assist the local area municipalities in defending the common assessment base where appropriate and requested by the local area municipality. The Region has been working closely with the Township of Uxbridge over the last several years on their gravel pit appeals and jointly funded external consulting services. Recently, the Region also started working with the Townships of Brock and Scugog to file 2023 assessment appeals for the gravel pit properties located in their municipalities.

6. Provincial Postponement of the MPAC Reassessment

6.1 In the March 2020 Economic and Fiscal Update, the Province postponed the property tax reassessment update which was to be completed by MPAC in 2020 for the 2021 property taxation year.

6.2 In the November 2021 Economic and Fiscal Update, the Province further postponed the reassessment update for both the 2022 and 2023 property taxation years. As a result of this postponement, 2023 property taxes continue to be based on an updated return roll using the fully phased-in January 1, 2016 CVA.

6.3 The Province's decision to postpone the reassessment was due in part to the pandemic and additional concerns with respect to the volatility of the residential housing market. However, it is important that the Province return to regular scheduled reassessments to ensure the assessment base remains up-to-date and to avoid even further property tax shifts amongst taxpayers as well as maintain fairness to taxpayers on a comparative basis given the changes to the market over such an extended period of time.

6.4 With current assessments based on a January 1, 2016 valuation date, it is anticipated that there will be significant tax shifts with the next reassessment as the value of individual properties will have not changed uniformly across the Regional property tax base.

6.5 Staff and various municipal associations including the Association of Municipalities of Ontario (AMO) and the Association of Municipal Managers, Clerks and Treasurers of Ontario (AMCTO) continue to advocate for a return to the reassessment cycle while ensuring municipalities are provided with adequate time to plan, to communicate the impact of the reassessment on property taxpayers and to implement the reassessment.

6.6 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 distribution of the annual tax shifts that can occur with reassessments.

6.7 The longer the gap between reassessments, the greater the risk of material property tax shifts. The initial year of the four year reassessment cycle typically sees a large increase in the number of assessment disputes filed, especially with respect to the non-residential sector.

6.8 Since time between valuation updates is now a minimum of seven rather than four years, it is anticipated that the risk and corresponding impact of assessment disputes will be materially greater in the next assessment cycle.

6.9 Regional staff will continue to provide updates to Council on the reassessment timing and any phase-in parameter changes when announced by the Province.

6.10 Once the reassessment is announced and information on the reassessment impacts are known, staff will provide extensive information to the Finance and Administration Committee and Council on the reassessment and its impact on property taxpayers.

7. Real Estate Market Developments and Potential Reassessment Impacts

7.1 The CVA set by MPAC is meant to represent the value of the property in an arms length sales transaction on the valuation date. The CVA is therefore closely related to the general real estate market. The next reassessment, when announced, will bring the current valuation date (January 1, 2016) up to date.

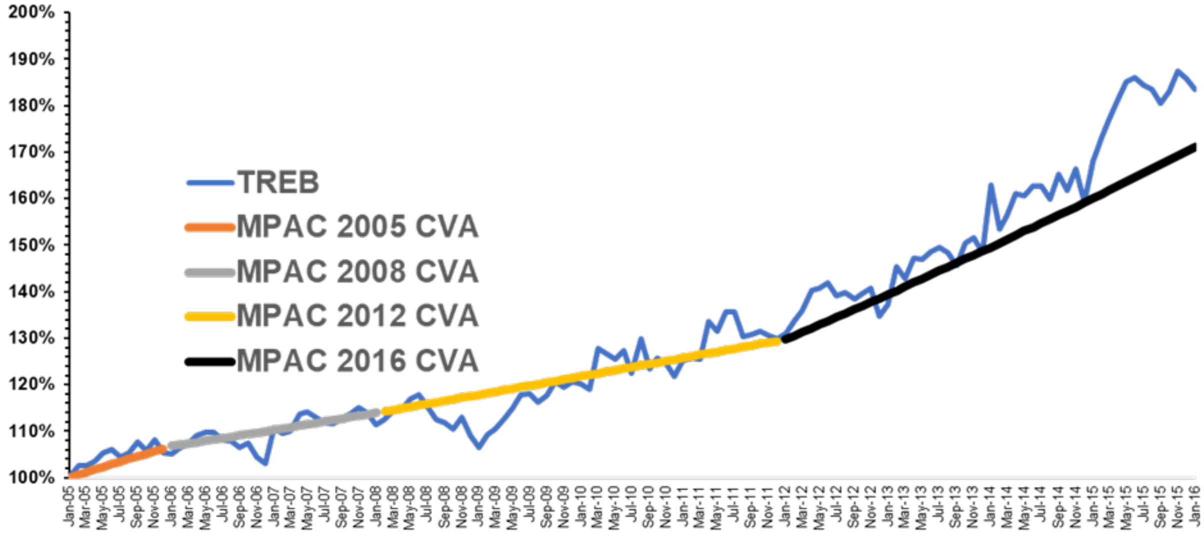
7.2 There have been a number of factors that have impacted and continue to impact the Ontario real estate market over the last couple of years. These include but are not limited to:

- various senior governmental initiatives to address both housing availability and affordability;
- federal introduction of a ban on non-Canadian residential property purchases;
- an increase in the Ontario government foreign homebuyers tax to 20 per cent;
- increases in borrowing rates by the Bank of Canada;
- the residual impacts of the pandemic and associated recovery;
- continuing inflation and the potential for an economic slowdown/recession; and
- current and potential future impacts of a shift to the new ‘e’conomy.

7.3 Figure 9 shows the Toronto Real Estate Board (TREB) monthly home resale and the Region's average home value increase over from January 2005 to January 2016. As expected, since CVA reflects market value, the lines follow similar trajectories.

Figure 9

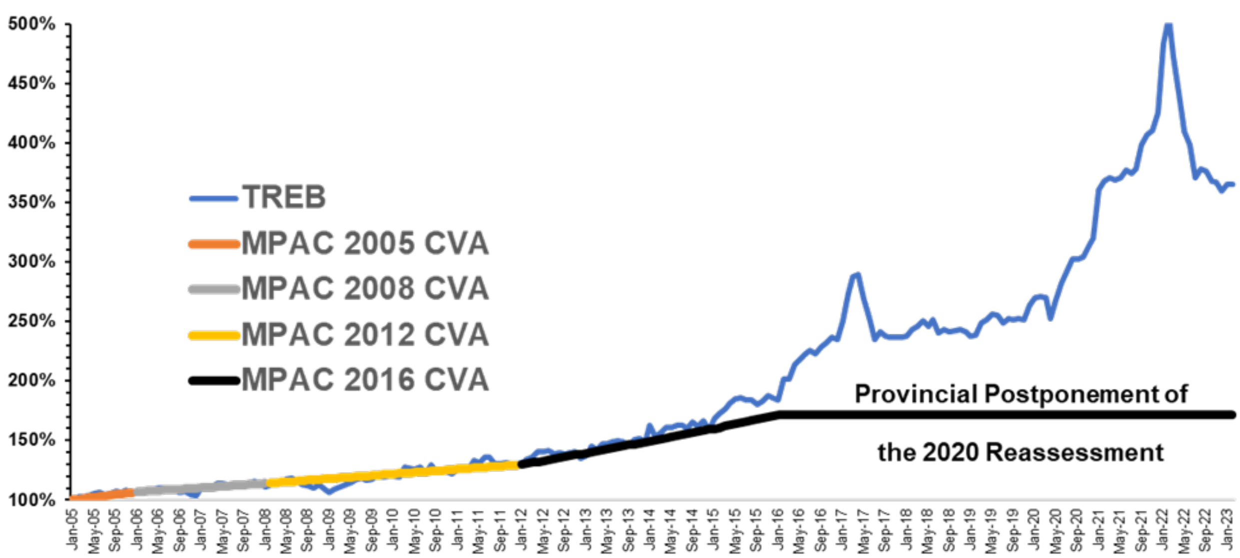
<u>Durham Average Home Resale Values (TREB) vs. MPAC Region-Wide Average Home Valuations January 2005 (100%) to January 2016</u>



7.4 As illustrated in Figure 10, beginning in 2015 Durham Region residential home resale values began increasing more significantly and showed increasing volatility.

Figure 10

<u>Durham Average Home Resale Values (TREB) vs. MPAC Region-Wide Average Home Valuations January 2005 (100%) to January 2023</u>



7.5 As illustrated in Figure 10, the TREB residential home resale values peaked in February 2022 and have dropped almost 30 per cent over the balance of 2022. This reflects the volatility created in part by the factors outlined in Section 7.2.

7.6 Figure 10 suggests that the next reassessment has the potential to result in material property tax shifts amongst the property classes and individual taxpayers. Given this current volatility and risk, property tax policy changes are not recommended until the impacts of the next reassessment are understood.

8. Municipal Flexibility with Respect to the Tax Treatment of "Vacant" Residential Properties

8.1 Since 2018, under Section 338.2 of the *Municipal Act, 2021*, upper and single tier municipalities have been provided the power to impose an additional property tax rate on residential properties that are vacant.

- The rate must be applied to the assessment value and the property must be both taxable (not a payment-in-lieu (PIL) property) and be in the residential property tax class.
- The upper or single tier municipality, through by-law, must state the tax rate and provide a precise definition and conditions for the vacant rate to apply to an individual property.
- The Province will enact through regulation the authority for the upper or single municipal program and the lower tier municipalities in a two-tiered structure are responsible for administering the tax.
- The tax rate can vary between different geographical areas of a two-tiered structure.

8.2 This policy option provides municipalities with alternative tools to address their unique circumstances. The City of Ottawa and the City of Toronto are implementing a vacant home property tax starting in 2023 after having completed detailed studies on this policy tool and the presence of vacant residential properties in their communities.

8.3 Programs such as the vacant home tax involve substantial start-up and on-going administrative costs which require a substantial presence of vacant homes to ensure that net taxation revenues and program benefits would be realized. Based on a review of water consumption data, there does not appear to be a significant number of vacant residential properties in the Region (under 0.4 per cent) to warrant the administrative costs of developing and implementing a vacant home property tax in Durham at this time.

8.4 Staff will continue to closely monitor the housing and real estate market as well as current and future policy options being considered by senior and municipal governments to address housing affordability concerns.

9. Municipal Property Tax Comparisons

Municipal Tax Ratios

9.1 A municipal tax ratio is the degree to which an individual property tax class is taxed relative to the Residential property tax class. If the commercial municipal tax ratio is 1.45, then its municipal property taxation rate will be 1.45 times the residential class property tax rate.

9.2 Since municipal tax ratios show the degree to which the non-residential classes are taxed relative to the residential class, the municipal tax ratios have a direct impact on the competitiveness of municipal non-residential property taxes. Figure 11 provides a comparison of 2022 municipal tax ratios across Durham comparator municipalities.

Figure 11
2022 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	2.0499	9	2.6374	10	2.5857	8	0.2500	5
Peel Region (Mississauga)	1.2656	2	1.5170	4	1.6150	1	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	1.6432	2	0.2500	5
Ottawa *	1.4000	3	1.8800	6	2.5400	7	0.2000	2
Niagara Region	1.9700	6	1.7349	5	2.6300	9	0.2500	5
Waterloo Region	1.9500	5	1.9500	7	1.9500	3	0.2500	5
Hamilton **	2.3594	10	1.9800	8	3.1985	10	0.1767	1
Windsor ***	2.0000	7	2.0140	9	2.3158	6	0.2500	5
Average	1.7861		1.7952		2.2592		0.2277	

Ratios in Figure 11 have been rounded to four decimal places.
* Ottawa has special property tax classes for Office Buildings (2.3300), Shopping Centres (1.5100) and Large Industrial Properties (2.1800)
** Hamilton has a Large Industrial property tax class with a ratio of 3.7506
*** Windsor has a Large Industrial property tax class with a ratio of 2.9328

9.3 Durham Region’s multi-residential municipal tax ratio of 1.87 is competitive and is marginally above the average of similar municipal comparators.

9.4 Durham Region has a very competitive commercial municipal tax ratio of 1.45 which is the second lowest and 19 per cent below the average of the municipal comparators.

9.5 Durham Region's 2022 industrial municipal tax ratio of 2.02 is 10 per cent below the average of the comparators (2.26) and ranked fourth behind Mississauga, York Region, and Waterloo Region.

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

9.7 There are no recommended changes to the Region's municipal tax ratios for 2023.

9.8 The remainder of this section provides a summary of property tax comparisons across comparable municipalities adjusting for the varying market values. This comparison highlights the degree to which market values affect tax rates.

9.9 Tax rates and assessments vary significantly between municipalities. In general, they are inversely related (higher property assessments allow for a lower tax rate to generate the same tax dollars). Additional information on this can be found in the Property Tax Reference Guide (Attachment 2).

9.10 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.).

Residential Home Comparison

9.11 The following residential home property tax comparison is based on 10 "average" homes from across each of the local municipalities in the Region. The homes were chosen to reflect, as closely as possible, the municipality's average home in terms of assessment, age, size and building quality.

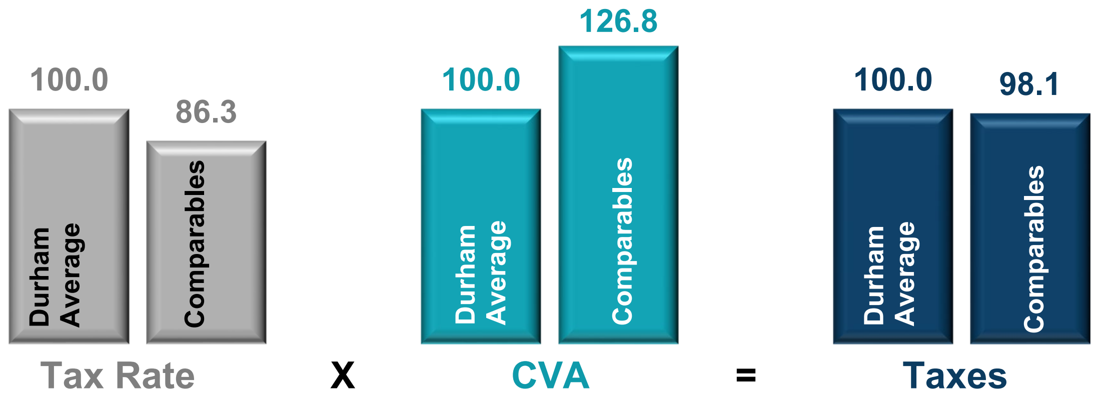
9.12 MPAC provided the CVAs for the comparator municipalities on which the following analysis is based. The comparison uses 2022 CVA and tax rates as 2023 municipal tax rates are not yet available.

9.13 Since 2022 was not subject to a reassessment phase-in, the CVAs have not changed. As a result, this analysis is very similar to last year's study and only reflects the relative changes in the municipal budgets.

9.14 The residential home comparison found that the comparable municipal average residential tax rate was 13.7 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 low, at approximately 1.9 per cent, as illustrated in Figure 12.

Figure 12

Residential Home Sample Average: Tax Rate, Assessment and Taxation



9.15 The majority of the large gap in tax rates can be explained by Durham's much lower market values (assessments) compared to our comparator municipalities. The gap of 13.7 per cent in tax rates is reduced to 1.9 per cent in tax dollars when Durham's lower assessments are considered.

Non-Residential Property Tax Comparisons

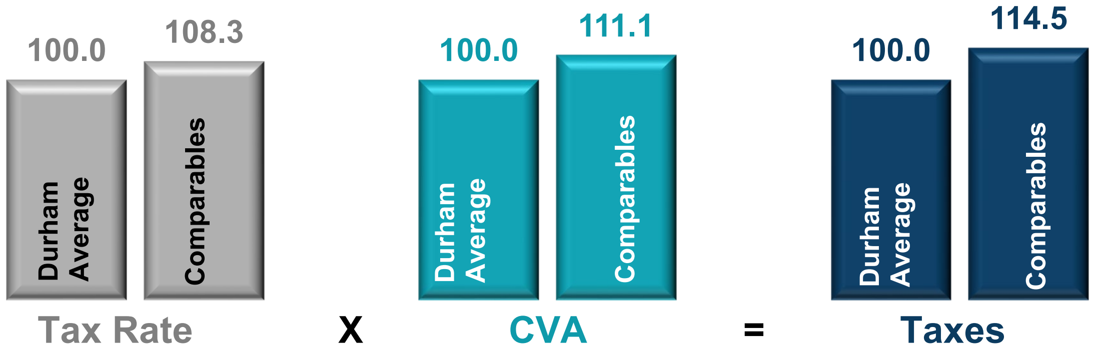
9.16 It is difficult to provide a valid non-residential property tax comparison. The primary issue is the uniqueness of the individual properties and the lack of robust sales transactions on which MPAC can base the assessments.

9.17 This difficulty has increased over the past decade 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.

9.18 The 2022 municipal ratio analysis (see Section 9.1) demonstrated 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. Commercial growth within the Region has kept pace with residential growth over the past two decades.

9.19 Similar to the residential comparison, a commercial comparison based on 18 properties was conducted. As illustrated in Figure 13, tax rates and assessment vary significantly between municipalities.

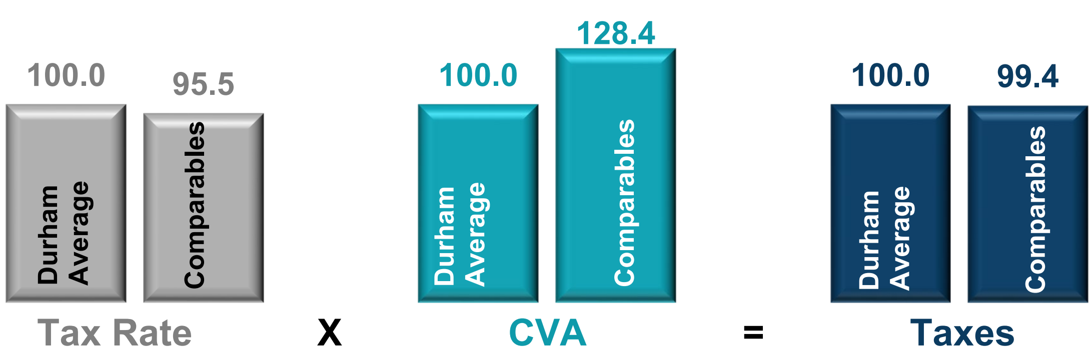
Figure 13
Commercial Sample Average: Tax Rate, Assessment and Taxation



9.20 Although the commercial sample showed a high degree of variability, the average comparator municipal tax rates were 8.3 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 14.5 per cent higher than in Durham Region.

9.21 An industrial comparison based on 12 properties was also conducted and the results are shown in Figure 14.

Figure 14
Industrial Sample Average: Tax Rate, Assessment and Taxation



9.22 A high degree of variability exists in the sample; however, the averages show that the Durham Region tax rate is 4.5 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.

10. Provincial Business Education Tax (BET) Rate and PIL Properties

10.1 In 2021, the Province took significant steps towards uniform province-wide BET rates by instituting a common ceiling rate of 0.88 per cent for taxable properties.

10.2 The Ontario Ministry of Finance also confirmed that the BET reductions would not negatively impact municipalities, indicating that the Province will maintain BET rates at the 2020 level for PIL properties where the education taxes are retained by single and lower-tier municipalities.

- This different BET policy treatment is highlighted as concerns have been raised that it may not be legislatively compliant.
- Despite efforts by the Ontario Ministry of Finance for the 2021/2022 property tax year, several Federal organizations chose to pay the lower taxable education rate, rather than the higher PIL education rate.
- The Federal property presence in the Region is low and the resultant underpayment in education taxes to the local municipalities is relatively small. The presence of federal properties in the City of Ottawa is quite large and the City of Ottawa has initiated an action in Federal Court to recover the over $20 million resulting shortfall in education property taxes retained by the City.

10.3 The Ontario Ministry of Finance confirmed on December 19, 2022 that all Provincial Education rates will remain unchanged for the 2023 taxation year including the PIL rates. The 2023 Provincial education property tax rates are detailed in Attachment 1.

11. Other Provincial Initiatives

11.1 The Province introduced and continued implementation of several assessment and taxation policy initiatives in 2022. This Section provides a summary of those that are relevant to the Region of Durham and the local area municipalities.

11.2 In 2022, the Province introduced the *Ontario's Housing Supply Action Plan 2022-2023* which includes a commitment to consult with municipalities on potential approaches to reduce the current property taxation of multi-residential properties. One of the options the Province is considering is requiring municipalities to lower their multi-residential municipal tax ratio. In November 2021, through Report #2021-F-28, Council reconfirmed the Region's multi-residential class municipal tax ratio of 1.8665 based on the relative equity in property taxes per square foot for the various types of residential and multi-residential properties as well as the significant property tax shifts and the financial impact to residential, commercial and industrial property owners that would result from reducing the multi-residential ratio.

11.3 The Province, in the *Ontario's Housing Supply Action Plan*, indicates that they are exploring potential refinements to the MPAC assessment methodology applied to affordable rental housing. Unlike a reduction to the multi-residential municipal tax ratio, a change in the assessment methodology for affordable rental housing is more targeted at affordable rental properties. This policy change could also favourably impact the Region as a significant partner in the affordable housing sector with its ownership of the Durham Region Local Housing Corporation (DRLHC) and the financial supports it provides to eligible affordable housing providers in the community.

11.4 In the Ontario 2021 Fall Economic statement the Province announced its intention to increase the Farm Forestry Exemption (FFE) from 20 to 30 acres effective January 1, 2023.

- MPAC created a new unit class to facilitate the change and will be sending out Special Amended Notices (SANs) to affected property owners.
- The original FFE acreage did not appear on the previous assessment rolls provided by MPAC. The FFE acreages will be added to the roll in 2023 with a classification of exempt and will not be subject to any property taxation.
- This provincially mandated change affected 305 properties across the Region. The 10 acre increase for FFE resulted in a decrease in the acreage subject to farmland taxation. Given the low assessment value of farmland for taxation purposes along with the low farmland municipal tax ratio, the annual loss of Regional property taxes is estimated to be approximately $10,000.

11.5 As a result of the Provincial initiative in 2021 toward uniform BET rates, the two-tiered BET rate structure that existed previously (i.e., where the rate was lower for "*New Construction*" properties) is no longer applicable. As a result, and to streamline administration of the assessment and property tax systems, the unique Realty Tax Class (RTC) codes X, Y, Z, J and K are no longer required, and those properties have been reclassified to their respective main class on the assessment roll.

11.6 The Province amended certain regulations in 2022 to allow municipalities, who have been approved for a new or optional property class by the Province, to calculate and set the appropriate transition ratios and education tax rates on their own. This will streamline the tax rate setting process and is intended to assist in meeting local decision-making deadlines.

11.7 Regional staff will continue to monitor these and other Provincial initiatives and will update Regional Council on any further significant developments.

12. Property Tax Treatment of Nuclear Generating Stations

12.1 The two Ontario Power Generation (OPG) nuclear generating stations provide a material amount of PIL revenue 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 payments.

12.2 In December of 2021, Regional Council approved Durham's Nuclear Sector Strategy 2022-2032 (Report #2021-COW-37) which recognizes the importance of this sector to the Region's economy.

12.3 At the end of September 2022, the Province announced its support for the continuing safe operation of Pickering Nuclear Generating Station until September 2026, one year later than the original timeline of 2025. OPG requires approval of this revised schedule from the Canadian Nuclear Safety Commission (CNSC).

Provincial Statutory Rate on Generating Facilities

12.4 The Province currently bases municipal PIL 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/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.

12.5 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 Province's nuclear generating capacity. This particular statutory rate continues to represent a financial inequity to the Region and its local area municipalities.

12.6 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

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

- PIL payments on specific generating structures are based on a statutory assessment rate as defined per the *Assessment Act* and are paid to the host municipalities (Section 12.4).
- 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 Ontario Regulation 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.

12.8 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.

12.9 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.

12.10 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 host municipalities and the upper tier, where applicable, following retirement of the stranded debt.

13. Relationship to Strategic Plan

13.1 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 exceptional value to Durham taxpayers through responsive, effective, and financially sustainable service delivery.

14. Conclusion and Looking Forward

14.1 Following the success of the award-winning Value Stories videos which highlighted the details of the Region's 2022 Budget, Finance and Corporate Communication's staff are developing a property tax video. This new video will focus on property taxation with a Durham specific lens, building on existing available material from other sources such as the Municipal Property Assessment Corporation (MPAC) and both Regional and Local municipal websites. It is anticipated that the video will be completed, posted online and promoted through the Region's social media channels by mid-year.

14.2 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 'e'conomy;
- Future reassessment cycles;
- Provincial education taxes, including a separate PIL education tax rate;
- Initiatives under *Ontario's Housing Supply Action Plan 2022-2023* including taxation of multi-residential apartment buildings and the assessment of affordable rental housing;
- Assessment disputes; and
- Nuclear generating facilities property tax treatment.

15. Attachments

- Attachment 1: 2023 Provincial Education Property Tax Rates
- Attachment 2: Property Tax Reference Guide

Respectfully submitted,

Original Signed By

Nancy Taylor, BBA, CPA, CA
Commissioner of Finance

Recommended for Presentation to Committee

Original Signed By

Elaine C. Baxter-Trahair
Chief Administrative Officer

Attachment 1: 2023 Provincial Education Property Tax Rates

Property Class (RTC) and Subclass (RTQ)			Education Tax Rate
	Residential		0.00153000
	Multi-Residential & New Multi-Residential		0.00153000
Broad Commercial	Commercial	Occupied, Vacant & Excess Land	0.00880000
Broad Commercial	Shopping Centres	Occupied & Excess Land	0.00880000
Broad Commercial	Office Buildings	Occupied & Excess Land	0.00880000
Broad Commercial	Parking Lots (Commercial)	Occupied & Excess Land	0.00880000
Broad Industrial	Industrial	Occupied, Vacant & Excess Land	0.00880000
Broad Industrial	Large Industrial	Occupied & Excess Land	0.00880000
Payment-in-Lieu (PIL)	Broad Commercial	Occupied, Vacant & Excess Land	0.00980000
Payment-in-Lieu (PIL)	Broad Industrial	Occupied & Excess Land	0.01250000
Payment-in-Lieu (PIL)	Pipelines		0.00980000
	Pipelines		0.00880000
	Farmland		0.00038250
	Small Scale On-Farm Commercial		0.00220000
	Small Scale On-Farm Industrial		0.00220000
	Managed Forests		0.00038250
	Farmland Awaiting Development Phase 1		0.00114750

Attachment 2: Property Tax Reference Guide

This attachment is intended to provide a brief overview of the assessment and property taxation systems in Ontario. This reference guide is supplemental to the Region's Annual Strategic Property Tax Study and is intended to provide additional background and historical context for items discussed in the annual study.

The following are the key topics covered in the reference guide:

1. Key Terms
2. Roles and Responsibilities
3. Durham Region Policy Considerations
4. Major Milestones in the Past 25 Years
5. Reassessment and Impacts
6. Municipal Tax Ratios
7. Durham Region Municipal Tax Ratio History (1998 - 2022)
8. Factors that Affect Property Taxation Rates
9. Durham Common Region-Wide Property Tax Rates
10. Residential Property Tax Bill Overview
11. Other Resources

1. Key Terms

Abbreviation	Term	Definition
RTC and RTQ	**Property Classes and Subclasses**	MPAC will assign parcels of a property to specific property classes (designated by a realty tax class (RTC)) and a subclass (designated by a realty tax qualifier (RTQ)). Property tax rates vary for the different RTC/RTQ classifications based on the municipal tax ratios.
MTR	**Municipal Tax Ratio**	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 municipal property tax rate. Provincial education property taxes are not affected by municipal tax ratios. The setting of municipal tax ratios is the responsibility of single and upper tier municipalities within the parameters set by the Province. Through the Region’s annual Strategic Property Tax Study, Regional Council reviews and approves Durham’s municipal tax ratios. The annual Property Tax Study also includes a comparison of municipal tax ratios to municipal comparators.
CVA	**Current Value Assessment**	The CVA method is used in most North American jurisdictions and involves the analysis of comparable properties. It looks at all the key features that affect market value. The CVA should be representative of the value of the property in an arm’s length sales transaction on the valuation date.
Average Home	**Average Region-Wide Residential Home**	The average single family detached home as classified by MPAC (301 code) on the valuation date and increased by the Regional average valuation change across the phase-in cycle. The Average Region-Wide Residential Home is used by Region of Durham to measure and present reassessment, taxation policy change and budgetary impacts. For the 2016 valuation year and the taxation years 2020-2023 the Average Home had a CVA of $483,100 and paid, on average, regional property taxes of $2,933 in 2022.

2. Roles and Responsibilities

Organization	Responsibility
Province of Ontario	Creates the legislation (laws/rules) that govern the assessment and property tax systems – primarily through the *Municipal Act, 2021* and the *Assessment Act*. Sets educational property tax rates which, in 2022 raised approximately $267 million or 17.3% of all property taxes in Durham Region.
Upper Tier or Regional Municipalities (Durham Region)	Sets taxation policy (primarily municipal tax ratios) within provincial parameters to be followed by lower tier municipalities. Sets regional property tax rates to fund property tax supported Regional services which, in 2022, raised approximately $760 million or 49.3% of all property taxes in Durham Region.
Lower Tier or Local Area Municipalities (Pickering, Ajax, Whitby, Oshawa, Clarington, Scugog, Uxbridge & Brock)	Administers all property tax billing and collections. Management of the assessment base including filing of property tax appeals and representing municipal and school board interests in assessment appeals. Sets local property tax rates which, in 2022 raised approximately $515 million collectively or 33.4% of all property taxes in Durham Region.
Municipal Property Assessment Corporation (MPAC)	MPAC is legislatively responsible for assessing and classifying more than five million properties in Ontario. Municipalities must use this information to set and bill the property taxes needed to pay for community services. MPAC completes a four year reassessment cycle with a Provincial legislated valuation date. MPAC is funded by upper and single tier municipalities in the Province.
Assessment Review Board (ARB)	An independent adjudicative tribunal established under the *Assessment Act* that decides assessment and classification disputes in Ontario.
Taxpayer	The legally registered owner of the property who is billed and pays property tax.

3. Durham Region Policy Considerations

- The upper tier is assigned responsibility for property taxation policy, by the Province, in a two-tiered municipal environment. The primary tool for taxation policy is the municipal taxation ratio which is discussed in more detail in Section 6 of this reference guide.
- The following factors have historically been considered when evaluating potential property tax policy options or changes in Durham Region:
  - **Taxpayer Equity** – property tax policy should treat similar regional taxpayers in a similar fashion regardless of geographic location or property tax class.
  - **Market Effects** – tax policy should not unduly affect or distort business and investment decisions.
  - **Property Tax Competitiveness** – consideration should be given to the impact property tax policy has on the Region's overall competitiveness relative to other jurisdictions.
  - **Impact on Property Owners** – prior to adopting any new policy or policy change, a complete understanding of the properties affected, and the extent of that affect must be considered.

4. Major Milestones in the Past 25 Years

A well-functioning, up-to-date assessment system is the foundation of the municipal tax system that supports strong, vibrant and growing communities

Association of Municipalities of Ontario (AMO) January 2023

1998:

The Province introduced the Current Value Assessment (CVA) System in an effort to realign municipal property taxes more closely to market values. The Province also made single and upper tier municipalities responsible for taxation policy in their jurisdictions within the parameters set by the *Municipal Act, 2021* and the *Assessment Act*.

The Province subsequently and retroactively imposed a "Capping" program which limited reassessment related tax increases on non-residential properties with financing for the protection granted under this mandatory program obtained by withholding (clawing back) an equivalent amount from other property owners who experienced a decrease in taxes as a result of the reassessment.

The capping regime was only recently completed in Durham Region (2020/2021) and non-residential property taxes in the Region are no longer adjusted under this program.

2002:

Regional Council adopted the Long-Term Strategic Property Tax Plan to address equity and competitive issues in Durham. Municipal property tax ratios were adjusted each year from 2001-2007 to achieve the long-term objectives of the Plan.

2005:

The Region of Durham commenced a phase-in reduction of the Farmland municipal tax ratio with the objective of reducing municipal taxes on farmland by 20 per cent over the ensuing three years (2005-2007).

Reassessments:

Since the introduction of the CVA System in 1998, the Province has continuously altered the assessment cycle duration and parameters including the current three year reassessment postponement. The Regional assessment base has been updated as follows.

Valuation Date	Taxation Years
January 1, 1997	1998 – 2000 (3 years)
January 1, 1999	2001 – 2002 (3 years)
January 1, 2001	2003 (1 year)
January 1, 2003	2004 – 2005 (2 years)
January 1, 2005	2006 – 2008 (3 years)
January 1, 2008	2009 – 2012 (4-year phase-in)
January 1, 2012	2013 – 2016 (4-year phase-in)
January 1, 2016	2017 – 2023 (4-year phase-in from 2017 to 2021, the Provincial government postponed the 2020 reassessment as a result of the pandemic)

5. Reassessments and Impacts

A reassessment is revenue neutral to individual municipalities as the overall increase in the assessment base due to a reassessment is compensated for by the discounting of the previous year tax rate.

Although overall it is revenue neutral, reassessment does result in tax shifts between properties, within and across property tax classes, and in the total Regional taxes generated from individual local area municipalities.

- A property's individual reassessment impact is based on its CVA change relative to the weighted average change of all taxable properties (referred to as the Taxation Average).
- Further, each taxation tier (regional municipal, local municipal and provincial education) will have a different Taxation Average, as each assessment base is different.
- Therefore, an individual property will experience three different reassessment related changes (one for each tier of taxation). The detailed formula to calculate a property reassessment impact for an individual taxation tier is as follows:

$$\text{Property Reassessment Impact} = \frac{\text{Property's CVA Change} - \text{Taxation Average}}{\text{One} + \text{Taxation Average}}$$

6. Municipal Tax Ratios

What They Are:

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 property tax rate.

Municipal tax ratios impact the relative shares of property taxes from each property tax class and subclass. Higher non-residential municipal tax ratios result in non-residential property tax classes funding a greater share of the property tax requirements.

How We Got Them:

Municipal tax ratios were created in 1998 to accommodate the change from the old assessment system to the new provincially mandated CVA system. The old assessment system never intended to tax various classes differently as there was only a single residential/non-residential variance factor used pre-1998.

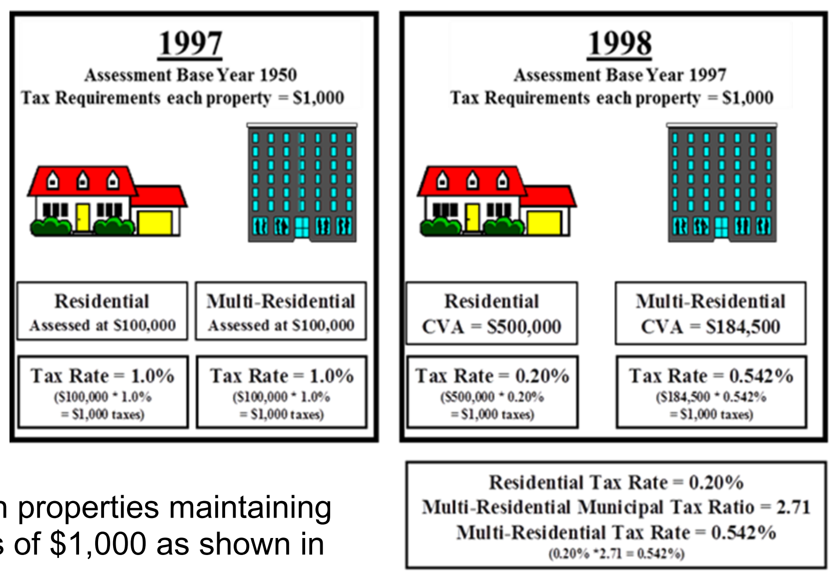
However, properties in the different classes appreciate differently over time and the new CVA system (which updated all properties to a common valuation date) made these differences apparent and would have resulted in significant property taxation shifts across all property tax classes without the provincial mandated ‘transition’ ratios to ensure overall property class tax burden remained the same post implementation (1998).

For example, assume there are only two properties, as shown in Figure 1, one residential and one multi-residential with a 1950 assessment base year. In 1950, each property was valued at $100,000 and each was required to pay $1,000 in property taxes.

When the assessment values were updated to a January 1, 1997 valuation date, the difference in the appreciation of the properties over the previous 48 years becomes apparent as the Residential property has risen to $500,000, while the multi-Residential property has only increased to $184,500.

To avoid significant taxation shifts across these two classes, a municipal tax ratio of 2.71 must be implemented.

Figure 1



The use of the ratio results in both properties maintaining the previous year’s property taxes of $1,000 as shown in Figure 1.

Who Sets the Municipal Tax Ratios:

In the case of a two-tier municipal structure such as Durham Region, the province, in 1998, provided the upper tier municipality with the responsibility to set the municipal tax ratios. The lower tier municipalities must use these municipal tax ratios in the setting of their own tax rates.

Since 1998, Durham Region has always set its MTRs in consultation with the Treasurers of the local area municipalities.

How Can Municipal Tax Ratios be Changed:

The Province will generally allow municipalities (upper or single tier) to lower, but not increase the municipal tax ratios unless the movement is within the range of fairness set by the Province. The range of fairness (0.90 to 1.10) range is very constrained and the vast majority of Ontario municipalities' municipal tax ratios are outside of the range.

Exceptions to increasing the municipal tax ratios have been made in reassessments where the Province has provided municipalities with the flexibility to increase ratios to offset the reassessment effects only.

What Are the Impacts of Changing Municipal Tax Ratios:

Changes in municipal tax ratios are revenue neutral with respect to the overall property taxes of a municipality.

- A lowering of the municipal tax ratio for one property tax class will result in a lowering of its overall property taxation; however, the lost property taxes from this property tax class will be funded by an increase in the property taxes for all other property tax classes.
- This is similar to the property taxation impact of a reassessment where the aggregate property taxes remain the same, but property taxation shifts occur amongst the individual property tax classes.

The property tax shifts across the property tax classes for the upper tier will be the same across all lower tier municipalities due to the common upper tier taxation rates. However, the property tax shifts across the property tax classes in an individual lower tier will vary depending on the share of target property tax class assessment within that lower tier municipality.

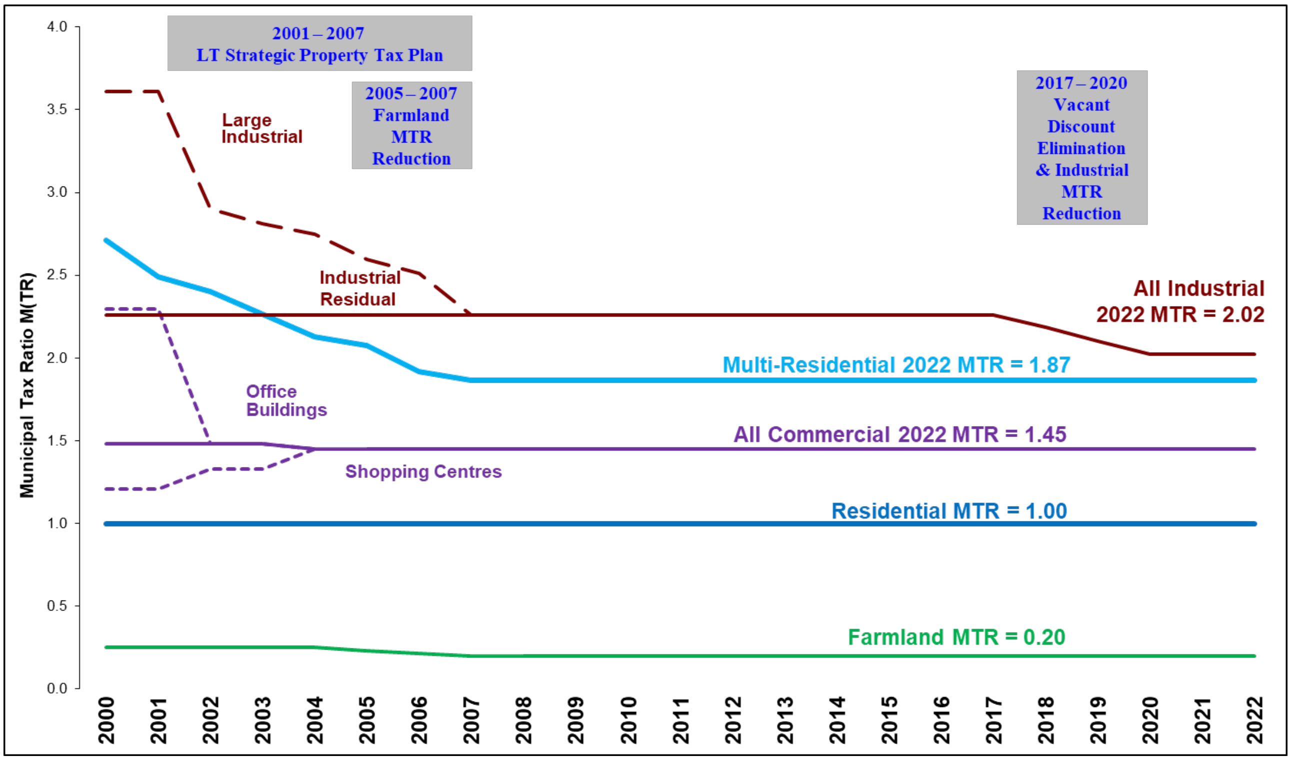
- For example, the lowering of the Multi-Residential and Large Industrial municipal tax ratios in 2007 resulted in an increase in Regional property taxes of approximately 0.4 per cent for all other property tax classes. However, the percentage increase on the other property tax classes with respect to the City of Oshawa local property taxes were higher due to the City of Oshawa having a higher than average share of assessment in those two property tax classes.
- Conversely, the lowering of the Farmland municipal tax ratio in 2007 resulted in very small increases in the four western lakeshore lower tier municipalities' other property tax classes, as the Farmland assessment share in these municipalities was very low. However, the impact of this ratio reduction on the northern municipalities local taxes was significant due to Farmland's more prominent share of their assessment bases.

7. Durham Region Municipal Tax Ratio History (1998 – 2022)

At the beginning of CVA in 1998, the Region had seven different municipal tax ratios that controlled the property tax distribution amongst farmland, multi-residential, commercial, and industrial type properties.

Durham's Long Term Strategic Property Tax Plan (2001 – 2007), as approved by Regional Council, created a simpler and more equitable property tax system within Durham as shown in Figure 2.

Figure 2
Durham Region and Local Area Municipalities
Municipal Tax Ratios (MTRs)



In addition to reducing the number of municipal tax ratios, in 2005, Regional Council also approved a three-year strategy to lower Farmland municipal taxation by 20 per cent through reductions in the municipal tax ratio from 0.25 in 2004 to 0.20 in 2007.

The changes to the municipal tax ratios between 2001 and 2007 resulted in Regional taxation shifts between the residential and non-residential classes.

In 2017, Regional Council approved the phase-out of the taxation discounts provided to non-residential vacant land and units. The increase in taxation revenue generated from the elimination of the discounts was used to lower the industrial municipal tax ratio over the period 2017–2019. As a result, there was no shift to the residential class as result of this reform.

8. Factors That Affect Property Taxation Rates

Property tax rate comparisons are not meaningful, yet direct comparisons are often made and lead to erroneous conclusions with respect to 'high' or 'low' tax jurisdictions.

Property tax rates are only one of the factors in the calculation of property taxes; consideration must be given to the other factors in any defendable comparison across jurisdictions.

Figure 3 illustrates the process by which the assessment base (responsibility of MPAC) and the municipal budget (responsibility of Council) are used to derive the property tax rates. These two factors, along with the municipal tax ratios all influence the municipal property tax rates and are discussed in greater detail in this section (education tax rates are set by the Province).

Figure 3

Factors Impacting the Calculation of Municipal Tax Rates and Municipal Property Taxes

- **Municipal Tax Ratios**: Higher municipal tax ratios result in the non-residential classes funding a greater share of the overall tax requirements and therefore exert downward pressure on the residential property tax rate. Additional information on municipal tax ratios can be found in Section 6 of property tax reference guide.
- **Municipal Services and Budgetary Requirements**: Municipal services and budgetary requirements are the responsibility of upper and lower tiers and are beyond the scope of this report. Higher levels of spending require greater resources and, therefore, higher tax rates.
- **The Assessment Base:** The assessment base is the responsibility of MPAC under the provincial *Assessment Act* and has a significant impact on property tax rates. The higher the CVA, the lower the tax rate required to fund a given level of service. There are three major features of the assessment base that come into play in the determination of the property tax rates:
  - Value or Wealth (the relative values of the properties in different jurisdictions);
  - Composition (residential vs. non-residential); and
  - Density.

Figure 4 outlines the budget and assessment effects on property tax rates.

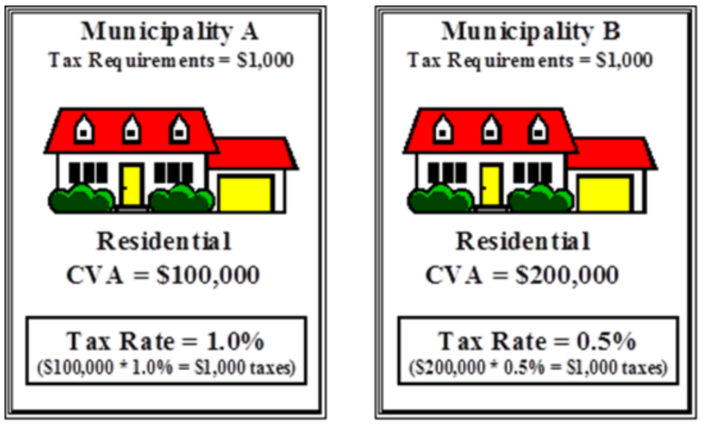
Figure 4
<u>Effects of Budgets and Assessment Base Factors on Municipal Tax Rates</u>

The remainder of this Section will focus on the influence of the assessment base and its effects on property tax rates.

Value or Wealth

The higher the value of properties within a municipal jurisdiction, the lower the corresponding tax rate required to raise a given level of property tax dollars. Figure 5 provides a simple example that illustrates the flaws in directly comparing tax rates without considering the corresponding wealth of the assessment base.

Figure 5
Municipal Tax Rate Comparison



Consider two identical municipalities, each with a single residential property, but different valuations placed on the property by MPAC.

Both Municipalities provide identical services that require the municipality to raise $1,000 in property taxes.

However, the current value of the home in Municipality A is $100,000, while its value in Municipality B is $200,000. As a result of the difference in the CVA (the market value), the tax rate in Municipality A is twice that of Municipality B even though the homes, services provided by the municipalities, and property taxes billed are identical.

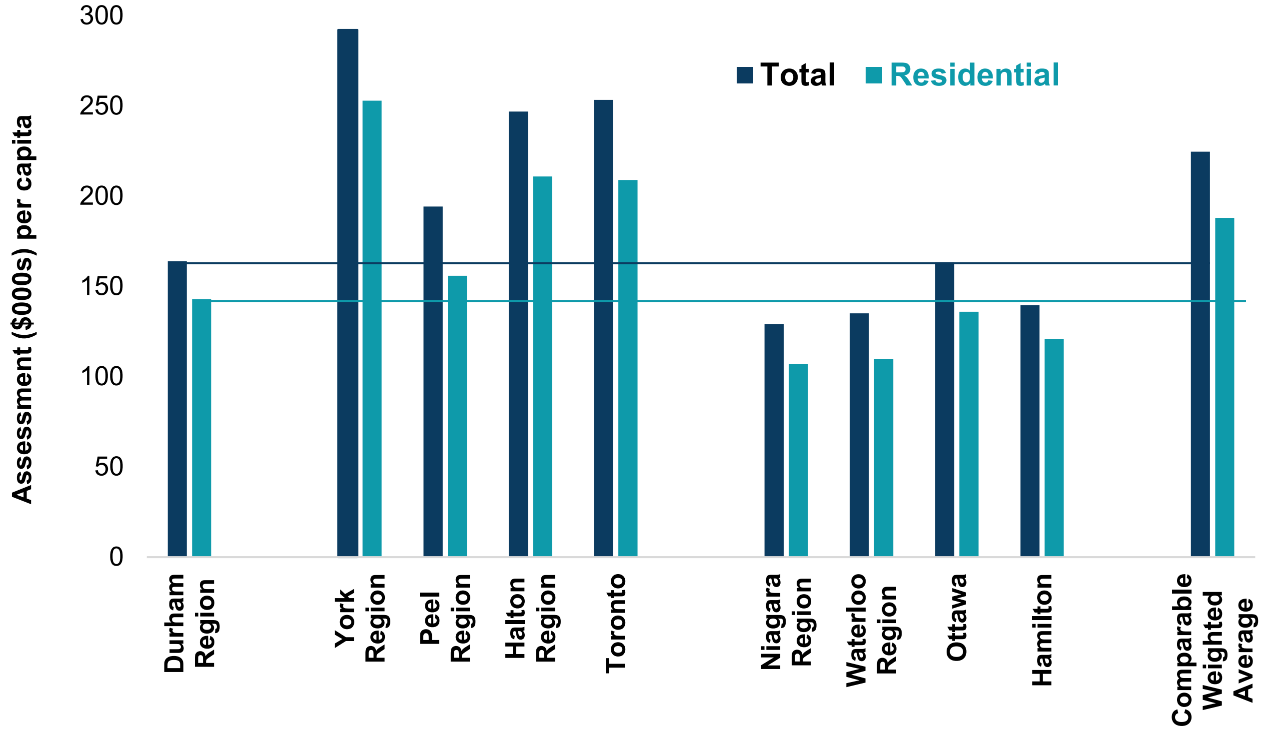
This example is especially pertinent with respect to comparisons between Durham and other GTA municipalities. The City of Toronto's tax rate is considerably lower than Durham's. One of the primary causes is that the average home value in Toronto is considerably higher than Durham's average home value. Hence, even if Toronto's and Durham's services and budget costs were identical, Durham would still require a far higher tax rate to generate the same amount of tax revenue.

Market Value of Comparable Municipalities

Figure 6 shows the total and residential assessment per capita of Durham and other major Ontario municipalities. Since population is a strong determinant of municipal requirements, the assessment per capita provides an estimate of market value that can be compared across municipal jurisdictions.

Figure 6

2021 Assessment per Capita



As can be seen in Figure 6 when Durham Region is compared to similar municipalities:

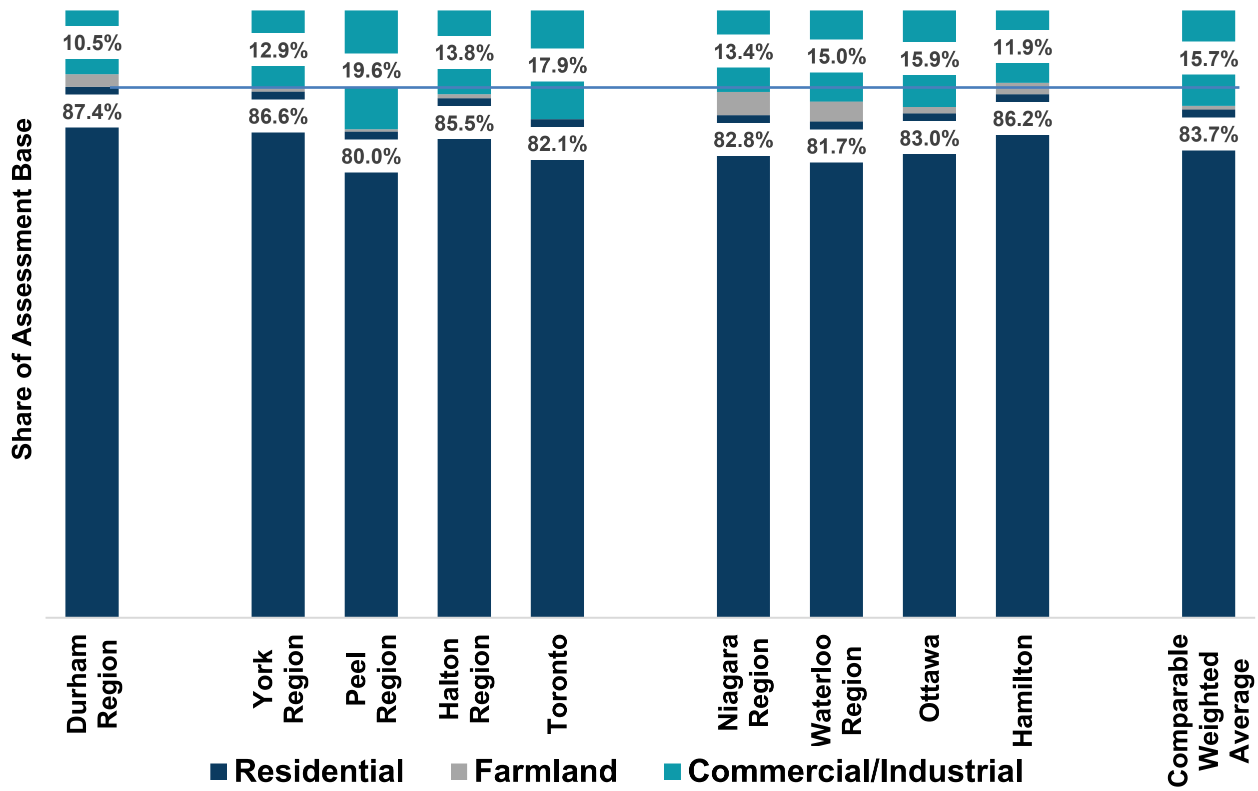
- Durham has both lower total and residential CVA per capita than the weighted average of the other comparator municipalities. The weighted average total CVA per capita is 37 per cent higher than Durham's.
- Durham's CVA per capita is lower than the other GTA municipalities and Ottawa.
- As a result of Durham's lower market values, higher tax rates are required to yield similar taxation revenues as its GTA neighbours.

Composition (Non-Residential Share of the Assessment Base)

Higher assessment share in the commercial and industrial classes results in more taxation from this sector and lower budgetary requirements that must be raised from the residential sector (thereby putting downward pressure on the residential tax rate). However, tax rate comparisons often only consider the Residential tax rates. Consideration should also be given to the property tax funding provided by the non-residential sector in a fair comparison.

Figure 7 below provides a breakdown of the residential, non-residential and farmland share of the 2021 assessment base for Durham and comparable municipalities.

Figure 7
Composition of 2021 Assessment Base



Durham has the highest residential share of the assessment base at 87.4 per cent, which is significantly higher than the comparable weighted average residential assessment base share of 83.7 per cent.

The high residential share is compounded by Durham's very high share of farmland which is taxed at a reduced rate of 20 per cent of the residential tax rate.

Correspondingly, Durham has the lowest share of Commercial/Industrial assessment at 10.5 per cent which is considerably below its GTA counterparts.

Density of the Assessment Base

Density has a significant impact on municipal service delivery cost. Durham Region's assessment density (i.e., CVA per hectare) is considerably below all its municipal comparables excluding Niagara Region.

9. Durham Common Region-Wide Property Tax Rates

With the introduction of the 1998 provincial assessment and taxation reforms, upper tier municipalities became levying bodies responsible for setting their own property taxation rates. The lower tier municipalities are responsible for property tax billings and collection for all three levying bodies (i.e., upper tier municipal, lower tier municipal and provincial education). Lower tier municipalities then distribute billed property taxes to the appropriate tier.

In the case of Durham Region, three separate property tax rates are calculated annually.

- General Purposes - common Region-wide property tax rate in all eight local municipalities;
- Regional Transit Purposes - common Region-wide property tax rate in all eight local municipalities since upload phase-in completed in 2012; and
- Solid Waste Management – common Region-wide property tax rates, excluding collection services for Oshawa and Whitby which are provided for and taxed at the local municipal level.

10. Residential Property Tax Bills

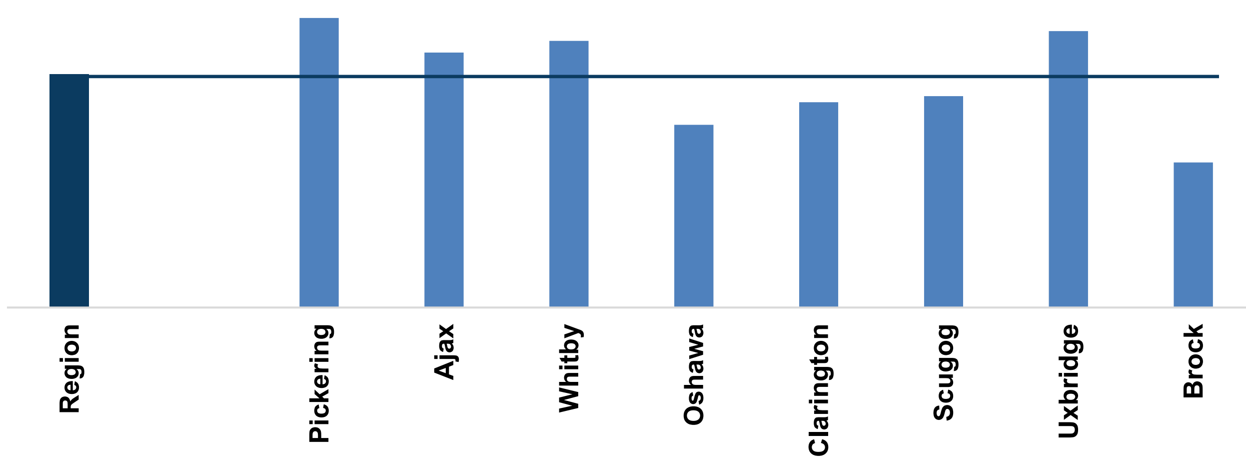
For illustrative purposes, a residential property will be used in the discussion of the property tax bills in Durham Region. Other property classes (commercial, farmland, etc.) have similar property tax bills, although the actual taxes will differ as the property tax rates vary by class and subclass.

Average Residential Home

The Region presents reassessment, taxation policy changes and budgetary impacts on the "Average Home". The Average Home in Durham Region had a 2022 CVA (based on 2016 valuation date) of $483,100; however, the average within each local municipality varies from a high in Pickering of almost $600,000 to a low in Brock of just over $300,000 (Figure 8).

Figure 8

2022 CVA of the Average Homes in Durham Region



Average Regional Property Tax Bill

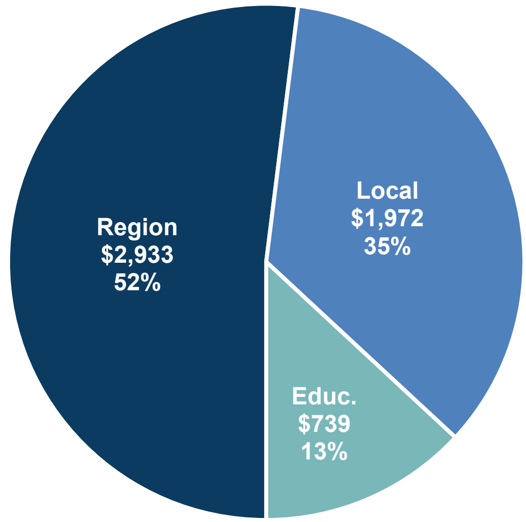
The Regional average home CVA is $483,100 and had a total 2022 property tax bill of $5,644 broken down as follows:

- $2,933 (52 per cent) in Regional Municipal property taxes,
- $1,972 (35 per cent) in Local Municipal property taxes (this varies by local municipality), and
- $739 (13 per cent) in Provincial Education property taxes.

Both the Regional and Education tax rates are the same across the entirety of Durham Region. However, the local municipal tax rate varies.

As a result, the local municipal tax dollars and share represented in Figure 9 is the weighted average of Durham's constitute local municipalities and is not representative on any individual local municipality in Durham.

Figure 9
Average Residential PropertyTax Bill



11. Other Resources

The following are links to additional property tax resources:

- Region of Durham Property Tax Webpage
- Municipal Property Assessment Corporation (MPAC)
- Municipal Property Assessment Corporation (MPAC) – AboutMyProperty™
- Assessment Review Board
- *Municipal Act, 2001*
- *Assessment Act*