

Municipality of Chatham-Kent

Finance, Budget, Information Technology & Transformation

Financial Services

To: Mayor and Members of Council

From: Matt Torrance, MBA, CPA, CGA
Director, Financial Services

Date: April 11, 2023

Subject: Tax Policy 2023

Recommendations

It is recommended that:

1. A by-law to establish capping policies for certain Commercial properties for the 2023 taxation year be approved.
2. A by-law to establish capping policies for New Construction Floor on Commercial, properties for the 2023 taxation year be approved.
3. A reallocation from tax claw back to allowance for doubtful accounts, in the amount of \$50,000, be approved.
4. The Broad Class Tax Transition Ratio for Landfill be set at 8.7846 as prescribed by the Province of Ontario.
5. The Farm Class Transition Ratio be increased to from 22% to 23%.
6. All other 2023 Tax Ratio policies remain unchanged from 2022.
7. A by-law to set tax ratios for prescribed property classes for Municipal purposes for the 2023 taxation year be approved.

Background

This report is intended to establish tax policy for 2023.

Assessment values were last updated by MPAC with a valuation date of January 1, 2016. These assessments were implemented on January 1, 2017. Increased assessments were phased in over 2017-2020 while decreases were implemented immediately. As a result of the COVID-19 pandemic, the Province of Ontario announced in March 2020 that the reassessment scheduled to take effect January 1, 2021 was postponed. In the 2021 Ontario Fall Economic Outlook, the Ontario government stated property assessments for the 2022 and 2023 tax years will continue to be based on the January 1, 2016 valuation date. Municipalities across the province

are waiting on further announcements from the Ontario government as to the next valuation date. At this point the earliest possible date would appear to be January 1, 2024.

Comments

As of January 2023, weighted assessment increased 2.37% over 2022 (see Table 10, column 5). This increase in assessment is primarily due to the assessments on new construction and decreases from recent Assessment Review Board (ARB) decisions. While reassessment is revenue neutral to the Municipality as a whole, it does shift the burden of taxation between classes. Since the Municipality does not profit from Current Value Assessment (CVA) increases, the overall tax rate lowers to compensate for the increase in total assessment.

There are several tax policy implications that determine the final tax bill of each property. Provincial regulations dictate some of the shifts in taxation and Council direction dictate others. Appendix A reflects the recommendations of this report on each class. It begins with the 2022 billed tax levy, illustrates the effect of each policy, and totals to the proposed 2023 tax levy.

Table 2 below illustrates the average impact of the recommendations on a typical residential property.

Table 2 Average Municipal Tax Change Impact on a Typical Home	
2022 Municipal Tax (house value 173,079)	3,151.69
Effect of Re-Assessment	11.66
Budget Change	185.16
Landfill Ratio increase to 8.7486	(0.21)
Farm Ratio increase to .23	(14.70)
2023 Municipal Tax (house value 176,194)	3,333.61
Education Change	7.23
2023 Total tax	3,340.83

- 1 An Average House valued at \$173029 in 2022 paid \$3,151.69 in taxes
- 2 The impact of re-assessment shifts was an increase in taxes on the average property of 11.66
- 3 The budget increase approved by Council was 5.64 %. When applied to the weighted assessment, the impact on an average house was in increase of 185.16
- 4 As a result of the significant change in assessment methodology for the Landfill sites, the Provincial government has provided Chatham-Kent with transition ratio flexibility to ensure Chatham-kent receives continued increases of taxes collected for the Landfill class over 2022 taxes
- 5 The impact of raising the Farm tax ratio from 22% to 23% results in a decrease on the average residential property of \$14.70

Note that an average house went up in value \$3,115 and is billed \$189.14 more in taxes. With all the recommendations, assessment, and education rate changes taken

into account, this is an approximate 6% increase and is more than the 5.64% budget increase approved by Council.

The following tax policy considerations each have a bearing on how much taxes an individual class pays:

1. Transition Ratios

Transition ratios are used as a tax policy tool by Council to weight assessment. The higher the transition ratio, the higher the assessment weight and the greater the relative tax burden. The Residential class is weighted at 1.0 by Provincial policy. Commercial pays 1.9404 times the tax of Residential on the same value of property. Farmland is currently taxed at 22% of the Residential rate. Administration is recommending an increase in this rate from 22% to 23%.

In 2023, administration is recommending that all ratios remain the same except for the farm tax ratio addressed in this section and the landfill ratio addressed in a subsequent section of this report.

Table 3: 2022 Class Ratio Comparison			
Municipality	Commercial	Industrial	Multi-Res
Chatham-Kent	1.9404	2.0350	1.9404
Lambton	1.6271	2.0476	2.00
London	1.91	1.91	1.7119
St. Thomas	1.7926	2.2546	2.0367
Windsor	2.01	2.3157	2.00

Table 4 is included to demonstrate the impact of tax policy decisions for Commercial and Industrial on the Residential class. For example, a 1% shift to Residential taxes raises enough funds to lower Commercial taxes by 3.74%, or would lower Industrial taxes by 16.86% or would enable a combined Commercial and Industrial reduction of 3.06%. Table 5 illustrates the dollar effect on properties in each class per \$100,000 of assessment.

Table 4: Tax Effect of Residential Tax Burden Increase On Other Classes					
Class	0.5%	1.0%	1.5%	2.0%	2.5%
Commercial	(1.87%)	(3.74%)	(5.60%)	(7.47%)	(9.34%)
Industrial	(8.43%)	(16.86%)	(25.29%)	(33.72%)	(42.16%)
Combined	(1.53%)	(3.06%)	(4.59%)	(6.12%)	(7.65%)

Table 5: Effect of Residential Tax Burden Increase Based on \$100,000 Assessment						
Class	Starting Municipal Tax	0.5%	1.0%	1.5%	2.0%	2.5%
Residential	\$1,859	\$9	\$19	\$28	\$37	\$46
Commercial	\$3,622	\$(68)	\$(135)	\$(203)	\$(271)	\$(338)
Industrial	\$3,784	\$(319)	\$(638)	\$(957)	\$(1,276)	\$(1,595)
Combined	\$3,703	\$(57)	\$(113)	\$(170)	\$(227)	\$(283)

Any reduction in either the Industrial or Commercial ratio will result in an immediate upward effect on the Residential, Multi-residential and Farm tax base.

Administration obtains Farm tax rate information from bordering rural municipalities. Table 6 illustrates that a hypothetical farm property with an assessment of \$500,000 would generate the following municipal taxes (excluding Education):

Table 6 : Farm Taxes based on \$500,000 Assessment (2022 taxation)					
Municipality	Tax	Chatham-Kent			Difference
St Clair Township	1,157				325
Dawn-Euphemia	1,355				127
Southwest Middlesex	1,627		1,482		(145)
West Elgin	1,438				44
Leamington	1,937				(455)
Lakeshore	1,421				61

Based on the above survey, Chatham-Kent farm tax rates are somewhere in the middle when compared to surrounding jurisdictions. The highest being \$1,937 in Leamington to a low of \$1,157 in St Clair Township.

Table 7 shows the effect of a 1% rise in the Farm transition ratio on municipal taxpayers as a whole, as well as the impact on the Residential and Commercial classes per \$100,000 of assessment. A 1% reduction in the ratio to 21% would have a similar opposite effect.

Table 7: Impact on tax burden from an increase in the farm class transition ratio from 22% to 23% on residential rate					
	Farm at 23%	Farm at 22%	Tax Shift Farm Cost	Impact on 100,000 Residential Benefit	Impact on 100,000 Commercial Benefit
Municipal Levy	19,140,988	18,423,343	717,645		
Farm property assessed at 500,000	1,881	1,807	74	(7)	(14)
* Calculation Based on 2023 budget and 2023 assessment					
* Municipal Levy only					

In March 2021, administration brought forward a detailed report on Farm Tax ratio with a recommendation to phase in the Farm Tax Ratio from 0.22 to 0.25 incrementing the ratio by 0.01 in each of 2021, 2022 and 2023. This recommendation was not approved by Council. In April 2022 as part of the Tax Policy report, administration recommended increasing the Farm Tax ratio to 0.23 for 2022. This recommendation was not approved with several Councillors indicating they were not willing to consider the Farm Tax ratio until the MPAC reassessment update was received.

The Province of Ontario indicated in the fall of 2022 that the assessment figures based on January 1, 2016 would continue to be used at least through 2023 with the earliest possible reassessment date being January 1, 2024. In the spring of 2023 there was speculation that the Province would make an announcement regarding a reassessment update in the March Provincial budget. No such announcement was made and with each passing day the odds of a 2024 assessment update continue to decline.

On April 3, 2023 administration brought forward a Tax Policy report recommending no changes to the Farm Tax ratio based on the messaging received from the previous Council. At the April 3, 2023 Council Meeting, Councillor Anderson moved the following motion that was approved by Council:

“That this report be referred back to administration and that the report be brought back to Council on April 24th with the recommendation to increase the farm tax ratio from 0.22 to 0.23 after consulting with affected stakeholders.”

Administration continues to support an increase in the farm tax ratio from the current rate of 0.22. A Farm Tax ratio of 0.25 was established in 1998 before Council lowered the rate to 0.24 in 2003 and 0.22 in 2004 due to rising farm assessments and low commodity prices. This reduction was intended to provide temporary relief. Farm sale prices have continued to rise and commodity markets have recovered while the rate has remained at 0.22 for the last two decades.

Tables that were included in the detailed 2021 report have been updated along with a new table from the 2022 BMA Study as part of Appendix B:

- Of the top 10 municipalities in Ontario by Farm assessment only Chatham-Kent (0.22), Oxford (0.22) and Lambton County (0.226) have ratios less than 0.25. *
- Based on the 382 Ontario municipalities who have submitted their 2021 Financial Information Returns 81.7% have a Farm Tax ratio of 0.25.

- Of the 117 municipalities who participated in the 2022 BMA study representing 86% of Ontario's population, only 18 of 117 municipalities have a Farm Tax ratio less than 0.25

Table 8 illustrates the transition ratios recommended by administration for 2023.

Table 8: Tax Ratios Recommended for 2023			
Property Class	Chatham-Kent Tax Ratios		Threshold
	2022	2023	Ratios
			0. Reg.73/03
Residential	1.0000	1.0000	
Multi-Residential	1.9404	1.9404	2.0000
New Multi-Residential	1.1000	1.1000	
Commercial Residual	1.9404	1.9404	1.9800
Office Space	1.5638	1.5638	
Shopping Centre	2.2397	2.2397	
Parking Lots	1.2985	1.2985	
Industrial	2.0350	2.0350	2.6300
Pipe Line	1.2742	1.2742	
Farm	0.2200	0.2300	
Managed Forest	0.2500	0.2500	
Landfill	8.4159	8.7486	25.0000

* Section 308 of the Muncipal Act, 2001 sets the tax ratio for Residential as 1.0

** Section 308.1 of the Muncipal Act, 2001 restricts the tax ratio for Farm to be 0.25 or lower

*** Section 308.1 of the Muncipal Act, 2001 sets the tax ratio for Managed Forests as 0.25

**** Reg 73/03 of the Muncipal Act, 2001 sets the prescribed Tax Ratio Threshold (Maximum)

2. Maximum CVA-Related Tax Increases Be Set At 10%

Industrial, Commercial and Multi-Residential (capped classes) properties are protected from significant swings in taxation under section 329.1 of the Municipal Act, 2001. Under the Act, assessment related increases are limited to 10%. Under the same section, Council may elect to eliminate the cap on any property that is within \$500 of its "correct" levy (tax rate x assessment = correct levy).

Administration is recommending the maximum assessment-related tax increase on capped classes, being 10% permitted by legislation, be maintained, as well as maintaining eliminating the cap on any property that is within \$500 of its "correct" levy. Administration is also recommending the phasing out of the capping program by utilizing a limit of 10% of the previous year's annualized CVA taxes. If an entire capped class has all properties at a level of at least 50% of their CVA value, those capped properties will have their capping protection phased out over a period of four years, at which time the class will be at its full CVA value. The Industrial and Multi-Res classes have now been phased out of capping protection, with only the commercial class remaining. Administration is also recommending excluding reassessment related changes from the application of part IX of the Act, thereby limiting capping protection to the assessed value of properties prior to 2019.

These decisions do not change the amount of revenue collected by the Municipality. It moves the tax burden more quickly from those properties that are overpaying to those that are not paying enough as determined by their current assessment. There are only four properties remaining under capping protection.

Maintaining the cap at 10% for 2023 meets the following objectives:

- moves properties more quickly toward their correct tax contribution
- maintains the phase-in and capping option to be applied in future as required to deal with future tax changes
- reduces the number of properties paying taxes more than those normally owing based on assessment
- improves the transparency and equity of the tax system

In 2023, administration is recommending the adoption of a by-law limiting new construction within the Commercial properties from entering the capping program in the same manner as 2022. Instead, these properties will be taxed at their assessed value and do not have the ability to enter the capping program.

3. Specific Property Tax Protection and Assessment Issues

Table 9: Tax Protection and Assessment Issues		
	2022	2023
Tax Claw Back	\$50,000	\$50,000
Total	\$50,000	\$50,000

Claw Back Level

As a consequence of capping increases to protected classes, there is a deficiency within each property class. Council can recover costs from within the same class, or recover costs from the general levy, or both as was done in 2022. Administration is recommending continuing this funding program for 2023 similar to 2022 and it is expected that 100% of the claw backs will be funded at a cost of \$50,000 to the general levy. In 2023, administration continues to propose that any property within \$500 of its "correct" CVA tax will be moved to that level immediately.

No changes are being recommended to the capping program in 2023. Administration is recommending that the budget amount continue to remain unchanged at \$125,000, and the remaining \$75,000 in funds be reallocated to increase the allowance for doubtful accounts budget. The Municipality has seen many assessment appeals from large commercial and industrial properties resulting in significant write-offs. The number of appeals in 2023 has not decreased, and therefore it is expected that the deficit in allowance for doubtful accounts will continue moving forward.

Previous Non Taxable Commercial Capping – Unique Case

Chatham-Kent had a single commercial property that had a 2008 assessment that increased to \$60M and a subsequent 2012 assessment which decreased it to \$45M, with a further decrease in 2016 to \$6.2M as a result of a new assessment methodology. During the 2016 assessment cycle, the Province created a new Landfill class for this property. The Province has also provided Chatham-Kent with the flexibility for yearly tax increases within the Landfill property class as to not cause a property tax burden shift to other classes.

4. 2023 Assessment Roll

The assessment roll, delivered in December 2022, is for 2023 taxation. New construction increases the assessment value of the roll. Assessment Review Board decisions and Reconsiderations may lower the value of assessment on the roll. New assessment minus assessment reductions, along with the recommended transition ratio changes, results in an increase of taxable weighted assessment for 2023 of 2.37% as illustrated in Table 10.

Administration estimates that taxation from building activities increased by approximately \$3.03M in 2022. This \$3.03M was included in the 2023 budget as new tax revenue.

Chatham-Kent has always treated CVA adjustments as revenue neutral. CVA related tax revenue increases are offset by the tax rate decreases so that the total revenue collected from properties remains constant. Increased revenues occur when new buildings are constructed or improved and when Council increases its budget requirements.

The treatment of this issue is consistent with past years and is in line with the current budget process.

Table 10 Weighted Assessment Changes				
Average Class-Wide Weighted Assessment Changes From 2022 - 2023				
Class	Phased In 2022	Phased in 2023	\$ Change	% Change
Commercial	1,570,083,608	1,591,517,699	21,434,091	1.37%
Office	34,758,447	35,206,319	447,872	1.29%
Parking Lots	2,735,940	2,781,127	45,188	1.65%
Land Fill	21,044,800	21,876,749	831,950	3.95%
Industrial	366,471,426	370,580,386	4,108,960	1.12%
Large Industrial	73,837,021	74,093,838	256,817	0.35%
Shopping Centre	211,612,657	215,443,946	3,831,289	1.81%
Multi Residential	401,241,412	397,837,017	(3,404,394)	-0.85%
Pipelines	198,921,733	198,034,890	(886,843)	-0.45%
Farmland	1,273,051,470	1,344,702,430	71,650,960	5.63%
Residential	7,065,100,097	7,232,446,646	167,346,549	2.37%
Average	11,218,858,608	11,484,521,046	265,662,438	2.37%

5. Small-Scale On-Farm Business Subclasses

On May 3, 2018, the Government of Ontario established two new optional subclasses for small-scale on-farm businesses to promote and support local farms across Ontario. The commercial and industrial subclasses were created to provide a tax rate that is 75% lower than the existing commercial and industrial tax rates. The reduced tax rate will apply to the first \$50,000 of eligible commercial or industrial assessment up to a maximum of \$100,000.

To qualify, the commercial and/or industrial facility must be an extension of the farming operation. In addition, 51% of the facility must be used to sell, process or manufacture something from a product produced on the farmland. If the commercial and/or industrial operation has an assessed value equal to or greater than \$1M, it is not eligible for the small-scale on-farm business subclass. In Chatham-Kent, there are currently nine properties which are eligible for this new subclass. To support Chatham-Kent's agricultural community, administration is recommending no changes to the existing two optional subclasses.

Areas of Strategic Focus

The recommendations in this report support the following areas of strategic focus:

			
Economic Prosperity	Healthy & Safe Community	People & Culture	Environmental Sustainability
1.1, 1.2, 1.3			

Consultation

MPAC provided assessment data. All calculations are done by Financial Services.

Following the Council meeting of April 3, an email was sent to the Kent Federation of Agriculture and the Christian Farmers Federation of Chatham-Kent advising them of the direction of Council regarding the farm tax ratio, extending an opportunity for further discussion, and providing an opportunity to include their position on this subject in this report. As of the report deadline, no responses have been received. These groups are aware of the options for making a deputation at the April 24 meeting.

Communication

Communication is proposed to be through the inclusion of this report on the Council agenda and related communications.

Diversity, Equity, Inclusion and Justice (DEIJ)

This report does not have implications related to diversity, equity, inclusion or justice.

Financial Implications

Tax policy is an integral part of the annual municipal taxation process. It determines which property classes fund what portion of the overall tax levy.

The tax policy by-laws require Council approval in order to establish the tax rates necessary for budgetary requirements of Chatham-Kent and its boards, commissions and agencies.

Prepared by: Mark Visser, Revenue Analyst

Reviewed by:

Amy McLellan, CPA, CGA, Manager, Revenue

Matt Torrance, MBA, CPA, CGA, Director, Financial Services

Gord Quinton, MBA, CPA, CGA, Chief Financial Officer, Treasurer

Attachments: Appendix A – Effect of Tax Policy Decisions
Appendix B – Farm Tax Ratio Comparisons
By-law – 2023 Tax Ratios
By-law – Maximum Tax Increases
By-law – New Construction Limits