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: March 3, 2021

Subject: Farm Tax Ratio

Recommendation

It is recommended that:

1. The Farm Tax Class ratio be reinstated at the Provincial threshold with a phased in approach as follows:
    a. 2021 – 23%
    b. 2022 – 24%
    c. 2023 and onward – 25%

Background

The Province of Ontario implemented changes to property assessment and introduced taxation reform, which came into effect in 1998. Prior to this, farm properties were subject to taxation at the base residential tax rate and farmers applied annually to the Minister of Finance to be reimbursed 75% of the farm portion of taxes paid to the local municipality. Through the assessment reform, the method of delivering the farm rebates was changed through the creation of the Farm Property Class Tax Rate. Through this change, the responsibility of delivering the rebate was shifted to local municipal governments. Under current legislation the Farm Property Tax Class has a maximum ratio of 25%. The result is that eligible farmland assessment values are now discounted by a minimum of 75% of their full current value assessment (CVA) to produce lower weighted assessment base which is used for tax rate setting purposes.

When the assessment reform came into effect in 1998, Provincial funding was allocated to municipalities through the Community Reinvestment Fund (CRF). Responsibilities relating to 16 government programs and over $3 billion in program costs were realigned between the Province and Ontario municipalities. To help municipalities pay for the downloaded programs, the Province took over funding approximately $2.5 billion in education costs and created the CRF. Since that time the CRF funding criteria has changed many times and is now called the Ontario Municipal Partnership Fund, which no longer has any reference to farm tax levels.

Currently the Farm Tax Class ratio is 22% of the residential tax rate in Chatham-Kent. The rate was 25% as established in 1998 before Council lowered the rate to 24% in 2003 and to 22% in 2004 due to the rise in farm assessments and the low commodity prices at the time. The intent at the time was for this to be a temporary reduction. Farm sale prices continued to rise over the next decade and commodity markets recovered while Council continued with the rate at 22%.

The 2021 Budget Opportunities for 0% Report was received by Council on August 10, 2020. Council approved further analysis of proposed items related to service delivery to efficiently provide quality core services to Chatham-Kent residents and achieve a 2021 budget target of 0%. The report recommended that detailed reports be brought back to Council for final approval prior to the 2021 budget deliberations. Subsequently, a report was brought to the October 5, 2020 Council meeting with the same recommendations outlined in this report. Much of the discussion revolved around the postponed MPAC reassessment and the potential impact on the Farm Tax Class. Administration advised that the expectation was that the reassessment data would be available in the spring before Tax Policy needed to be approved and the following motion was passed unanimously:

"That report 11(b) – Farm Tax Ratio be postponed to a spring 2021 Council meeting when MPAC representatives can present up to date re-assessment information prior to Council decision making, and that this meeting be scheduled prior to the 2021 Tax Policy report expected in late April 2021 with public consultation."

To date, reassessment data has not been provided to municipalities and neither MPAC or the Province have committed to a process or timeline for implementing the updated assessment roll. At this point it is still expected that municipalities and property owners will receive assessment updates at some point in 2021 for implementation on January 1, 2022. Since Tax Policy needs to be approved in April in order to set the tax rates for the final billing, updated assessments will not be available for Tax Policy decisions such as the one recommended in this report.

With the 2016 reassessment being fully implemented in 2020 and the 2021 reassessment being postponed, property values will remain unchanged for 2021. Accordingly, there will be no shift in tax burden between classes as a result of assessment changes.

Comments

Over the last two property assessment cycles (2012 and 2016) the Farm Tax class was disproportionately affected by property value increases when compared to the other classes. The Farm Tax class saw assessment values increase greater than 50% over each of these assessment cycles while the values in the other classes grew only marginally. This resulted in a shift of the tax burden from the other classes onto the Farm Tax class. As a result, recommendations were not made to increase the Farm Tax ratio over this period.

In the last five years there has been a significant increase in residential home values in Chatham-Kent as demand has outpaced supply which has resulted in increases to home sale prices of up to 100% or more in some areas. While farm values have increased over this period as well it is expected that the increases in residential property values will outpace farm prices when the assessment data is released. As a result, it is expected that there will be a resulting shift in the tax burden to residential properties that will occur in the next re-assessment cycle.

While the COVID-19 pandemic has had a significant impact on the economy, not all sectors were affected equally. Included in this report as Appendix A is an excerpt from The Daily, a publication of Statistics Canada. The infographic on page 2 demonstrates the real gross domestic product as a February 2020 baseline, the maximum decline during the pandemic and the December 2020 levels for each sector of the economy. Some sectors such as Accommodations & Food and Arts & Entertainment were disproportionately affected and as of December were only producing at 61% and 49% of their pre-pandemic levels. Most other sectors had recovered to at least 90% of their pre-pandemic levels, with the highest growth being in the agriculture, forestry, fishing and hunting sector operating at 110% of pre-pandemic levels. This sector was the only goods producing sector to post gains in real GDP in 2020.

Attached as Appendix B is Agriculture and Agri-Food Canada’s Farm Income Forecast. This report indicates significant growth in the farming sector in 2020 with Net Cash Income increasing by 21.8% in 2020 as compared to 2019. Average Net Operating Income per farm was also up significantly at 25.4% compared to 2019. In 2020 the average farm family income is forecast to have increased 8.6% to just over $194,000 with an average net worth of $3.4 million.

Infrastructure costs in the rural areas of Chatham-Kent are very significant. There have been few opportunities approved by Councils of the past to reduce some of the very low used bridges and roads. A return to the standard 25% farm tax ratio would bring the cost share ratio of infrastructure back in line with what was intended when OMAFRA developed the farm tax rebate program. The actions of previous Councils have mitigated farm tax increases for high value farmland for close to two decades, but it is time to return the ratios back to their intended thresholds and no longer have industry, commercial businesses and residential properties subsidize the farm sector.

The table below is a summary of municipalities throughout the Province of Ontario and the Farm Tax Ratio adopted by each. The vast majority of municipalities throughout the Province, being 87.25%, have adopted a Farm Tax Ratio of 25%.

Number of Municipalities by Tax Ratio		
Farm Tax Ratio's	Number of Municipalities	Percentage of Municipalities
11.80%	1	0.25%
15.00%	1	0.25%
16.89%	2	0.50%
17.67%	1	0.25%
20.00%	16	4.00%
22.00%	2	0.50%
22.50%	1	0.25%
22.60%	11	2.75%
23.50%	9	2.25%
23.67%	6	1.50%
24.00%	1	0.25%
25.00%	349	87.25%

* Information is based on 2018 FIR submissions since all municipalities have not posted 2019 Financial Information Returns.

Chatham-Kent has the fourth highest value of assessment in the Farm Tax Class throughout the Province and the lowest farm ratio out of the ten municipalities with the highest values of farm assessment.

Top 10 Municipalities by Assessment and Ratio			
Municipality	Tier	Assessment	Farm Ratio
Huron Co	UT	$ 7,941,270,439	25.00%
Perth Co	UT	$ 7,501,584,639	25.00%
Oxford Co	UT	$ 6,414,185,131	23.50%
Chatham-Kent M	ST	$ 5,804,353,843	22.00%
Lambton Co	UT	$ 5,345,738,700	22.60%
Middlesex Co	UT	$ 5,185,950,381	25.00%
Simcoe Co	UT	$ 3,804,999,540	25.00%
Bruce Co	UT	$ 3,609,107,023	25.00%
Stormont, Dundas and Glengarry UCo	UT	$ 3,553,396,734	25.00%
Elgin Co	UT	$ 3,335,669,652	25.00%

* Information is based on 2018 FIR submissions since all municipalities have not posted 2019 Financial Information Returns. Elgin County has since reduced the Farm Tax Ratio to 23.00%.

There are five municipalities that have a farm ratio greater or equal to 22% but less than 25% throughout the Province. Lambton County, which also falls into the category of the ten highest farm assessment values in the Province, has a rate of 22.6%. Lambton County followed Chatham-Kent's lead in lowering the farm tax ratio over a decade ago. Our other neighbouring counties (including Essex) have retained the 25% ratio throughout.

Municipalities greater than 22% but less than 25%			
Location	Tier	Farm Rate	Assessment
Chatham-Kent	ST	22.00%	$ 5,804,353,843
Lambton County	UT	22.60%	$ 5,345,738,700
Oxford County	UT	23.50%	$ 6,414,185,131
Lennox & Addington County	UT	23.67%	$ 343,745,051
Brant County	ST	24.00%	$ 1,245,054,207

* Information is based on 2018 FIR submissions since all municipalities have not posted 2019 Financial Information Returns. Elgin County has since reduced the Farm Tax Ratio to 23.00%.

Changing the Farm Tax Class ratio will have an impact on the amount levied to each tax class. The impacts per $100,000 of assessment are illustrated for the Farm, Residential and Commercial classes in the table below. This will be the annual impact for each of 2021, 2022 and 2023.

Impact Per $100,000 of Assessment	
Class	**Increase (Decrease)**
Farm	$13
Residential	($7)
Commercial	($13)

Areas of Strategic Focus and Critical Success Factors

The recommendation in this report supports the following areas of strategic focus:

☒ Economic Prosperity:
Chatham-Kent is an innovative and thriving community with a diversified economy

☐ A Healthy and Safe Community:
Chatham-Kent is a healthy and safe community with sustainable population growth

☐ People and Culture:
Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community

☐ Environmental Sustainability:
Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

The recommendation in this report supports the following critical success factors:

☒ Financial Sustainability:
The Corporation of the Municipality of Chatham-Kent is financially sustainable

☐ Open, Transparent and Effective Governance:
The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership

☐ Has the potential to support all areas of strategic focus & critical success factors

☐ Neutral issues (does not support negatively or positively)

Consultation

The Kent Federation of Agriculture and the Christian Farmers Federation of Chatham-Kent were provided advance copies of this report. Administration met with both groups on March 11, 2021 to discuss the contents. Both groups do not support the recommendations made in this report.

Financial Implications

There are no financial implications resulting from the recommendation as tax ratios are revenue neutral and are dealt with after the approval of a budget. The purpose of this report is to get direction from Council on the Farm Tax ratio prior to the development of the 2021 Tax Policy. Bypassing this recommendation, there will be a shift of just over $600,000 per year for 2021, 2022 and 2023, or approximately one third of a percent from other property classes onto the Farm Tax class.

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Attachments: Appendix A – Excerpt from The Daily
Appendix B – AAFC Farm Income Forecast for 2020 and 2021

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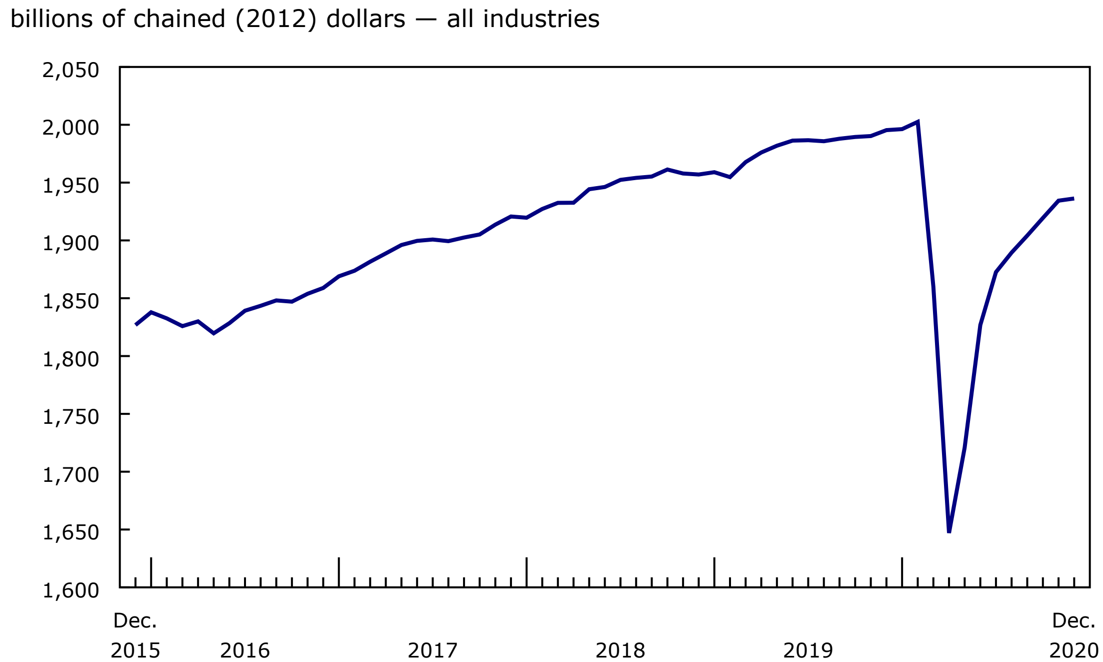
Gross domestic product by industry, December 2020

Released at 8:30 a.m. Eastern time in The Daily, Tuesday, March 2, 2021

Real gross domestic product (GDP) edged up 0.1% in December, following a 0.8% increase in November. This eighth consecutive monthly increase continued to offset the steepest drops on record in Canadian economic activity in March and April. Nevertheless, total economic activity was about 3% below February's pre-pandemic level.

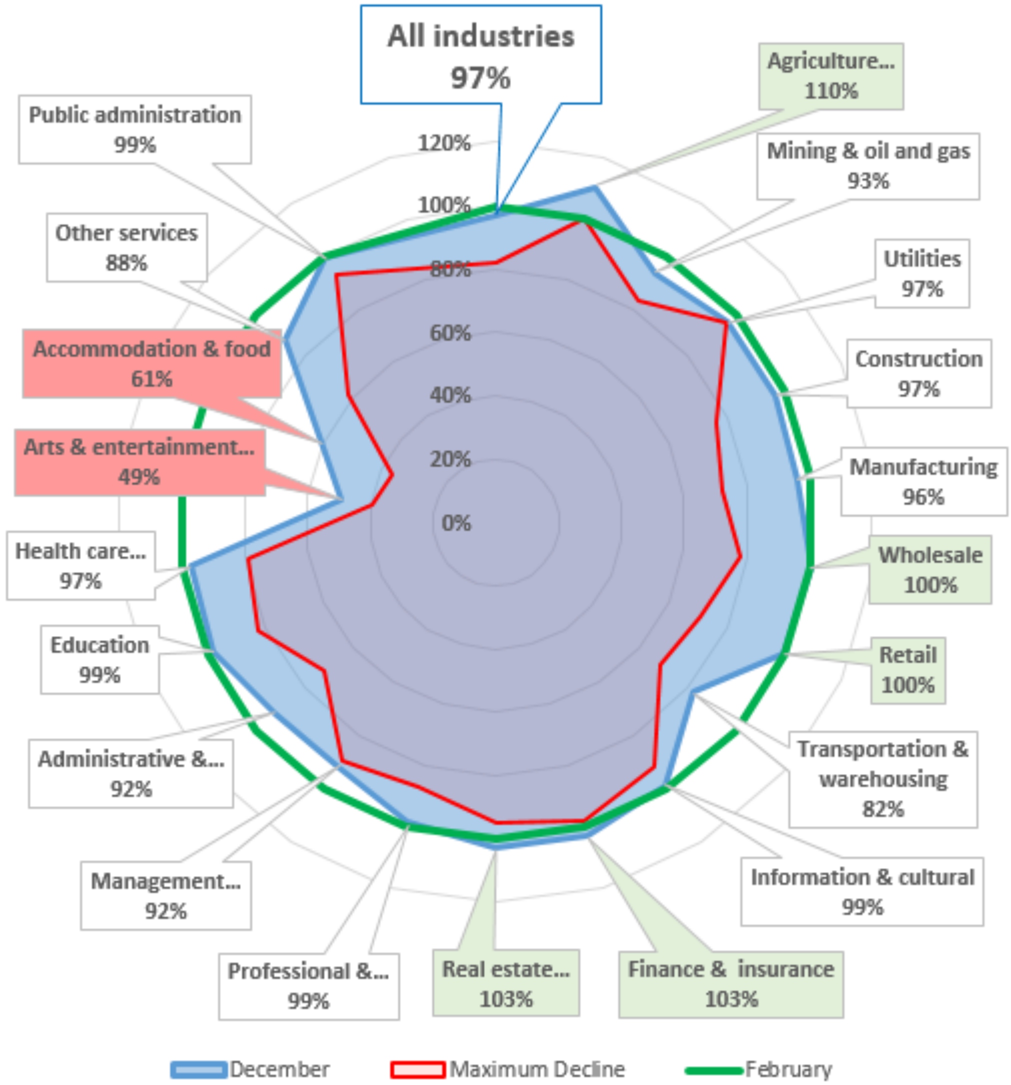
Chart 1
Real gross domestic product grows in December



Source(s): Table 36-10-0434-01.

Infographic 1 – Peak pandemic declines and December 2020

real gross domestic product in billions of chained (2012) dollars - expressed as a percentage of February 2020



Note: This chart illustrates levels of real GDP in December 2020 as compared to pre-pandemic February 2020 levels. It also displays the minimum level for each category between the two. (February 2020=100%)
Complete industry titles can be found in table 1 of this release
Source(s): Table 36-10-0434-01.

Goods-producing industries were up 0.6% while services-producing industries edged down 0.1% as 12 of 20 industrial sectors increased in December.

Advanced information indicates an approximate 0.5% increase in real GDP for January 2021. The wholesale trade, manufacturing and construction sectors led the increase while retail trade declined. Owing to its preliminary nature, this estimate will be revised on March 31 with the release of the official GDP data for the January 2021 reference month.

Government of Canada Gouvernement du Canada

Farm Income Forecast results for 2020 and 2021

Agriculture and Agri-Food Canada's Farm Income Forecast is a key tool for monitoring income in the farm sector, and understanding the short-term outlook for primary agriculture.

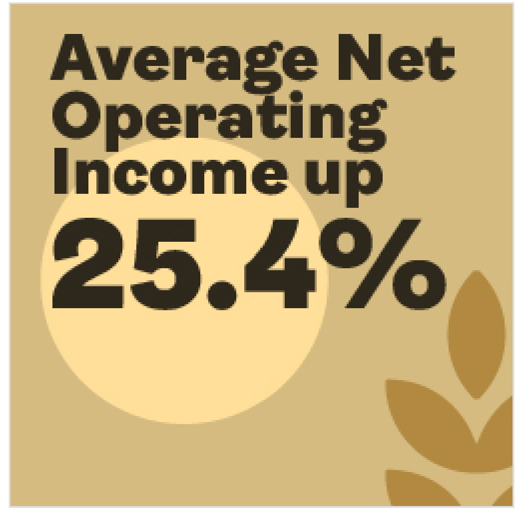
The sector is forecast to have seen strong financial performance in 2020, which is expected to continue into 2021. With market demand for agricultural commodities remaining strong, growth is expected in Net Cash Income, farm-level Net Operating Income, as well as net worth.

Positive performance in the face of uncertainty

Net Cash Income is forecast to have grown significantly in 2020 – from $13.5 billion in 2019 to a new record of $16.5 billion, amounting to a 21.8% increase. Large increases in receipts are projected to have outpaced increases in expenses.

Strong returns in the grain and oilseed sectors outweighed weaker performance in the red meat sector (due to challenges at processing plants) as well as the horticulture sector (due to demand and labour challenges).

Average Net Operating Income per farm is also forecast to have risen significantly in 2020, amounting to approximately $95,000 in 2020 – up 25.4% from just under $76,000 in 2019 and 15.9% higher than the 5-year average.



For 2020, average farm family income is forecast to have increased 8.6% to just over $194,000, driven by increases in Net Operating Income from farming. The average net worth increased by 4.1%, to $3.4 million per farm.

In 2021, Net Cash Income is forecast to grow 6.8% to $17.6 billion as prices are expected to improve as global markets recover from the effects of COVID-19.

Outlook

- Net Cash Income is forecast to rise in 2020 to a new record, and to see further growth in 2021. Balance sheets overall are expected to remain strong as well.
- As global markets recover from the effects of COVID-19, prices for Canadian agricultural commodities are expected to improve in 2021, however COVID-19 is still a significant risk for markets going forward.
- While the agriculture sector on the balance had a good year, some sectors did better than others and growth was uneven. The grain sector had a very good year with record crop production, strong prices, and minimal transportation issues. However, some other commodities, such as red meat and horticulture, saw more challenges from COVID-19 impacts.

For more detailed information, please contact aafc.info.aac@canada.ca

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