HALDIMAND COUNTY

Report FIN-03-2019 Analysis of Assessment Update

For Consideration by Council in Committee on February 26, 2019

OBJECTIVE:

To provide Council with updated information regarding the final returned property assessment values for the purposes of 2019 taxation, including growth and tax shift impacts due to reassessment.

RECOMMENDATIONS:

1. THAT Report FIN-03-2019 Analysis of Assessment Update be received as information.

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EXECUTIVE SUMMARY:

A Province-wide reassessment was completed during 2016 to update all properties to a January 1, 2016 market value to be utilized for the 2017 through 2020 taxation years. As with any reassessment year, there will be shifts in tax burden between and within property tax classes. These shifts in burden will impact specific properties to varying degrees across the County based on their individual reassessment impacts relative to the applicable tax classes, as well as changes within the specific tax class. Council has no control over reassessment since it is Provincially mandated and highly regulated.

The returned assessment roll provides the basis for distribution of the required property tax levy in 2019. With 2019 being the third year of the current reassessment cycle, Haldimand County's total reassessment impact for 2019, excluding exempt and payment-in-lieu properties, represents a net 4.89% increase in value from 2018. The reassessment impacts result in a shifting of tax burden among property classes, however does not create any additional taxation revenue.

In addition, annual "growth" in assessment, from new/enhanced properties, is experienced during the previous year which is reflected on the current returned roll for 2019 taxation. The County experienced "real growth" in assessment value of approximately 2.4% last year which, when weighted based on current tax policy, will offset 2.7% or approximately $1,700,000 (based on 2018 tax rates) of the 2019 municipal tax levy requirements.

The assessed value is only one factor which determines a property's tax burden. The second factor which determines annual property taxes will be deliberated by Council in April when they review the Draft 2019 Tax Supported Operating Budget and establish the levy. The final factor, tax policy, will ultimately be decided by Council, through a subsequent report planned for June 2019, prior to passing the annual Final Tax Levy By-law.

BACKGROUND:

All assessed values and property classifications in the Province of Ontario are prepared by the Municipal Property Assessment Corporation (MPAC). MPAC reassessment cycles have been legislated to be every four years. During 2016, all properties in Ontario had their current value assessment (CVA) adjusted to reflect January 2016 market values. This legislated reassessment process updated values from the previous January 2012 valuation date, thus reflecting a four year change in market conditions for real property. The assessed values identified through this latest reassessment will form the basis for apportioning property taxes in the years 2017 through to 2020. It should be noted that in 2017, the first year of this reassessment period, a representative from MPAC made a comprehensive presentation to council on the reassessment process and impacts.

Based on the revised values, applicable assessment increases are required to be phased in equally over a four year period. Any resulting assessment reductions are immediately implemented. As a result, for properties increasing in value, 2019 is the third year of the four year phase-in period. It is not until 2020, that these properties will reflect their January 2016 market value, representing their "destination assessment value". Properties with valuation decreases would have seen the reduced assessment take effect immediately in 2017 (any subsequent assessment reductions would be reflected on the returned roll based on the effective date of the reduction).

The updating of property assessment values affects every property owner in Haldimand County. Property owners should review their Property Assessment Notice and contact MPAC if they have a question or do not agree with the value. MPAC's deadline for Requests for Reconsideration, for the 2019 Taxation Year, is March 31, 2019. The March 31 deadline applies in years 2 through 4 of reassessment, while in the first year of which a general re-assessment applies, the deadline for Requests for Reconsideration is 120 days after the issuance date printed on the notice of assessment. In the event of omitted or supplementary assessment, Requests for Reconsideration are accepted by MPAC up to 120 days after the issuance date printed on the notice of assessment.

ANALYSIS:

Assessment Impacts

The final 2018 Returned Roll for 2019 Taxation, reflecting the results of the reassessment process, was delivered to municipalities in December 2018. This report outlines the changes in Haldimand County's assessment, for 2019 taxation, based upon the final returned roll and represents the following changes:

- *Growth Impacts:* Representing adjustments from January 2018 to December 2018 to reflect changes to individual properties that occurred during the year (i.e. assessment changes related to property improvements/additions/deletions and adjustments made as a result of successful assessment appeals in 2018). These net changes are considered the "***growth***" in assessment year-over-year.
- *Reassessment Impacts:* Representing the third year of the phased-in changes in assessment market values from January 1, 2012 valuation date to the January 1, 2016 valuation date. These changes are considered the "***reassessment***" impacts year over year.

Table #1 provides a summary of the assessment for all taxable properties in Haldimand County. Taxable properties do not include properties that are exempt or payment-in-lieu properties (both taxable and non-taxable), such as properties owned by higher levels of government or electricity distribution/generation companies.

This table shows:

(i) the returned assessment values (2017 tax roll) used for 2018 taxation;
(ii) the changes resulting from in year revisions to assessed values as returned on the December 2018 roll (i.e. "***Growth***" impacts); and
(iii) the third phase of CVA increases to be used for 2019 taxation (i.e. "***Reassessment***" impacts).

As outlined above, increased CVA values are phased in over four years, while decreased CVA values are not phased in but take effect immediately. The amounts reported in the columns are described as follows:

2017 Roll for 2018 Taxation - Phase 2 ($) - This is Phase 2 of the assessment values (reflecting a January 1, 2016 market value) used for taxation last year (2018).

2018 Roll Prior to CVA Change - Phase 2 ($) - This reflects the 2018 in-year amendments to the returned roll for 2018 taxation. This reflects real net "growth" for new assessment added to the roll for the first time, less assessment reductions for appeals, Assessment Review Board adjustments, etc. (based on *January 1, 2016* CVA values). This is the roll prior to the impact of reassessment.

2018 Roll Prior to CVA Change – Change (%) - This is the change in assessment during 2018 expressed as a percentage. This represents real net assessment growth within the municipality – the "**growth**" factor – as opposed to valuation changes caused simply by the reassessment program used to update market values across the Province. It is net of any assessment reductions due to demolition, etc. and has not yet been weighted due to varying tax ratios for the property classes.

2018 Roll for 2019 Taxation - Reassessment Impacts Phase 3 ($) - This reflects the third year of a four year phase-in of assessment increases based on *January 1, 2016* CVA values. This represents the assessed values that will be used for property taxation in 2019.

2018 Roll for 2019 Taxation – Change (%) - This is the change in assessment over the amended 2018 assessed values expressed as a percentage. It reflects the change in CVA caused by reassessment, not growth. For properties that increased in CVA, it reflects the second year of that increase; for those that decreased in CVA, it reflects 100% of that decrease.

Table #1: Summary of Assessment Values for Haldimand County Based Upon Final 2018 Returned Roll for 2019 Taxation

			2017 Roll for 2018 Taxation	"Growth Impacts" 2018 Roll Prior to CVA Change		"Reassessment Impacts" 2018 Roll for 2019 Taxation	
Class	**RTC**	**RTQ**	**Phase 2 ($)**	**Phase 2 ($)**	**Change (%)**	**Phase 3 ($)**	**Change (%)**
Residential	R	T,1	4,656,295,674	4,807,359,040	3.24	4,989,089,308	3.78
Farm	F	T	1,054,389,692	1,051,619,616	(0.26)	1,167,834,144	11.05
Multi-Res	M	T	42,168,207	42,289,176	0.29	42,942,538	1.54
Commercial	C,H,S,X	T,U,X	293,114,270	297,248,211	1.41	309,321,691	4.06
Industrial	I,L,J	1,T,U,X	172,296,357	172,150,740	(0.08)	174,595,469	1.42
Pipelines	P	T	69,332,306	69,743,952	0.59	71,552,476	2.59
Managed Forest	T	T	4,954,816	4,983,712	0.58	5,552,654	11.42
			6,292,551,322	6,445,394,447	2.43	6,760,888,280	4.89

“Growth Impacts”

As indicated in Table #1, the County has experienced “real growth” in assessment of 2.43% ($152.8 million) during 2018. The growth is allocated as follows: Residential tax class (3.24% or $151.1 million); Commercial tax class (1.41% or $4.1 million); Multiresidential tax class (0.29% or $0.1 million); and Pipelines tax class (0.59% or $0.4 million). These increases are partially offset by decreases in the Farm tax class (-0.26% or $2.8 million) and the Industrial tax class (-0.08% or $0.1 million).

The growth experienced in 2018 is similar to 2017, but significantly higher than in previous years. Prior to this, the County’s historical average assessment growth was approximately 1.0%. Although additional assessment growth was anticipated as major residential developments continued (primarily in Caledonia and to a lesser extent Hagersville), the actual growth exceeds the projections of 2.0% proposed within the 2019 Tax Supported Budget Guidelines as outlined in report FIN-02-2019 Budget Guidelines – 2019. The Tax Supported Budget Guidelines report identifies the proposed use of the annual assessment growth.

The amount of additional taxation revenue to be recovered from real growth in 2018 is affected by the weighting of the major tax classes above, with the residential class being the base. For example, Farm properties are only taxed at 25% of the Residential tax rate; thus, growth in the assessment within that tax class will generate less taxation revenue than if it occurred in a different property class. The industrial and multi-residential tax classes have the highest weighting, followed by commercial and pipelines. As a result, assuming similar taxation policies as in past years, the 2018 assessment growth will create additional taxation revenue in 2019 of approximately $1,700,000. This weighting of last year’s assessment growth, therefore, equates to 2.7% of the base 2018 tax levy of $63.8 million. Council can consider changes to the tax ratios and resulting tax class weighting when reviewing the 2019 tax policy report in June; any tax ratio changes will affect the amount of taxation revenue generated by the 2.43% assessment growth.

Of the anticipated $1,700,000 of additional taxes expected to be generated from assessment growth in 2018, $1.6 million is related to residential assessment growth. This is mainly driven by the construction of additional homes, primarily from major developments in Caledonia. The majority of the remaining assessment growth is from increases in the commercial tax class resulting in approximately $85,000 of additional offsetting property tax revenues. This increase is primarily due to the addition of a new office building and grocery store that are assessed in the Commercial property tax class.

Given the anticipated changes in development and impacts on assessment growth and property taxes expected in Haldimand County's near future, a comprehensive and long term analysis of these impacts needs to be developed and presented to Council. This analysis will need to take into account, not only the impact of assessment growth and tax policy on annual taxes, but the need for future infrastructure, services and the related operating costs. An estimate of the annual growth over the term of Council is provided in the 2019 Tax Supported Budget Guidelines report (FIN-02-2019 Budget Guidelines – 2019).

"Reassessment Impacts"

In relation to Provincial averages (i.e. using fully phased-in destination values reflecting an increase in assessment from a valuation date of January 1, 2012 to a valuation date of January 1, 2016), Haldimand's residential tax class increased by 15.7% while the Provincial average increase for this property class is 18%. As a result, Haldimand County's residential property market values increased at a slower pace when compared to provincial averages. Conversely, the County's farm class fully phased-in destination value increased by an average of 55.6%, while the Provincial average was 64%. The increase in Haldimand was consistent with other neighbouring municipalities' farm class increases. These reassessment impacts are being phased-in over four years, with 2019 reflecting 75% of the overall expected change in value.

Haldimand County's total reassessment impact for 2019, being the third year of phase-in, excluding exempt and payment-in-lieu properties, reflects a net 4.89% increase in value from 2018. As indicated in the table above, the Farm (11.05%) and Managed Forest (11.42%) tax classes experienced the largest reassessment increases (similar to last year), followed by the Commercial tax class (4.06%) and the Residential tax class (3.78%). The overall reassessment impacts of the Farm class is consistent with the provincial average. It should be noted, that although the multi-residential and industrial classes reflect a slight increase in assessment in 2019 due to reassessment, these classes experienced a significant reduction in the first year of reassessment (decreases from 2016 to 2017 were -10.81% and -15.00%, respectively). This was due primarily to a change in to MPAC's assessment methodologies, with the decreases being realized immediately in 2017 taxation calculations for these properties for the most part.

As property assessments in different tax classes increase, or decrease as the case may be, at different rates or percentages than other classes, inevitably there will be tax shifts between these classes, as well as within specific property classes. The impacts of these shifts are affected by tax ratios, shifts in other classes and tax policies as explained below.

Impact of Revised Assessment Values on Tax Burden/Tax Shifts

Table #2 provides a comparison of the 2018 actual municipal tax levy for each tax class with a hypothetical allocation of the same tax levy based on the 2019 revised assessment values multiplied by "notional tax rates". "Notional tax rates" are the calculated rates that, when applied to the returned assessment roll, will provide the same taxation revenue in 2019 as was required in 2018 ($63.8 million municipal tax levy).

The Tax Burden %, as outlined in the table, is the percentage of the total tax levy that was recovered from that property class. The column entitled “Change in Burden %” illustrates the shift in tax burden among property classes as a result of the reassessed values, as well as real changes caused by growth or assessment reductions. Note that this Table does not account for any potential 2019 Tax Levy increase that Council will consider during its review of the Draft 2019 Tax Supported Operating Budget in April. As well, it does not reflect any shifting in the tax burden that may occur if Council changes its 2019 tax policy (i.e. tax ratios, tax class reductions), which will be reviewed in June.

Table #2: Impact on Tax Burden
Based Upon Final 2018 Returned Roll for 2019 Taxation

			2017 Roll for 2018 Taxation	2018 Tax Levy		2018 Roll for 2019 Taxation	2018 Tax Levy Based on 2019 CVA Values		Change in Burden %
Class	**RTC**	**RTQ**	**Phase 2**	**Phase 2**	% Burden	**Phase 3**	**Phase 3**	% Burden	
Residential	R	T,1	4,656,295,674	49,587,659	77.78%	4,989,089,308	49,785,592	78.09%	0.31%
Farm	F	T	1,054,389,692	2,833,567	4.44%	1,167,834,144	2,913,483	4.57%	0.13%
Multi-Res	M	T	42,168,207	900,061	1.41%	42,942,538	857,056	1.34%	(0.07%)
Commercial	C,H,S,X	T,U,X	293,114,270	5,196,182	8.15%	309,321,691	5,168,782	8.11%	(0.04%)
Industrial	I,L,J	1,T,U,X	172,296,357	4,124,645	6.47%	174,595,469	3,955,149	6.20%	(0.27%)
Pipelines	P	T	69,332,306	1,102,056	1.73%	71,552,476	1,063,475	1.67%	(0.06%)
Managed Forest	T	T	4,954,816	13,220	0.02%	5,552,654	13,853	0.02%	0.00%
			6,292,551,322	63,757,390	100.00%	6,760,888,280	63,757,390	100.00%	

Based on the above analysis, there is a shift in municipal tax burden, primarily to the residential and farm tax classes from all other classes. These calculated shifts, as shown above, assume no increase in the tax levy. Any subsequent increase to the 2019 tax levy, through review of the annual operating budget, or changes to current tax policy will have further impacts on the tax burden by class.

The shift in overall tax burden to the farm class is a result of reassessment. A similar impact occurred as a result of the previous reassessment. Although the farm tax class assessed values have increased by approximately 11% for 2019 taxation, the fact that this class pays only 25% of the residential tax rate has mitigated some of the dollar impact of the shift in overall tax burden.

There are tax policy tools available to municipalities to mitigate tax shifts as a result of re-assessment (i.e. optional tax classes, revenue neutral tax ratios, etc.); however, these require a comprehensive analysis of the impacts and may require approval by the Province. Using existing County tax policies/principles (i.e. 2018 tax levy requirements, tax ratios, notional municipal tax rates), a comparison of the impacts on taxation, from 2013 to 2019, on the average assessed farm property, excluding education taxes, is as follows:

Table #3: Average Municipal Tax Impact/Shift Due to Reassessment

Farm Tax Class	**2014**	**2015**	**2016**	**2017**	**2018**	**2019 (*)**
Average assessed value (estimated based on average assessment increase in tax class)	$210,047	$236,492	$262,672	$297,686	$334,600	$371,573
Annual municipal tax (using "notional rates" for 2019)	$565.40	$642.89	$716.20	$813.65	$892.74	$926.99
Annual municipal tax increase due to shift caused by reassessment***	**$67.78**	**$43.60**	**$44.50**	**$72.64**	**$43.09**	**$34.25**

**Approximately 56% of the 3,182 farm properties in Haldimand County are below the estimated average assessed value of $371,573 noted above. The current estimated average assessed value will be finalized with the 2019 Tax Supported Operating Budget.*
***Excludes tax increases due to additional levy requirements approved annually by Council during budget reviews.*

County representatives met with local Federation of Agriculture members and local Agricultural Advisory Committee members in November 2016 and again in April 2017 to explain the impacts on farm class properties caused by the 2016 reassessment and the limited options available to the County to mitigate such impacts. It was explained that, to mitigate the tax shift in the farm class, the tax ratio would have to be reduced below the current ratio of 25% (i.e. the farm tax rate is 25% of the current residential tax rate). Such a reduction would shift additional tax burden primarily to the residential class. Additional presentations by staff and the Ontario Federation of Agriculture outlining the reassessment impacts were presented to Council in May of 2017. This preceded the review of the annual tax policies presented to Council in June at which time no changes were made to current tax policies to mitigate the reassessment impacts.

As noted when comparing Haldimand County's assessment base to other municipalities, there is a very high reliance on the residential tax class to generate taxation revenue to meet the municipal levy requirements. The residential class absorbs 78.1% of the overall County tax burden and has, historically, also experienced annual increases in tax burden due to reassessment. Historically, the residential tax class has taken on more of the County's tax burden each year, starting with a low of 70.6% in 2001 to its current level of 78.1%. Comparatively, the farm class tax burden has varied from a low of 2.5% to its current high of 4.4% (over the same period 2001 to 2019). In addition, certain properties in the residential tax class also increased by more than the average CVA change over this period due to inter-class shifts affecting their market value (e.g. waterfront properties).

Despite the tax shifts inevitably caused by reassessment, past Councils have never utilized tax policy to mitigate changes in tax burden caused by updated market values (including those years with significant tax shifts to the residential and/or farm class). As the same levy "pie" needs to be divided amongst the County's property classes, any change in tax policy will result in further shifts among the classes that will have nothing to do with what the property is worth, thus moving away from the fundamental Provincial policy that property taxation is based on market value.

As for the next steps, the County's 2019 Draft Tax Supported Operating Budget will be considered by Council in April. This will establish the municipal tax levy to be collected from property owners for 2019. Any change in this levy, from the base amount of $63.8 million in 2018, will have further impacts on an individual property's annual tax bill from what has been reflected in this report. Following the setting of the tax levy, Council will be provided with a report in June which establishes the County's 2019 Tax Policy and Levying By-law. That report will show the combined impact of all factors which affect a property's annual taxes: assessment changes, education tax rates, tax levy requirements and tax policy. As a reminder, Council has no control over the first two factors – assessment is administered by MPAC based on Provincial legislation/Assessment Review Board decisions and Provincial education tax rates are established annually by the Province. Thus, this report is recommended to be received as information at this time.

FINANCIAL/LEGAL IMPLICATIONS:

There is no direct budget impact as a result of the change in assessed values for 2019. As illustrated in Table #2, there will be a slight shifting of tax burden among property classes due to the legislated reassessment; but, it must be emphasized that no new taxation revenue is generated by the reassessment of properties to update and phase-in market values to the 2016 base year. County staff ensure that the base tax rate (notional tax rate) is reduced to account for the higher assessed values caused by the reassessment.

The impact of additional municipal taxes, estimated at approximately $1,700,000, generated by the real assessment “growth” of 2.4% (weighted to 2.7% based on 2018 tax ratios) will be incorporated into the 2019 Draft Tax Supported Operating Budget. In accordance with the proposed 2019 Budget Guidelines, the revenues generated from this assessment growth are to be used to offset other 2019 tax levy impacts (i.e. costs of new initiatives, increases in capital infrastructure needs, etc.). As a budget principle, revenue from assessment growth should help to alleviate the burden of additional costs, due to new infrastructure or expanded services, on the existing tax payers.

Better assessment based management practices will ensure that the integrity and equity of the County’s tax base is maintained. By reviewing assessment changes and challenging assessment reductions as necessary, the County can better manage the potential negative financial impacts and resulting shift of tax burden caused by MPAC’s valuations. As noted above, a more comprehensive and long term analysis of these assessment related impacts needs to be developed and presented to Council. This analysis will need to take into account, not only the impact of assessment growth and property taxes, but the need for future infrastructure, services and operating costs, as further outlined in the 2019 Tax Supported Budget Guidelines report (FIN-02-2019 Budget Guidelines – 2019).

STAKEHOLDER IMPACTS:

Not applicable.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

ATTACHMENTS:

1. None.