
HALDIMAND COUNTY

Report FIN-02-2021 Analysis of Assessment Update

For Consideration by Council in Committee on February 9, 2021



OBJECTIVE:

To provide Council with updated information regarding the final returned property assessment values for the purposes of 2021 taxation.

RECOMMENDATIONS:

1. THAT Report FIN-02-2021 Analysis of Assessment Update be received as information.

Prepared by: Chris Everets, Senior Financial Analyst

Reviewed by: Charmaine Corlis, Treasurer

Respectfully submitted: Mark Merritt, CPA, CA, General Manager of Financial & Data Services

Approved: Craig Manley, MCIP, RPP, Chief Administrative Officer

EXECUTIVE SUMMARY:

A Province-wide reassessment update was completed during 2016 to update all properties to a January 1, 2016 market value to be utilized for 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 2021. 2021 should have been the first year of a new assessment cycle, however the reassessment in 2020 was delayed by the Province due to the COVID-19 pandemic. As a result, the assessment impacts outlined in this report are not reassessment related. It is uncertain at this time how the Province intends to phase-in reassessment, as originally it would have formed the basis to be used to calculate property taxes for 2021 to 2024.

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 2021 taxation. The County experienced "real growth" in assessment value of approximately 1.8% last year, which, when weighted based on current tax policy, will offset 1.95% or approximately \$1,360,000 (based on 2020 tax rates) of the 2021 municipal tax levy requirements.

The assessed value is only one factor which determines a property's tax burden. The second factor is education taxes, for which rates are set by the Province. The education rates have been provided in draft form, and will result in an overall decrease in education taxes raised by Haldimand County of approximately \$1.2 million for 2021, since the Province has reduced business education tax rates in response to the COVID-19 pandemic. The third factor which determines annual property taxes will be deliberated by Council in March when they review the Draft 2021 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 2021, 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 formed 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. During 2020, property owners did not receive a new Property Assessment Notice to reflect the updated value of their property as of January 1, 2019 as originally planned, because the reassessment was delayed by the Province due to the COVID-19 pandemic. As a result, all properties will see their assessment held at the 2020 destination value (2016 market value) for 2021. At this time, it is unclear how the Province intends to move forward with the reassessment.

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 is March 31st 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. Since values will remain unchanged for 2021, unless there have been changes to a property, Requests for Reconsideration will only be accepted in 2021 in the event of omitted or supplementary assessment. Requests for Reconsideration in this case are accepted by MPAC up to 120 days after the issuance date printed on the notice of assessment. It should be noted that any influence the COVID-19 pandemic may have on property values was not in effect on January 1, 2016, so Requests for Reconsideration that cite purely that reason, will not result in a value change for the 2021 taxation year.

ANALYSIS:

Assessment Impacts

The final 2020 Returned Roll for 2021 Taxation was delivered to municipalities in December 2020. This report outlines the changes in Haldimand County's assessment, for 2021 taxation, based upon the final returned roll and represents the following changes:

- **Growth Impacts:** Representing adjustments from January 2020 to December 2020 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 2020). These net changes are considered the "**growth**" in assessment year-over-year.
- **Reassessment Impacts:** The provincial delay of the reassessment process has resulted in all properties maintaining assessment based on the January 1, 2016 valuation date. As such, there are no "**reassessment**" impacts year over year for 2021.

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 (2019 tax roll) used for 2020 taxation;
- (ii) the changes resulting from in year revisions to assessed values as returned on the December 2020 roll (i.e. “Growth” impacts); and
- (iii) the lack of CVA increases to be used for 2020 taxation from reassessment (due to delay).

The amount reported in the columns are described as follows:

2019 Roll for 2020 Taxation – Phase 4 (\$) – This is Phase 4 of the assessment values (reflecting a January 1, 2016 market value) used for taxation last year (2020).

2020 Roll Prior to CVA Change – Destination (\$) – This reflects the 2020 in-year amendments to the returned roll for 2020 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.

2020 Roll Prior to CVA Change – Change (%) – This is the change in assessment during 2020 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.

2020 Roll for 2021 Taxation – Reassessment Impacts Destination (\$) – This reflects January 1, 2016 CVA values, remaining consistent with the previous year, due to delayed reassessment. This represents the assessed values that will be used for property taxation in 2021. The delayed reassessment results in no impact.

2020 Roll for 2021 Taxation – Change (%) – This is the change in assessment over the amended 2020 assessed values expressed as a percentage. It reflects that there was no change in CVA, caused by the delayed reassessment.

**Table 1: Summary of Assessment Values for Haldimand County
Based Upon 2020 Returned Roll for 2021 Taxation**

Class	RTC	RTQ	2019 Roll for 2020 Taxation Phase 4 (\$)	<i>Growth Impacts</i>		<i>Reassessment Impacts</i>	
				2020 Roll Prior to CVA Change Destination (\$)	Change (%)	2020 Roll for 2021 Taxation Destination (\$)	Change (%)
Residential	R	T,1	5,319,831,064	5,425,038,730	1.98	5,425,038,730	0.00
Farm	F	T	1,268,716,572	1,284,517,108	1.25	1,284,517,108	0.00
Multi-Res	M	T	45,928,900	47,412,900	3.23	47,412,900	0.00
Commercial	C,H,S,X	T,U,X	330,462,022	336,952,148	1.96	336,952,148	0.00
Industrial	I,L,J	1,T,U,X	175,498,242	178,250,010	1.57	178,250,010	0.00
Pipelines	P	T	73,714,000	74,156,000	0.60	74,156,000	0.00
Managed Forest	T	T	6,493,700	6,368,700	-1.92	6,368,700	0.00
			<u>7,220,644,500</u>	<u>7,352,695,596</u>	<u>1.83</u>	<u>7,352,695,596</u>	<u>0.00</u>

Growth Impacts

As indicated in Table 1, the County has experienced “real growth” in assessment of 1.83% (\$132.1 million) during 2020. The growth is allocated as follows: Multi-residential tax class (3.23% or \$1.5 million); Residential tax class (1.98% or \$105.2 million); Commercial tax class (1.96% or \$6.5 million); Industrial tax class (1.57% or \$2.8 million); Farm tax class (1.25% or \$15.8 million); and Pipelines tax class (0.60% or \$0.4 million). These increases are partially offset by decreases in the Managed Forest tax class (-1.92% or \$0.1 million).

While the growth experienced in 2020 is slightly less than what has been experienced during 2017 through 2019, it is still significantly higher than in previous years. Prior to 2017, the County’s historical annual 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 is in line with predictions of 2.0% proposed with the 2021 Tax Supported Budget Guidelines as outlined in report FIN-15-2020 Budget Guidelines – 2021. As noted in the Budget Guidelines report, staff worked very closely with MPAC staff to ensure, despite the delays due to COVID, that eligible assessment growth was added to the roll during 2020. 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 2020 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 2020 assessment growth will create additional taxation revenue in 2021 of approximately \$1,360,000. This weighting of last year's assessment growth, therefore, equates to 1.95% of the base 2020 tax levy of \$69.8 million. Council can consider changes to the tax ratios and resulting tax class weighting when reviewing the 2021 tax policy report in June; any tax ratio changes will affect the amount of taxation revenue generated by the 1.83% assessment growth.

Of the anticipated \$1.36 million of additional taxes expected to be generated from assessment growth in 2020, \$1.11 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 \$115,000 of additional offsetting property tax revenues. The commercial tax class can fluctuate significantly, year over year, based on changing operations, impacts of significant tax appeals, and new development. The largest drivers for this increase is the addition of a commercial plaza (with residential units above), a warehousing facility, and significant improvements to a hardware store. It should be noted, that while there were some significant increases in commercial assessment, as previously reported to Council there were also a couple of large reductions in 2020, as a result of Assessment Review Board appeals, that have reduced the overall impact to the \$115,000 noted above. In the absence of these appeals, the impact on commercial assessment growth would have been much greater.

Given the anticipated changes in development and impacts on assessment growth and property taxes expected in Haldimand County's near future, a comprehensive long term analysis of these impacts needs to be developed, monitored and presented to Council with annual budget guidelines. 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 2021 Tax Supported Budget Guidelines report (FIN-15-2020 Budget Guidelines – 2021).

Reassessment Impacts

As noted, there are no reassessment impacts for 2021, given that the reassessment process was delayed by the Province.

Impact of Revised Assessment Values on Tax Burden/Tax Shifts

As property assessments in different tax classes increase, or decrease as may be the case, 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.

Table 2 provides a comparison of the 2020 actual municipal tax levy for each tax class with a hypothetical allocation of the same tax levy based on the 2021 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 2021 as was required in 2020 (\$69.8 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 real changes caused by growth or assessment reductions. Note that this Table does not account for any potential 2021 Tax Levy increase that Council will consider during its review of the Draft 2021 Tax Supported Operating Budget in March. As well, it does not reflect any shifting in the tax burden that may occur if Council changes its 2021 tax policy (i.e. tax ratios, tax class reductions), which will be reviewed in June.

**Table 2: Impact on Tax Burden
Based Upon Final 2020 Returned Roll for 2021 Taxation**

Class	RT C	RT Q	2019 Roll for 2020 Taxation	2020 Tax Levy		2020 Roll for 2021 Taxation	2020 Tax Levy Based on 2021 CVA Values		Change in Burden %
			Phase 4	Phase 4	% Burden	Destination	Destination	% Burden	
Residential	R	T,1	5,319,831,064	54,612,805	78.22%	5,425,038,730	54,616,337	78.22%	0.01%
Farm	F	T	1,268,716,572	3,317,042	4.75%	1,284,517,108	3,233,021	4.63%	(0.12%)
Multi-Res	M	T	45,928,900	946,614	1.36%	47,412,900	947,154	1.36%	0.00%
Commercial	C,H, S,X	T,U, X	330,462,022	5,659,124	8.10%	336,952,148	5,742,860	8.22%	0.12%
Industrial	I,L,J	1,T, U,X	175,498,242	4,140,190	5.93%	178,250,010	4,156,556	5.95%	0.02%
Pipelines	P	T	73,714,000	1,131,405	1.62%	74,156,000	1,111,953	1.59%	(0.03%)
Managed Forest	T	T	6,493,700	16,730	0.02%	6,368,700	16,029	0.02%	(0.00%)
			<u>7,220,644,500</u>	<u>69,823,910</u>	<u>100.00%</u>	<u>7,352,695,596</u>	<u>69,823,910</u>	<u>100.00%</u>	

Based on the above analysis, there is only a slight shift in municipal tax burden, primarily to the Commercial tax classes from the Farm tax classes. These calculated shifts, as shown above, assume no increase in the tax levy. Any subsequent increase to the 2021 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. In a typical year, reassessment impacts lead to more significant shifts in burden.

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 78.2% of the overall County tax burden and has, historically, also experienced annual increases in tax burden each year, starting with a low of 70.6% in 2001 to its current level of 78.2%. Comparatively, the farm class tax burden has varied from a low of 2.5% to a high of 4.75% in 2020 (over the same period 2001 to 2021).

Despite the tax shift normally caused by reassessment in previous years, past Councils have never utilized tax policy to mitigate changes in tax burden by updated market values (including those years with significant tax shifts to the residential and/or farm class). Any shifting in tax burden this year is not a result of reassessment. 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 2021 Draft Tax Supported Operating Budget will be considered by Council in late March. This will establish the municipal tax levy to be collected from property owners for 2021. Any change in this levy, from the base amount of \$69.8 million in 2020, 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 2021 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 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:

While no reassessment occurred, it must be emphasized that no new taxation revenue is generated by the reassessment of properties to update and phase-in market values. County staff ensure that the base tax rate (notional tax rate) is reduced to account for the higher assessed values caused by the reassessment when those impacts are present.

The impact of additional municipal taxes, estimated at approximately \$1,360,000, generated by the real assessment "growth" of 1.83% (weighted to 1.95% based on 2020 tax ratios) will be incorporated into the 2021 Draft Tax Supported Operating Budget. In accordance with the approved 2021 Budget Guidelines, the revenues generated from this assessment growth are to be used to offset other 2021 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. This assessment growth is slightly lower than previously estimated within the Budget Guidelines, thus the 2021 Tax Supported Operating Budget will continue to be challenging as we deal with pandemic related impacts and other budget changes expected to affect Haldimand County.

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 2021 Tax Supported Budget Guidelines report (FIN-15-2020 Budget Guidelines – 2021).

STAKEHOLDER IMPACTS:

Not applicable.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

ATTACHMENTS:

1. None.