HALDIMAND COUNTY

Report FIN-02-2023 Analysis of Assessment Update

For Consideration by Council in Committee on February 7, 2023

OBJECTIVE:

To provide Council with updated information regarding the final returned property assessment values for the purposes of 2023 taxation.

RECOMMENDATIONS:

1. THAT Report FIN-02-2023 Analysis of Assessment Update be received.

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EXECUTIVE SUMMARY:

The County uses the assessment values provided by the Municipal Property Assessment Corporation (MPAC) to calculate the tax burden for each property. MPAC is under provincial jurisdiction and the province is also responsible for setting the education tax levy that goes to school boards. Haldimand County Council approves an annual budget which outlines the tax revenues required to cover expenditures. While MPAC establishes the assessed property value, it is each municipality's responsibility to set tax policy ratios to distribute the tax burden across property classes such as commercial, industrial and residential. Factors affecting the tax burden are:

1) Property Value Assessment – as of January 1, 2016 and provided by MPAC annually
2) Property Classification – set by MPAC based on individual property usage
3) Haldimand County Tax Policy – Set annually before the Final Property Tax By-law
4) Education Rate – Set by the province through legislation
5) Haldimand County Levy Requirement – Set through annual budget process

The last province-wide assessment of all properties was completed as of January 1, 2016 with the intention of 4 year assessment cycles. However, the COVID-19 pandemic delayed the assessment date update originally scheduled for January 1, 2020. At this time, the Province has not yet provided an update as to when it intends to roll out the new valuations. When this does occur, MPAC has a communications toolkit available for municipalities, and County staff will be prepared for when the roll-out is announced.

The final 2022 Returned Roll for 2023 Taxation was delivered to municipalities in December 2022 which will shift the tax burden between and within property tax classes due to in year assessment changes. The impact to specific properties will vary across the County based on individual assessments relative to the applicable tax classes and changes within tax classes. Although there are not major shifts that are normally seen with the 4 year assessment cycle, there is annual assessment growth from construction on properties. This new or enhanced construction is assessed by MPAC and added to the assessment roll at the equivalent January 1, 2016 value.

The County experienced a net assessment increase of 1.65% which equates to a 2.08% assessment growth relative to the 2022 total municipal tax levy; meaning assessment growth will cover approximately $1,585,000 of the 2023 municipal tax levy requirements.

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, 2020 as originally planned, because the reassessment was delayed by the Province due to the COVID-19 pandemic. The Province has not set a new re-assessment timeframe, and as a result, all properties will see their assessment continue to hold at the 2020 destination value (2016 market value) for 2023. 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 2023, unless there have been changes to a property, Requests for Reconsideration will only be accepted in 2023 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 2023 taxation year.

ANALYSIS:

Assessment Impacts

The final 2022 Returned Roll for 2023 Taxation was delivered to municipalities in December 2022. This report outlines the changes in Haldimand County's assessment, for 2023 taxation, based upon the final returned roll and represents the following changes:

- *Growth Impacts:* Representing adjustments from January 2022 to December 2022 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 2022). 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 2023.

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 (2021 tax roll) used for 2022 taxation;
(ii) the changes resulting from in year revisions to assessed values as returned on the December 2022 roll (i.e. "Growth" impacts); and
(iii) the lack of CVA increases to be used for 2023 taxation from reassessment (due to delay).

Table 1: Summary of Assessment Values for Haldimand County Based Upon 2022 Returned Roll for 2023 Taxation

				Growth Impacts		*Reassessment Impacts*	
			2021 Roll for 2022 Taxation	**2022 Roll Prior to CVA Change**		**2022 Roll for 2023 Taxation**	
Class	**RTC**	**RTQ**	**Destination ($)**	**Destination ($)**	**Change (%)**	**Destination ($)**	**Change (%)**
Residential	R	T,1	5,594,453,405	5,743,182,893	2.66	5,743,182,893	0.00
Farm	F	T	1,296,285,755	1,269,932,274	-2.03	1,269,932,274	0.00
Multi-Res	M	T	47,564,500	47,358,500	-0.43	47,358,500	0.00
Commercial	C,H,S,X	T,U,X,7,0	341,918,478	348,142,878	1.82	348,142,878	0.00
Industrial	I,L,J	1,T,U,X	180,238,448	178,042,741	-1.22	178,042,741	0.00
Pipelines	P	T	74,725,000	73,087,000	-2.19	73,087,000	0.00
Managed Forest	T	T	6,083,900	6,140,300	0.93	6,140,300	0.00
			7,541,269,486	7,665,886,586	1.65	7,665,886,586	0.00

The amount reported in the columns are described as follows:

2021 Roll for 2022 Taxation – Phase 4 ($) – This is final year of phase in, referred to as the "Destination" value (reflecting a January 1, 2016 market value) used for taxation last year (2022).

2022 Roll Prior to CVA Change – Destination ($) – This reflects the 2022 in-year amendments to the returned roll for 2022 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.

2022 Roll Prior to CVA Change – Change (%) – This is the change in assessment during 2022 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.

2022 Roll for 2023 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 2023. The delayed reassessment results in no impact.

2022 Roll for 2023 Taxation – Change (%) – This is the change in assessment over the amended 2022 assessed values expressed as a percentage. It reflects that there was no change in CVA, caused by the delayed reassessment.

Growth Impacts

As indicated in Table 1, the County has experienced “real growth” in assessment of 1.65% ($124.62 million) during 2022. The growth is allocated as follows: Residential tax class (2.66% or $148.73 million); Commercial tax class (1.82% or $6.22 million); and Managed Forest tax class (0.93% or $0.05 million). These increases are offset by decreases in the Pipelines tax class (-2.19% or $1.64 million). Industrial tax class (-1.22% or $2.20 million); Farm tax class (-2.03% or $26.35 million); and Multi-residential tax class (-0.44% or $0.20 million).

While the growth experienced in 2022 is less than what was experienced in 2021, it is still 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 the predictions of 2.0% proposed with the Term of Council Budget Guidelines. Staff have worked very closely with MPAC staff to ensure, despite the delays due to COVID, that eligible assessment growth was added to the roll during 2022. The Tax Supported Operating Budget identifies the proposed use of the annual assessment growth.

The amount of additional taxation revenue to be recovered from real growth in 2022 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 2022 assessment growth will create additional taxation revenue in 2023 of approximately $1,585,000. This weighting of last year’s assessment growth, therefore, equates to 2.08% of the base 2022 tax levy of $76.2 million. Council can consider changes to the tax ratios and resulting tax class weighting when reviewing the 2023 tax policy report in June; any tax ratio changes will affect the amount of taxation revenue generated by the 2.08% assessment growth.

Of the anticipated $1.58 million of additional taxes expected to be generated from assessment growth in 2022, $1.63 million is related to residential assessment growth. This is mainly driven by the construction of additional homes, primarily from major developments in Caledonia and Hagersville. The majority of the remaining assessment growth is from increases in the commercial tax class resulting in approximately $114,100 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.

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.

Reassessment Impacts

As noted, there are no reassessment impacts for 2023, 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 2022 actual municipal tax levy for each tax class with a hypothetical allocation of the same tax levy based on the 2023 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 2023 as was required in 2022 ($76.2 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 2023 Tax Levy increase that Council will consider during its review of the Draft 2023 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 2023 tax policy (i.e. tax ratios, tax class reductions), which will be reviewed in June.

Table 2: Impact on Tax Burden
Based Upon Final 2022 Returned Roll for 2023 Taxation

			2021 Roll for 2022 Taxation	2022 Tax Levy		2022 Roll for 2023 Taxation	2022 Tax Levy Based on 2023 CVA Values		Change in Burden %
Class	RTC	RTQ	Phase 4	Phase 4	% Burden	Destination	Destination	% Burden	
Residential	R	T,1	5,594,453,405	59,826,949	78.49%	5,743,182,893	60,240,669	79.03%	0.54%
Farm	F	T	1,296,285,755	3,500,658	4.59%	1,269,932,274	3,330,239	4.37%	(0.22%)
Multi-Res	M	T	47,564,500	1,011,385	1.33%	47,358,500	985,698	1.29%	(0.03%)
Commercial	C,H, S,X	T,U, X,0	341,918,478	6,199,315	8.13%	348,142,878	6,180,891	8.11%	(0.02%)
Industrial	I,L,J	1,T, U,X	180,238,448	4,473,766	5.87%	178,042,741	4,325,658	5.68%	(0.19%)
Pipelines	P	T	74,725,000	1,192,626	1.56%	73,087,000	1,141,843	1.50%	(0.07%)
Managed Forest	T	T	6,083,900	16,401	0.02%	6,140,300	16,102	0.02%	(0.00%)
			7,541,269,486	76,221,100	100.00%	7,665,886,586	76,221,100	100.00%	

Based on the previous analysis, there was a shift in municipal tax burden, from all of the classes to the Residential classes. These calculated shifts, as shown above, assume no increase in the tax levy. Any subsequent increase to the 2023 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 79.03% 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 79.03%. 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 2022).

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 2023 Draft Tax Supported Operating Budget will be considered by Council in March. This will establish the municipal tax levy to be collected from property owners for 2023. Any change in this levy, from the base amount of $76.2 million in 2022, 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 2023 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 $1,585,000, generated by the real assessment “growth” of 1.65% (weighted to 2.08% based on 2022 tax ratios) will be incorporated into the 2023 Draft Tax Supported Operating Budget. Based on the Budget Guidelines approved in 2022, the revenues generated from this assessment growth are to be used to offset other 2022 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 in line with the estimated annual growth of 2.0%.

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.

STAKEHOLDER IMPACTS:

Not applicable.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

ATTACHMENTS:

None.