

Report from Financial Management Services, Director

Date of Report: June 6, 2022

Date of Meeting: June 20, 2022

Report Number: FMS-B007-2022

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Subject: Impact of Delay of Property Tax Reassessments

Recommendation

That this report be forwarded to the Association of Municipalities of Ontario (AMO) and the Municipal Finance Officers Association (MFOA); and

That this report be submitted as part of the City's 2022 AMO delegation request to the Provincial Minister of Finance; and

That this report be forwarded to St. Catharines MPPs and Municipal Property Assessment Corporation (MPAC).

Summary

With the Province announcing last fall its plans to delay the assessment cycle for properties in Ontario and with the current valuation date of January 1, 2016, remaining in place for the 2022 and 2023 tax years, this will have an impact on both the property owners and ratepayers in St. Catharines. For municipalities, property tax is an important source of revenue to support the delivery of community services.

Background

On November 4, 2021, as part of its 2021 Ontario Economic Outlook and Fiscal Review: Build Ontario, the provincial government announced that it is not planning a reassessment of all property values in the near future. The current property tax assessment cycle, which is based on a valuation date of January 1, 2016, was intended to be in place for taxation years 2017 to 2020. Due to the COVID-19 pandemic, the province announced delaying reassessments to 2021 and again to 2022. The province's latest economic statement confirms that the current assessment valuation cycle will remain in place for the 2022 and 2023 tax years.

The current property tax assessment system in Ontario is based on market values, but the decision to further delay reassessments will result in property taxes based on assessment values that are seven years past the valuation date of January 1, 2016. In addition, without a firm timeframe for the next property tax assessment cycle to begin, this creates uncertainty for property owners and ratepayers as well as potential for inequities in assessments on a long-term basis.

At the December 13, 2021, Council meeting, Council approved the following report request from Councillor Littleton.

Details of the cause and effect with regards to the delayed property tax reassessments in the Province of Ontario to both the property owner and the rate payer in Q1 2022.

This report is in response to this approved Council request.

Report

The postponement of planned property reassessment for 2021, 2022 and 2023 tax years, results in property assessments continuing to be based on current values as of January 1, 2016. The property tax system in Ontario is built on the concept of properties being assessed on a market value basis which is meant to be fair and equitable. Due to the reassessment delay, current assessment values are increasingly out of date and rapid changes in the Ontario real estate market could mean that the assessment is no longer equitable.

The Ontario government has stated that the decision to postpone the reassessment was made with the objective of providing continued stability to property owners and municipalities. With the reassessment delay, Ontario property tax values are on track to be eight years outdated by the time of the next reassessment.

With the changing real estate market, property values are vulnerable to large swings in either direction when finally reassessed, which may result in unfair property taxation. The Provincial government has suggested that it intends to have MPAC eventually return to the practice of regular reassessments but has not yet committed to when this will occur.

The provincial government's intent with the postponement of the reassessment was to provide stability to property owners, taxpayers, and businesses; however, the downside of this delay means it is extremely difficult to estimate or model what the assessed value of properties will be in the next reassessment cycle.

Based on preliminary residential property assessment trends completed by MPAC in the spring of 2020, assessment values of single-family dwellings in the Niagara Region on average, increased by 54% from January 1, 2016 to January 1, 2019. For the City of St. Catharines, the property tax base is largely comprised of residential properties with over 80% in this property tax classification. Therefore, this report will largely focus on the reassessment impact on the residential properties. However, there are impacts on the commercial and industrial properties as well.

The following examples explain the relationship between property taxes and property assessment values and what happens when property assessment values change.

Your property tax is proportional to the value of your property

In this example, a small municipality with three properties worth \$125,000, \$175,000, and \$200,000 has tax levy budget of \$2,000 which is paid by property owners through property taxes.

Each property owner in the municipality pays a proportion of that \$2,000 based on their property's assessed value. This is calculated by first adding up the value of all three properties, for a total of \$500,000. The tax levy budget is \$2,000, the tax rate is $\$2,000 / \$500,000 = 0.004$, or 0.4%. Therefore:

- The owner of the \$125,000 property pays \$500.
- The owner of the \$175,000 property pays \$700.
- The owner of the \$200,000 property pays \$800.
- The total of the property tax paid by the three property owners is \$2,000.

Changes in Property Values and Municipal tax levy budget over time

Below are some examples to illustrate how property values, property tax rates and municipal tax levy budgets change over time.

Example 1: Equal percentage Property Value change

Prior to 2020, properties were reassessed every four years. If they all go up equally in value — for example, by 5% — their proportions stay the same.

- The \$125,000 property is now valued at \$131,250.
- The \$175,000 property is now valued at \$183,750.
- The \$200,000 property is now valued at \$210,000.

The total value of the three properties is now \$525,000. If the total tax levy budget has not changed — it's still \$2,000 — the tax rate is now $\$2,000 / \$525,000 = 0.00381$, or 0.381%, which is a decrease in the tax rate. But when you apply that rate to each of the properties, everyone still pays the same amount as they did before.

- $\$131,250 \times 0.381\% = \500
- $\$183,750 \times 0.381\% = \700
- $\$210,000 \times 0.381\% = \800
- The total of the property tax paid by the three property owners remains \$2,000.

Example 2: Property Tax Values Increase by Different percentage Values

If the properties increased by different amounts, the property tax proportions would change.

- If the first property increased from their original amount by 20%, it is now valued at \$150,000
- If the second property increased from their original amount by 10%, it is now valued at \$192,500.
- If the \$200,000 property goes up by 5%, it is now valued at \$210,000.

The total value of the properties is now \$552,500. If the total tax levy budget has not changed—it's still \$2,000—the tax rate is now $\$2,000 / \$552,500 = 0.00362$, or 0.362%.

The proportion that each property pays is now different, and the properties whose values went up less now pay less, while the property whose value went up more now pays proportionately more.

- $\$150,000 \times 0.362\% = \542.99 , which is an increase of \$42.99
- $\$192,500 \times 0.362\% = \696.83 , which is a decrease of \$3.17
- $\$210,000 \times 0.362\% = \760.18 , which is a decrease of \$39.82
- The total of the tax paid by the three property owners remains \$2,000.

Example 3: Property Values Increase by Different percentage Value and Increase in Municipal Tax Levy Budget

If the properties increased by different amounts, the property tax proportions would change.

- If the first property increased from their original amount by 20%, it is now valued at \$150,000
- If the second property increased from their original amount by 10%, it is now valued at \$192,500.
- If the \$200,000 property goes up by 5%, it is now valued at \$210,000.

The total value of the properties is now \$552,500.

If the total tax levy budget has changed ----- tax levy budget increased to \$2,500 and using the total value of all three properties of \$552,500 — the tax rate is now $\$2,500 / \$552,500 = 0.00452$, or 0.452%.

The proportion that each property pays is now different, and the properties whose values went up more now pay more, while the property whose value went up less now pays proportionately less.

- $\$150,000 \times 0.452\% = \678.73 , which is an increase of \$178.73
- $\$192,500 \times 0.452\% = \871.04 , which is an increase of \$171.04
- $\$210,000 \times 0.452\% = \950.23 , which is an increase of \$150.23
- The total of the tax paid by the three property owners has increased with the increase of the tax levy budget requirement to \$2,500.

Challenges created with delayed reassessment

For the City of St. Catharines, approximately 60% of its residential property tax class assessment is currently at the lower end of property assessment values. Referring to example 2 above, that would translate to 60% of the residential property owners experiencing an increase in their property taxes with the next reassessment cycle. This raises concerns about the affordability of property taxes and home ownership for these property owners. There are always discussions as to whether the property tax system is an effective tool for municipalities to raise revenues. Some discussions center around the notion that the property tax system is inherently regressive. Which means that the lower-income homeowners pay proportionately more of their income for property taxes than their higher-income counterparts. This situation will only be exacerbated by the delay in reassessment as the increase in property values may also be disproportionately higher in the established neighbourhoods which typically have lower valuations than the newer neighbourhoods.

The examples above, do not consider the effect of a shift from the other property tax classes. Commercial and Industrial properties are also assessed based on market values; however, the factors that MPAC considers when assessing a commercial property value depends on whether the cost approach, the direct comparison approach, or the income approach is used. Given the impact of the pandemic on these two property tax classes, there is some estimation that these property tax classes may decrease significantly with the next reassessment cycle. A significant decrease in the commercial or industrial property tax class assessments, would result in a shift of more of the tax burden from these tax classes to the residential property tax classes. This would result in the residential property tax class potentially covering even a larger portion of the tax burden for the City, which translates to higher tax rates for the residential tax class and higher taxes for residential property tax owners.

Based on past experience, when a reassessment occurs there is an increase in the number of property value assessment appeals received by the City. With the expectation that property values are estimated to increase significantly with the next reassessment cycle, staff are also anticipating a large increase in the number of assessment appeals filed by property owners. Based on our experience in 1998 and more recently in 2012 that reassessment valuation date, staff anticipate this will create

significant challenges on existing staff resources to manage the large volume of appeals expected to be filed with the next reassessment cycle.

Guiding Principles for Consideration for next reassessment cycle

At this time, the province has not set the date for the next reassessment cycle. Based on the preliminary analysis completed regarding the impact of the next reassessment cycle on the residential property tax class in the City of St. Catharines, staff would recommend the following guiding principles be considered for the next reassessment cycle in the Province of Ontario:

- That the reassessment causes no undue harm to property owners
- That the ability to pay for the increases in their property taxes, particularly coming out of the global pandemic and during 30-year highs of inflation, be a factor considered with reassessment cycle timing
- That equity and fairness of the property tax system be consideration for all property tax classes
- That the Province provide tools and financial resources to both MPAC and local governments in order to assist them with managing the effects of the pressures of higher number of appeals in timely manner

Financial Implications

At this time there are no direct financial implications of this report; however, the potential for a significant number of property value assessments appeals and the City having adequate tax allowances and staff resources to manage the sheer volume of property value assessment appeals could have significant financial impacts on future year budgets, once the reassessment cycle timing is determined.

In addition, based on the current assessment mix of residential properties in the City of St. Catharines, and the assumption that there are no changes made to the current method of assessing residential properties in the Province of Ontario, there is the strong likelihood that the financial implications of the next reassessment may be disproportionally allocated across the municipality once the reassessment values come into effect.

Relationship to Strategic Plan

Economic Prosperity will be enhanced through sharing and discussing the potential undesirable financial impacts to property owners with upper levels of government, St. Catharines MPPS, the MPAC and related associations such as AMO. Balancing the financial needs for the City to provide the numerous services to our citizens with taxpayers' affordability can be affected by the timing of the next reassessment cycle and the valuation date chosen by the province.

Conclusion

With no decision yet made by the province on the timing of the next reassessment cycle, this report provides the opportunity to provide information to the Province, St. Catharines MPPs and related associations regarding the affordability of property taxes to residential property tax class and all property owners.

Prepared & submitted by:

Kristine Douglas
Director Financial Management Services / City Treasurer

Approved by:

David Oakes,
Chief Administrative Officer