

August 14, 2013

To: His Worship the Mayor
and Members of City Council

Re: Provincial Review of Property Tax Tools

**RECOMMENDATION OF THE EXECUTIVE COMMITTEE
- AUGUST 14, 2013**

That a copy of this report and a copy of report CR13-16 be forwarded to the Minister of Government Relations along with a letter that:

- opposes any changes that would remove local government's ability to use tax tools as each community is unique in terms of the make up of the commercial tax base and the residential property tax base and therefore there is a need to have authority to use these tools to manage these differences to maintain stability.
- requests no changes be made without the City of Regina having an opportunity to fully review any proposed draft legislation.
- requests a further opportunity for the City of Regina to comment on tax policy changes once the province has developed a concrete proposal.

EXECUTIVE COMMITTEE – AUGUST 14, 2013

The Committee adopted a resolution to concur in the recommendation contained in the report after amending point two in recommendation #1 to read as follows:

- requests no changes be made without the City of Regina having an opportunity to fully review any proposed draft legislation.

Recommendation #2 does not require City Council approval.

Mayor Michael Fougere, Councillors: Sharron Bryce, Bryon Burnett, John Findura, Jerry Flegel, Shawn Fraser, Bob Hawkins, Terry Hincks, Wade Murray, Mike O'Donnell and Barbara Young were present during consideration of this report by the Executive Committee.

The Executive Committee, at its meeting held on August 14, 2013, considered the following report from the Administration:

RECOMMENDATION

1. That a copy of this report and a copy of report CR13-16 be forwarded to the Minister of Government Relations along with a letter that:
 - opposes any changes that would remove local government's ability to use tax tools as each community is unique in terms of the make up of the commercial tax base and the residential property tax base and therefore there is a need to have authority to use these tools to manage these differences to maintain stability;
 - cautions against rushing this review as it may result in unintended consequences; and
 - requests a further opportunity for the City of Regina to comment on tax policy changes once the province has developed a concrete proposal; and
2. That this report be considered by City Council on August 26, 2013.

CONCLUSION

The province has announced that it is undertaking a legislative review of the tax tools available to municipalities including those included under *The Cities Act* to develop a long term policy for placing limits on property tax tools. As part of this review the Province requested that the City of Regina provide information on the tax tools that it uses. This report outlines the tax tools the City uses and explains their importance. The City of Regina has used the tax tools based on sound policy and principles to balance the share of taxes between groups of properties so as to not impact the affordability of homes and the competitiveness of business. In the past two reassessments, the policy has prevented large shifts in both directions between the property groups; all taxpayers have benefited from the policy and the tax tools.

Council has adopted the following policy on Phase-in:

Stability in property taxes is important to ensure that Regina has a sustainable, fair, competitive and viable economic environment.

Phase-in plans result in administrative cost and complexity and should be used judiciously.

- *Any phase-in plan must be revenue neutral.*
- *Phase-in should only be considered if there are many properties with exceptional increases.*

The City has not used the legislated options of *minimum tax* or *base tax*. The City relies on *mill rate factors* and *phase-in* to provide stability of property taxes and to mitigate severe shifts in taxes, and requires these tools or an equivalent method of ensuring that there is local government control to provide stability in the distribution of property taxes. The analysis and rationale for the recommendations for the City of Regina's use of tax tools was considered by Council in report CR13-16 and it is recommended that this report be provided to the Province.

Changes the City has requested in the past that should be considered by the Province are:

1. A shorter revaluation cycle, which would reduce the magnitude of shifts between revaluations; and
2. Removal of the legislated requirement for the percentage of value to be on the assessment notice, which will ensure earlier delivery of the reassessment within the legislated time frame for assessment notices.

Changes to the tax policy legislation can impact the City's revenue sources and the distribution of taxes to the ratepayers in the city. The terms of reference for this Provincial legislative review are vague and it is difficult to comment without more detail on proposed changes. Given the high risk of unintended consequences, and without any proposed changes to review, it is recommended that the City oppose any changes until proposals are fully explored. Any proposals must be reviewed in detail by the municipalities and the citizens it would impact so that there can be thoughtful and responsive input, resulting in a meaningful consultation occurring.

BACKGROUND

The Minister of Government Relations, in a letter dated June 14, 2013 (attached as Appendix A) addressed to all Mayors/Reeves and Members of Council, advised that the province is undertaking a review of all property tax tools to develop a long-term policy for placing limits on local property tax tools. The letter advises that the province set an interim limit on municipalities' use of mill rate factors. In conjunction with the mill rate factor limit, the minister advises that the Ministry is conducting a further review to develop long-term policy for placing limits on local property tax tools to take effect in 2014. The letter included the Terms of Reference for the review; the key points in this document are:

1. The scope of the review covers all local property tax tools, in both *The Cities Act* and *The Municipalities Act* including *minimum tax, base tax, mill rate factors and subclasses, and phase-in*.
2. The question is whether or not local municipal property tax policy meets provincial objectives given the provincial government's interests in economic growth and property tax fairness.
3. The objectives are:
 - a. To balance a municipality's authority to determine local tax policy and raise property tax revenues with an individual's and business' right to tax fairness.
 - b. To support the provincial government's goal of sustained growth and prosperity.
 - c. To develop property tax policy that will assist both the business sectors and local governments in addressing the challenges of Saskatchewan's economic growth, in terms of providing necessary services and infrastructure.
 - d. To achieve consistency and fairness. A more level playing field is being sought by the business sector and others.

4. A summary of stakeholder consultations with business and municipal sectors be completed by September 30, 2013.
5. Identification of additional fees and charges currently charged by some municipalities on some industries as compensation for industries' use of roads.
6. The annual mill rate survey will be sent to all Municipalities in June.
7. The review is expected to be completed by December 31, 2013; a long-term policy regarding limits on tax tools could take effect in 2014.

DISCUSSION

The City of Regina conducts extensive analysis and review of the tax policy options each reassessment. The 2013 Tax Policy Report CR 13-16 was considered by City Council on February 19, 2013 and contains the discussion on the options, the principles followed, the analysis and the recommended options. This report was considered at public meetings and is publically available on the City's web-site. This report should be forwarded to the Minister to include in the review.

The significant tax tool the City uses to allocate taxes between groups of properties is the *mill rate factor*. City Council has, in each of the reassessments, used this tool to deliver a policy principle that mitigates significant shifts of taxes between groups of property classes due to reassessment. This meets the objective that long-term stability is considered in establishing tax policies for mill rate factors.

While the scope of the review suggests the province is looking for consistency, an issue to consider is that every community is different in terms of the make up of the commercial tax base and the residential property tax base. This is due to number and types of properties; age, size and value of housing stock; and type, size, age and value of commercial building stock. While this mix is different in every community, another factor is that there are different markets at work and there have been significant changes in assessment methodology that can create a significant variance in the rate of value change. While assessment methodology is moving to be more stable provincially, there are still changes in methodology being implemented. Another point to consider is that the market typically sees residential and non-residential tax bases grow at different rates because these are distinct markets. The amount of change year over year due to growth fluctuates as well as the rate of change of values, and these factors vary by community. That is why it is important that there is authority and proper tools for local governments to manage the allocation of property taxes by property class.

While other provinces do not use a mill rate factor, many use a differentiated mill rate that varies by class to manage the allocation of taxes by class. This may be a more understandable approach that simplifies and makes it easier for the public to understand the tax calculation. The City would support this type of change, but would urge the province to ensure there is tax distribution control by the local governments.

It is important to understand what the absence of tax tools or restricted tax tools that control the incidence of taxes would mean to the taxpayers of Regina. Attached as Appendix B is an analysis that shows how mill rate factors have been used over the past three reassessments. In the 2005 reassessment, if the mill rate factor was not changed there would have been a shift in

taxes of about \$4.7 million from the non-residential to the residential group due to reassessment. In 2009, if the mill rate factor was not changed there would have been a shift in taxes from the residential group to the non-residential group of about \$4.5 million. In 2013, if the mill rate factor was not changed there would have been a shift in taxes of \$4.3 million from the non-residential group to the residential group. It is this instability that Council has addressed by applying consistent tax policy using the mill rate factor as the tax tool to accomplish this.

If there were no mill rate factors for 2013, the residential group would pay an additional \$14.225 million in taxes, which works out as a percentage change of 13.8% more in Municipal and Library Taxes. The non-residential group would see a reduction of \$14.225 million, which, as a percentage, is a reduction of 24.7% of Municipal and Library taxes.

The City of Regina has used the mill rate factor to prevent severe shifts between groups of properties and balance the share of taxes between groups of properties so as to not impact the affordability of homes and the competitiveness of business. In the past two reassessments, the policy has prevented large shifts in both directions between the property groups with all taxpayers having benefited from the policy and the tax tools.

If the province is considering a limit on the ratio between tax rates for groups, it should set the limit no more constraining than what occurs in other parts of Canada. In Regina, the ratio of non-residential group to residential group effective tax rates for 2013 is 2.16. The Real Property Association of Canada published a study of tax rate ratios for 2012; the following were the non-residential group to residential effective tax ratios:

City	2012 Ratio
Winnipeg	2.03
Edmonton	2.46
Calgary	2.63
Ottawa	2.64
Halifax	2.94
Montreal	4.09
Toronto	4.13
Vancouver	4.32
Average	3.16

The City has requested changes to the assessment and taxation legislation that would provide improvement, increase equity and prevent delays in the reassessment process:

1. Consider a shorter revaluation cycle. A shorter cycle could reduce the need for phase-in. Shifts between classes of properties also could become less dramatic with a shorter revaluation cycle. With the current four year cycle and considering the base date is set to a prior year, assessments will be six years out of date in the year prior to the next reassessment. For example for the 2016 tax year assessments will be based on sales and rents of property that occurred prior to January 1, 2010.
2. Remove the legislated requirement for the percentage of value to be on the Assessment Notice. The province has not delivered the percentages of value on time in the last two reassessments, delaying the City of Regina Assessment notices beyond the planned date of delivery. It is suggested that a better way may be similar to how other provinces handle this by showing the percentage of value on the tax bill because it is a tax tool that

is not related to the assessment notice. While the Class of the property needs to be shown the percentage of value does not as it cannot be appealed and it adds no value being on the assessment notice. Having a requirement for the percentage of value to be shown on the notice is workable.

RECOMMENDATION IMPLICATIONS

Financial Implications

The total taxes required by the City are set in the budget process. Tax tools are used to allocate the share of taxes. If the province proceeds with a change in legislated tax policy that removes or restricts tax tools, this could result in large shifts of taxes between property groups. Overall, the revenue for the City would not change because the increase would be offset by the decrease.

A large shift in taxes by a change in provincial tax policy may impose a hardship on some taxpayers.

Environmental Implications

None with regards to this report.

Policy and/or Strategic Implications

Changes to the property tax tools need to be managed carefully as the tools are used to balance the share of taxes that can impact business competitiveness, the affordability of housing, economic development and growth.

Given that the property tax revenue is the largest source of revenue for the City, it is important that any proposed changes are provided to the City for consultation, review and feedback. At this early stage of the review, with only broad terms of reference and no information on what may be proposed, the City is not in position to agree to any changes.

Other Implications

Changes to the mill rate factor legislation would also impact the Library property tax distribution. Changes to phase-in legislation would also impact the Library and Education property tax distribution.

Accessibility Implications

None with regards to this report.

COMMUNICATIONS

A copy of this report has been provided to the Library and School Boards. A letter, as outlined in this report, will be forwarded to the Minister of Government Relations along with a copy of this report as well as a copy of report CR13-16.

DELEGATED AUTHORITY

This report must be considered by City Council.

Respectfully submitted,

EXECUTIVE COMMITTEE

A handwritten signature in cursive script, appearing to read "Joni Swidnicki".

Joni Swidnicki, Secretary