COMMITTEE AGENDA

TO	**Corporate Services Committee**
DATE	Monday November 9, 2015
LOCATION	Council Chambers, Guelph City Hall, 1 Carden Street
TIME	2:00 p.m.

DISCLOSURE OF PECUNIARY INTEREST AND GENERAL NATURE THEREOF

CONFIRMATION OF MINUTES – October 5, 2015 open meeting minutes

PRESENTATIONS (Items with no accompanying report)

CONSENT AGENDA

The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with separately. The balance of the Corporate Services Committee Consent Agenda will be approved in one resolution.

ITEM	CITY PRESENTATION	DELEGATIONS	TO BE EXTRACTED
CS-2015.40 BMA Financial Condition Assessment Report	• Janice Sheehy, General Manager Finance/Treasurer		√
CS-2015.41 Property Tax Policy – Tax Ratios	• James Krauter, Manager of Taxation & Revenue		√
CS-2015.42 Review of Zero Based Budgeting and Other Options			

Resolution to adopt the balance of the Corporate Services Committee Consent Agenda.

ITEMS EXTRACTED FROM CONSENT AGENDA

Once extracted items are identified, they will be dealt with in the following order:

1) delegations (may include presentations)
2) staff presentations only
3) all others.

CLOSED MEETING

THAT the Corporate Services Committee now hold a meeting that is closed to the public with respect to:

CS-2015.2 Citizen Appointments to Committee of Adjustment

S. 239 (2) (b) *personal matters about an identifiable individual, including municipal or local board employees.*

STAFF UPDATES AND ANNOUNCEMENTS

ADJOURN

NEXT MEETING – December 1, 2015

The Corporation of the City of Guelph
Corporate Services Committee
Monday, October 5, 2015 at 2:00 p.m.

Attendance

Members:	Chair Hofland Mayor Guthrie Councillor Allt	Councillor Billings Councillor MacKinnon
Councillors:	Councillor Bell Councillor Downer Councillor Gordon	Councillor Salisbury Councillor Van Hellemond
Staff:	Mr. M. Amorosi, Deputy CAO, Corporate & Human Resources Mr. D. Godwaldt, General Manager, Human Resources Ms. J. Sheehy, General Manager Finance/Treasurer Ms. T. Sprigg, General Manager, Corporate Communications & Customer Service Mr. S. O'Brien, City Clerk Ms. J. Sweeney, Council Committee Coordinator	

Call to Order *(2:00 p.m.)*

Chair Hofland called the meeting to order.

Disclosure of Pecuniary Interest and General Nature Thereof

There were no disclosures.

Confirmation of Minutes

1. Moved by Councillor Allt
Seconded by Mayor Guthrie

That the open meeting minutes of the Corporate Services Committee held on September 9, 2015 be confirmed as recorded.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings, Hofland and MacKinnon (5)
VOTING AGAINST: (0)

CARRIED

Consent Agenda

The following items were extracted:

CS-2015.37 Records and Information Management Strategy
CS-2015.39 Guelph & District Labour Council re: Resolution on the Privatization of Ontario's Electricity System

Balance of Consent Items

2. Moved by Councillor Billings
Seconded by Mayor Guthrie

That the balance of the Corporate Services Committee October 5, 2015 Consent Agenda, as identified below, be adopted:

CS-2015.38 Tax Rebates for Low Income Seniors and Persons with Disabilities

1. That report CS-2015-70 Tax Rebates for Low Income Seniors and Low Income Persons with Disabilities be received.

2. That the tax relief program for low-income seniors and low income persons with disabilities be amended, and staff prepare the appropriate by-law to amend the current By-Law (2005)-17727 as follows:

   - AMEND 1.a) Lower the qualifying amount to $200 from $300 - “Eligible Amount” means the total tax increase related to assessment increase over the previous year which is equal to or greater than $200 annually.

   - ADD 2.c) Both the owner and the owner’s spouse must be an eligible person

   - ADD 2.d) If the property is owned by more than one person who are not married to each other, then all owners must apply and quality.

   - ADD 2.e) The property assessment on the property is equal to or less than $350,000.

   - ADD the following to the end of section 5: the cost to register the lien may also be deferred under this program.

3. That staff prepare and implement a communication strategy to inform taxpayers of this program.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings, Hofland and MacKinnon (5)
VOTING AGAINST: (0)

CARRIED

<u>Extracted Items</u>

CS-2015.39 Guelph & District Labour Council re: Resolution on the Privatization of Ontario’s Electricity System

Paul Costello was present on behalf of the Council of Canadians and expressed concern with the Ontario government’s proposal to sell Hydro One.

Janice Folk-Dawson on behalf of the Guelph & District Labour Council, expressed concern with the impact to the City if Hydro One is sold and requested that the City join the other municipalities who have passed a resolution opposing the sale of Hydro One.

Peter Miller, Local Affairs Commissioner of the Central Student Association at the University of Guelph, requested Council to pass a motion opposing the sale of Hydro One and local distribution companies.

Terry O'Connor spoke on behalf of We Are Guelph and played a video outlining the impact of the privatization of hydro. He requested Council adopt a resolution opposing the privatization of Hydro One.

Geoff Krauter, President of the New Democratic Party, advised that 80% of citizens are opposed to the sale of Hydro One and urged Council to support the resolution opposing the sale of Hydro One.

Mark Amorosi, Deputy CAO Corporate Services advised that Council would be meeting October 14, 2015 in closed session to receive an update on the assets of Guelph Municipal Holdings Inc.

3. Moved by Mayor Guthrie
Seconded by Councillor MacKinnon

That no action be taken on the request of the Guelph & District Labour Council relating to a resolution on the privatization of Ontario's electricity system.

Amendment

4. Moved by Councillor Billings
Seconded by Mayor Guthrie

That the following be added: "at this time pending deliberations of Council on October 14, 2015".

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings and Hofland (4)
VOTING AGAINST: Councillor MacKinnon (1)

CARRIED

Main Motion as Amended

5. Moved by Mayor Guthrie
Seconded by Councillor MacKinnon

That no action be taken **at this time pending deliberations of Council on October 14, 2015** on the request of the Guelph & District Labour Council relating to a resolution on the privatization of Ontario's electricity system.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings, Hofland and MacKinnon (5)
VOTING AGAINST: (0)

CARRIED

CS-2015.37 Records and Information Management Strategy

Mark Amorosi, Deputy CAO Corporate Services, introduced the Records and Information Management Strategy.

Stephen O'Brien, City Clerk, provided background information on the process to date.

Jennifer Slater, Program Manager Information, Privacy and Elections outlined the need for a Records and Information Management Strategy and highlighted where the city is now.

Sheila Taylor of Ergo Information Management Consulting reviewed the strategy methodology and reviewed the vision of the strategy. She outlined the three strategy priorities with respect to governance, processes and communication, training and technology and the required city investment.

6. Moved by Mayor Guthrie
Seconded by Councillor Allt

1. That the Records and Information Management Strategy be approved.

2. That the Information and Access Coordinator position be referred to the 2016 budget process.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings, Hofland and MacKinnon (5)
VOTING AGAINST: (0)

CARRIED

Staff Updates and Announcements

Mark Amorosi, Deputy CAO Corporate Services, advised that Information Technology is actively exploring opportunities to move files to the cloud.

Adjournment *(3:28 p.m.)*

7. Moved by Councillor Allt
Seconded by Mayor Guthrie

That the meeting be adjourned.

CARRIED

Joyce Sweeney
Council Committee Coordinator

CORPORATE SERVICES COMMITTEE
CONSENT AGENDA

November 9, 2015

Members of the Corporate Services Committee.

SUMMARY OF REPORTS:

The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with immediately. The balance of the Corporate Services Committee Consent Agenda will be approved in one resolution.

Reports from Administrative Staff

REPORT	DIRECTION
CS-2015.40 BMA FINANCIAL CONDITION ASSESSMENT REPORT 1. That Corporate Services Committee receive Report CS-2015-75 'BMA Financial Condition Assessment Report'. 2. That Corporate Services Committee approve the action plans outlined in Attachment 2 – BMA Condition Assessment Action Plan of Report CS-2015-75. 3. That pursuant to the Guelph Council Meeting of June 22, 2015, Guelph Police Services be formally notified that Council does not support their request to retain their budget surplus monies or their request to create a police contingency reserve. 4. That per Report CS-2105-63, subsequent to considering the results of the BMA Study and to ensure highest and best use of City funds, that an additional contribution of $500,000 to each of the tax rate stabilization reserve and operating contingency reserve be recommended, and to refer this matter to the 2016 tax supported budget.	Approve
CS-2015.41 PROPERTY TAX POLICY – TAX RATIOS 1. THAT Report CS-2015-82 entitled 'Property Tax Policy – Tax Ratios' be received for information. 2. THAT once the 2017-2020 four year phase in assessment cycle is finalized in 2016 staff bring forward a report analyzing tax shifts and seeking tax policy direction.	Approve

3. THAT for the 2016 Tax Policy Report, that staff recommend reductions consistent with the first 3 years of the 2013-2016 four year assessment phase-in cycle reducing the multi-residential and the industrial tax ratios at the following rate of .042 and .1063 to 1.9979 and 2.2048 respectively.

CS-2015.42	**REVIEW OF ZERO BASED BUDGETING AND OTHER OPTIONS**	Approve

1. THAT CS-2015-71 'Review of Zero Based Budgeting and Other Options' report be received.

2. THAT staff be directed to continue to implement zero line item based budgeting on selected line items in the budget as feasible.

attach.

BMA Financial Condition Assessment

Corporate Services

November 9, 2015

Introduction

- BMA Management Consulting Inc. (BMA) presented the results of the 2014 study to Council on September 21, 2015.
- BMA's full report was released to Council and the public on October 6, 2015.
- Staff report CS-2015-75 summarizes the results of the study compared to the 2010 study, and outlines management's action plan for addressing key recommendations.

Growth and Socio-Economic Indicators

Indicator	2014 Results	2010 Results
Population Growth	Positive	Positive
Population Density	Neutral	Neutral
Demographics	Cautionary	Cautionary
Employment Rate	Positive	Neutral
Construction Activity	Positive	Positive
Assessment Composition	Positive	Positive
Assessment Growth	Positive	Cautionary
Household Income	Positive	Positive

Municipal Levy and Affordability

Indicator	2014 Results	2010 Results
Municipal Levy Per Capita	Neutral	Neutral
Municipal Levy Per $100,000 of Weighted Assessment	Neutral	Neutral
Residential Affordability	Neutral	Neutral

Financial Sustainability

Indicator	2014 Results	2010 Results
Stabilization Reserve Funds	Cautionary	Cautionary
Employee Future Benefits Reserves	Cautionary	Neutral
Tax Supported Capital Reserves	Cautionary	Cautionary
Discretionary Reserves as a % of Taxation	Cautionary	Cautionary
Water/Wastewater Reserves	Positive	Positive

Action Items – Reserve and Reserve Funds

Action Item	Timeline
Perform a full review of our existing reserve and reserve funds	Q3 2016
Prepare an annual reserve and reserve fund report	April/May 2016 for 2015
Phase out the use of stabilization reserves to fund ongoing operational costs	2017 budget process
Annual budget transfer to the stabilization and contingency reserves	Proposed 2016 budget
Review JJEC funding process	2017 budget
Develop an internal policy on establishing program reserves	End of 2016

Action Items – Capital and Debt Management

Action Item	Timeline
Develop a detailed asset management plan	2018 pending 2016 budget request
Capital variance reports at the project level	Starting for Q3 2015
Formalize capital reallocation and project close procedures	Mid 2016
Review of the City's debt policy	2016

Action Items – Other Recommendations

Action Item	Timeline
Develop a long term financial strategic plan	2018-2019
Reduce frequency of variance reporting but provide more in-depth analysis	2016
Formally respond to police regarding reserve request	2015

Summary

Commitment to this action plan will ensure:

- The City preserves our current reserve/reserve fund balances and slowly grows the balances to the recommended funding levels.
- The City's strong financial position continues into the future.
- The City is following municipal best practices.

STAFF REPORT

TO	Corporate Service Committee
SERVICE AREA	Corporate Services, Finance
DATE	November 9, 2015
SUBJECT	**BMA Financial Condition Assessment Report**
REPORT NUMBER	CS-2015-75

EXECUTIVE SUMMARY

PURPOSE OF REPORT
The City of Guelph engaged BMA Management Consultants Inc. to provide an update to a previous Financial Condition Assessment Report completed in 2010. The report includes key financial, affordability and social-economic indicators to evaluate the existing financial health of the City, as well as to identify future challenges and opportunities.

At a special Council meeting on September 21, 2015, BMA presented the 2015 results to Council and on October 6, 2015 the full BMA report was distributed to the Mayor and Councillors, and made available to the public. Both the presentation and report can be found at:
http://guelph.ca/wp-content/uploads/council_consolidated_agenda_092115.pdf and
http://guelph.ca/wp-content/uploads/BMAFinancialConditionAssessmentReportOctober2015.pdf, respectively.

This staff report summarizes BMA's recommendations and outlines current and future actions the City will undertake to implement these recommendations.

KEY FINDINGS
Key findings from the report include:

Sustainability: "The ability to provide and maintain existing programs without resorting to unplanned increases in rates or cuts in service". Guelph has many positive financial sustainability indictors including low unemployment, modest population growth, a strong assessment base and a good mix of residential and non-residential construction. Two major risk areas the City needs to focus on are: developing a detailed strategy to address the ever-widening infrastructure gap, and the lower than recommended stabilization reserves.

Financial Flexibility: "The degree to which a municipality can issue debt or generate revenues without affecting the credit rating." Guelph is in a positive position on many indicators including low taxes receivable, low levels of debt, a solid financial position and healthy non-tax reserves and reserve funds. To ensure on-going strong results and enhance current flexibility the City should focus on consolidating reserves and reserve funds where possible, providing adequate funding for asset renewal and finding the right balance between delivering services and affordability.

Vulnerability: "Minimizing the level of risk that could impact its ability to meet financial obligations and commitments including the delivery of service." BMA believes that the City needs to focus on the following objectives to reduce financial risk:

- Commit to maintaining infrastructure as a key corporate goal - the development of a detailed asset management plan will gradually address funding needs on a priority basis
- Commit to maintaining financial sustainability – over the next decade, the City will undergo managed growth while infrastructure renewal costs will increase at a much greater pace – strong financial policy will drive this focus through changing Council priorities

FINANCIAL IMPLICATIONS

The cost of the BMA Financial Condition Assessment was $17,500 plus the unrecoverable portion of HST of $308 for a total cost of $17,808.

The Financial Condition Assessment Report will impact how staff approaches budget development. Additionally, many of the recommendations include reviewing and amending/enhancing the City's financial policies. All financial implications related to policy changes will be disclosed at the time of Council approval.

Further, there are two recommendations made related to a request from the Guelph Police Services and a previous Committee Report, respectively.

ACTION REQUIRED

1. That Corporate Service Committee receive Report CS-2015-75 BMA Financial Condition Assessment Report; and

2. That Corporate Service Committee approve the action plan outlined in Attachment 2 – BMA Condition Assessment Action Plan of Report CS-2015-75.

3. That pursuant to the Guelph Council Meeting of June 22, 2015, Guelph Police Services be formally notified that Council does not support their request to retain their budget surplus monies or their request to create a police contingency reserve.

4. That per Report CS-2015-63, subsequent to considering the results of the

BMA Study and to ensure highest and best use of City funds, that an additional contribution of $500,000 to each of the tax rate stabilization reserve and operating contingency reserve be recommended, and to refer this matter to the 2016 tax supported budget.

RECOMMENDATION

1. That Corporate Service Committee receive Report CS-2015-75 BMA Financial Condition Assessment Report; and

2. That Corporate Service Committee approve the action plans outlined in Attachment 2 – BMA Condition Assessment Action Plan of Report CS-2015-75.

3. That pursuant to the Guelph Council Meeting of June 22, 2015, Guelph Police Services be formally notified that Council does not support their request to retain their budget surplus monies or their request to create a police contingency reserve.

4. That per Report CS-2015-63, subsequent to considering the results of the BMA Study and to ensure highest and best use of City funds, that an additional contribution of $500,000 to each of the tax rate stabilization reserve and operating contingency reserve be recommended, and to refer this matter to the 2016 tax supported budget.

BACKGROUND

BMA Management Consultants Inc. ("BMA") is primarily known for their work on the annual Municipal Study. Since 2000, BMA have co-ordinated the data from over 100 municipalities to provide comparative information that is used in making decisions or highlighting areas of concern. In addition, BMA perform the following services: financial management (including forecasting, modelling and risk assessment), organizational and operational reviews and the development of strategy and policies.

To obtain a third party independent and holistic analysis of the City's current financial situation, BMA was engaged to perform a financial condition assessment. The last financial condition assessment was completed in early 2010, which coincided with the new term of Council. Obtaining an assessment at the beginning of each new term of Council is a best practice, which management has committed to; as it provides new Councillors with a "financial state of the union".

The scope of the assessment includes a five year historical trend analysis on key financial and socio-economic indicators for Guelph, as well as a comparison with similar municipalities for the most current year. A review of existing financial policies for debt, reserves, asset management and capital also forms part of the financial analysis.

In addition, the financial condition assessment includes a detailed review of the major reserve/reserve fund groups (capital, stabilization, employee benefits, program specific and user-pay), and an analysis of capital requirements to identify infrastructure gaps and possible solutions that can be implemented to fill the gaps.

Many municipalities have used BMA to prepare a Financial Condition Assessment Report as a first step towards establishing policies and strategy that will ensure long-term financial sustainability.

REPORT

BMA's report provides an analysis of the City's finances by reviewing growth and socio-economic indicators, municipal levy and affordability indicators, as well as the City's overall financial position. The analysis compares the City's results to provincial trends and municipal comparators that BMA selected, as follows: Cambridge, Oakville, Burlington, London, Waterloo, St. Catherines, Kingston, and Barrie.

Below are the highlights of the BMA evaluation as well as BMA's recommendations to further develop the City's existing financial policies and procedures. For each group of recommendations staff has provided a response outlining how the recommendation will be implemented, and the timing of the implementation. All the recommendations included in the body of the report are further summarized in Attachment 1.

Growth and Socio-Economic Indicators

Growth and socio-economic indicators are largely beyond Council's control. However, it's important to understand them from a planning and forecasting perspective. The indicators can assist in identifying unique and shared characteristics of the City to help guide growth strategies, development planning, and support local services. The ratings below (positive, neutral and cautionary) are all relative to either similar municipalities or to the Provincial average, depending on the indicator as outlined in the detailed BMA report.

Indicator	2014 Results	2010 Results
Population Growth	**Positive**	**Positive**
Population Density	**Neutral**	**Neutral**
Demographics	**Cautionary**	**Cautionary**
Employment Rate	**Positive**	**Neutral**
Construction Activity	**Positive**	**Positive**
Assessment Composition	**Positive**	**Positive**

Assessment Growth	**Positive**	**Cautionary**
Household Income	**Positive**	**Positive**

Areas of significance include:

- Although the percentage of Guelph's residents over 65 years of age was less than the provincial average, this percentage is increasing and implies that there will be an enhanced demand on public services in the future.

- Over the past five years, Guelph's population grew above the average and median compared to similar municipalities, which indicates that Guelph is an attractive city in which to work and live, but also indicates that Guelph will need additional infrastructure funds to accommodate the higher than average growth rate.

- Guelph's unemployment is considerably lower than the Provincial average which is indicative of the overall economic strength of the City.

<u>Municipal Levy, Property Taxes and Affordability</u>

The indicators below show the cost of municipal services compared to household income. These indicators do not provide any indication of value for money.

Indicator	2014 Results	2010 Results
Municipal Levy Per Capita	**Neutral**	**Neutral**
Municipal Levy Per $100,000 of Weighted Assessment	**Neutral**	**Neutral**
Residential Affordability	**Neutral**	**Neutral**

Areas of significance include:

- The median house value in Guelph is above the average compared to similar municipalities.

- Guelph's property tax ratio to average household income is also slightly above the survey average.

FINANCIAL SUSTAINABILITY

The concept of financial sustainability is to meet Guelph's current needs without compromising the needs of the future residents. The City's reserves and reserve funds are a key component of the City's sustainability, and it will need to preserve and build these funds by challenging current practices and revising policies. Below is a summary of where reserve funds stand relative to the City's own policies and municipal trends, followed by a detailed analysis of each category.

Indicator	2014 Results	2010 Results
Stabilization Reserve Funds	Cautionary*	Cautionary*
Employee Future Benefits Reserves	Cautionary*	Neutral
Tax Supported Capital Reserves	Cautionary*	Cautionary*
Discretionary Reserves as a % of taxation	Cautionary*	Cautionary*
Water/Wastewater Reserves	Positive **	Positive **

* Cautionary means a negative trend or a misalignment with the City's goals and municipal best practices/trends.

** Positive means that there is an alignment with the City's goals, policies and municipal best practices/trends.

Reserves & Reserve Funds

Reserves and reserve funds receive contributions from the operating budget to assist with creating a solid financial position to support the City's future cash requirements. The management of the reserves and reserve funds is an important factor in the City's overall financial position. Standard and Poor's acknowledged the City's highly liquid reserve and reserve fund levels and it's relatively low levels of debt as contributing factors in achieving its AA+ credit rating. Maintaining a high credit rating is a key objective of the City to ensure it has access to funds at competitive borrowing rates. The BMA report separates the reserve and reserve funds into the main types and provides recommendations to preserve and grow the balances as summarized below.

Stabilization Reserves & Reserve Funds

Stabilization reserves are used to offset operating fluctuations in a given year instead of increasing tax rates to cover unforeseen events. To ensure that the funds are available when an unpredictable event occurs, the City aims to maintain a balance of between 8-10% of own source revenues.

Current State

- The City has multiple stabilization reserves with different target balances.
- The City's stabilization reserves as a percentage of own source revenues are 2.5% although internal policy is 8-10% and the recommended credit agency target is 10%-15%.

BMA Recommendations

- To preserve the current balances the use of stabilization reserves/reserve funds should be restricted to extraordinary events and not be used to fund ongoing operating expenditures.
- An appropriate level of stabilization reserves/reserve funds should be maintained to protect against service cuts or tax increases in years with unanticipated costs.
- Consolidation of the various stabilization reserves into one central reserve should be done to provide additional flexibility on administrating funds.
- A weather event "climate control" reserve should be established to offset the costs associated with major storm events. The ceiling for this reserve should be 50% of the average of winter maintenance costs for the past five years.

Management's Response

Management accepts BMA's recommendations and commits to the following:

- Effective for the year ending 2015, staff will provide Council with an annual Reserve and Reserve Fund report outlining transfers of funds in and out of all reserves (including stabilization), as well as reporting on funding status compared to approved targets.
- Staff agrees that funds should be restricted to extraordinary events. During the 2016 budget, staff will begin to phase out the use of stabilization reserves to fund ongoing operating costs.
- As part of the 2016 budget, staff will continue to build the stabilization reserves through an increase in the dedicated transfer of $500,000 to the tax stabilization reserve and $500,000 to the operating contingency reserve to reduce the risk of not having reserves to fund emergency situations.
- Staff will review the General Reserve and Reserve Fund Policy in 2016 to consider amending corporate reserve targets.
- Staff will undertake a review of all the City's reserve and reserve funds to consider consolidation, implementing reserve specific targets and financing plans to achieve these targets. This will continue the reserve rationalization project that had already commenced in Finance prior to the engagement of BMA.

Employee Future Benefits Reserves

The City has a projected employee future benefit actuarial liability of approximately $30.3 million as identified through the valuation reports prepared by Nexus Actuarial Consultants. The current reserves for employee future benefits are $11.4 million leaving the unfunded portion of the liability to be financed from future revenues. Left unaddressed this liability will continue to grow as a result of additional accrued benefits and the increased value of accruals in current year dollars.

Current State

- The employee future benefits reserve balance declined by 30% since 2010.
- Workplace insurance, Land Ambulance Severance, and Early Retiree Benefits reserves are all below recommended targets.
- The major credit rating agencies have identified the unfunded portion of the liability as a negative rating factor.

BMA Recommendations

- A financial plan should be prepared for all employee future benefit reserves to ensure that there are adequate funds to sustain the operations. Plans will be reviewed annually in conjunction with the budget process. Depending on the extent of the liability, annual contributions should be made to the reserve, reflective of historical and forecasted requirements to ensure the liability does not continue to grow.
- That the Joint Job Evaluation Committee (“JJEC”) reserve should be closed and any costs associated with job evaluation are absorbed within the department budgets.

Management’s Response

Management accepts BMA’s recommendations and commits to the following:

- Staff will review the JJEC funding process in 2016. Any recommendations will be communicated to departments in time to adjust their 2017 budgets.
- Staff will review reserve targets as well as opportunities for further consolidation by performing a review of the Employee Compensation Reserve Policy in 2016.
- As part of the annual budget process, staff considers the associated liabilities of the reserves and adjusts the annual contributions where possible. Due to other budget constraints the full deficit cannot always be addressed in a single budget year.
- Staff currently report annually on the funding position of these reserves on the audited financial statements and staff report accompanying these statements. In order to bring more attention to the reserves and their targets, staff will prepare an annual Reserve and Reserve Fund report that summarizes transfers in and out of the reserves as well as showing the funding status compared to approved targets.

Capital Reserves & Reserve Funds and Asset Management

Capital reserves and reserve funds are those that are generally established to fund expenditures of a capital nature including repairs, replacement, upgrading or construction of new asset infrastructure.

Current State

- Currently the City is not meeting the 20 per cent guideline to dedicate towards capital projects, nor is the City contributing to capital at a pace that would meet replacement needs on a historical cost basis.
- The Sustainable Infrastructure Report from 2012 identified a considerable infrastructure funding gap in water, wastewater, storm, and transportation.
- The decentralized approached of managing capital projects reduces flexibility making it harder to fund capital projects based on identified priorities.
- Since 2011 the combined capital reserve balance has been trending downwards.
- The City's reserves are particularly inadequate with respect to provisions for the rehabilitation and replacement of existing assets.

BMA Recommendations

- Currently the City is not meeting the 20 per cent guideline to dedicate towards capital projects. The annual contribution to the capital reserves should be at least equivalent to the annual amortization expense.
- The City should consolidate the various capital reserves in order to provide additional flexibility to address priority projects.
- The City should maintain one year's worth of the ten year average of the tax supported capital requirements in the consolidated Capital Reserve Fund. This will help ensure that funds are available if an opportunity arises such as a cost shared project with the provincial or federal government.
- The capital reserve and reserve funds should be segregated between funds available for existing assets and funds for new assets. For all new assets, a repayment schedule should be prepared outlining when funds will be repaid to the reserve from future operating budgets. This will help ensure funds will be available to replace all new assets once they are at the end of their useful life.
- As new assets are acquired by the City, an annual contribution to the reserve/reserve funds should be made based on the annual amortization and lifecycle costing.
- The City should focus on implementing a detailed asset management plan to drive the development of future capital budgets.

Management’s Response

In order to effectively manage the City’s assets it is imperative that the City develops a comprehensive asset management strategy to make smarter decisions about building, operating, maintaining, renewing and replacing infrastructure. Management will be resubmitting an expansion package to the 2016 budget outlining the request for dedicated resources to develop and implement an asset management plan. A deliverable of the asset management team will be to develop a strategy to ensure the City’s capital reserves are adequately funded.

In addition to the corporate need for dedicated asset management resources to develop a corporate asset management plan that will inform future capital budgets, the following actions are being committed to by staff:

- Staff will undertake a wholesome review of all the City’s reserve and reserve funds to consider consolidation opportunities, implementing reserve specific targets and financing plans to achieve these targets.
- As per a recent resolution of Council, staff will be reporting capital project activity at the project level for significant projects as part of the capital variance reporting process. This will bring a further level of transparency to capital projects and capital reserve management.
- Staff have drafted capital project close and capital budget reallocation procedures that are currently being reviewed internally by senior management. These formalized procedures will help preserve capital reserve funds for use on corporate priorities by addressing unspent capital budgets in a timely manner. It is the intention of management to implement these procedures corporately in early 2016.
- As part of the General Reserve and Reserve Fund Policy review in 2016, consideration to changing the annual targeted capital reserve contribution thresholds will be undertaken.

Discretionary/Program Specific Reserves

Program specific and corporate reserves and reserve funds are established in order to achieve strategic objectives determined by Council.

Current State

- Relative to other municipalities, the City has a higher number of program specific reserve /reserve funds.
- A number of the reserves have limited balances and should be closed.
- Program specific reserves have declined since 2010.

BMA Recommendations

- A financial plan should be developed to ensure that there are sufficient funds to obtain the program requirements to completion.
- Ensure spending in any given year does not exceed the uncommitted balance in the reserve at the end of the year.
- Rationalize the reserves and determine if there is the ability to consolidate or eliminate some of the balances.
- Upon conclusion of program specific projects, recommendations should be made to close the reserve/reserve fund and transfer any remaining balance to a comparable reserve.

Management's Response

Management accepts BMA's recommendations and will, as mentioned above, undergo a review of the City's reserve and reserve funds to determine which funds can be consolidated or eliminated, and which policies need to be adjusted to maximize availability of funds and ensure the funds are preserved for as long as possible. Additionally, staff will develop an internal policy with guidelines for when it is appropriate to create a new program reserve. This policy should limit the number of future reserves being created and force consideration of alternative ways to account for funds that is less administratively burdensome.

Water and Wastewater Reserves

Water and wastewater have stabilization, operating contingency and capital reserves. The intent of these reserves is to stabilize costs related to water supply and distribution and wastewater treatment and to fund capital projects.

Current State

- Water and wastewater capital reserves have increased over the past five years and this funding strategy is in line with the future replacement needs over the next ten years.
- Annual contributions have met the minimum target of covering amortization.
- The capital reserves have allowed the City to avoid issuing debt related to water and wastewater operations over the past five years.
- The water and wastewater stabilization funds are sufficiently funded to the 8% – 10% of expenditures target.

BMA Recommendations

- None specified.

Management's Response

Although there are no specific recommendations from BMA, staff are undertaking long-term financial planning work in this area to ensure financial sustainability in the future.

FINANCIAL POSITION
Despite the longer term challenges identified by BMA above, the City remains in a strong financial position with prudent financial practices, low debt and good liquidity. The City continues to achieve a credit rating of AA+, which is among the best for Canadian Municipalities.

Indicator	2014 Results	2010 Results
Debt Management	Positive **	Positive **
Financial Position	Positive **	Positive **
Taxes receivable	Positive **	Positive **

** Positive means that there is an alignment with the City's goals, policies and municipal best practices/trends.

Debt Management

The City's capital financing goal is to maximize all funding from external sources including federal and provincial funding, development charges, and reserve funding before using the City's operating contributions or issuing debt. To date the City has enjoyed relatively low debt levels however, there is a growing gap between future capital infrastructure needs and ongoing sustainable operating sources. With the known infrastructure gap there is an increased need to revisit our current debt policy in order to obtain a holistic view.

Current State

- The City's debt policy is more conservative than the provincially mandated debt policy which states that debt servicing costs cannot exceed 25% of own source revenue.
- The City's debt levels are currently well within the existing policy limits.
- Guelph's debt charges as a percentage of own source revenue was lower than the survey's average of our municipal comparators.

BMA Recommendations

- The City should prepare a long term capital financing plan that combines issued debt and pay-as-you-go financing that takes into consideration the City's current conservative debt policies as well as the best practice recommendations outlined in the BMA report. This report is dependent on the completion of an Asset Management Plan and the additional quantification of the infrastructure gap.

Management's Response

A wholesome review of the City's debt policy is scheduled to be performed in 2016. All recommendations included in the BMA assessment will be considered in the development of the revised policy. Management does caution that any changes to this current policy could have a significant impact on the City's credit rating. Staff will also be exploring other debt instrument options beyond the current practice of issuing serial debentures.

OTHER RECOMMENDATIONS

Throughout the condition assessment staff provided BMA with full access to the City's policies and procedures. In addition to the assessment, the following items were identified as items for consideration to align the City's procedures with municipal best practices.

1) The City should develop a long-term strategic financial plan to help strengthen its financial health. The long-term strategic plan will be reflective of corporate goals and objectives and will incorporate fiscal policies to ensure the organization is coordinating efforts to achieve its goals. A strong, long-term strategic financial plan will enable the City to maintain the current credit rating, while overcoming key challenges such as the infrastructure gap, rising costs, limited revenues, unforeseen events, and pressure to add new services with a limited ability to increase property tax revenues.

   City staff will begin to develop a long-term strategic financial plan framework throughout 2016 and 2017 as policies are reviewed, with the understanding that this plan is closely tied to the development of the corporate asset management plan. Ultimate delivery of a completed long-term financial plan is likely achievable in 2018 or 2019, if the foundational asset management work is completed in a timely manner.

2) Management of reserve and reserve funds is largely driven through the on-going monitoring of capital and operating variances. Significant risk of cost-overruns can be identified and mitigation strategies can be implemented before the use of

reserves or reserve funds is required due to overspending. The City's current practice of reporting to Council five (5) times a year for operating and four (4) times a year on capital variances is proving administratively to be burdensome and not adding considerable value as spending patterns do not necessarily coincide with fiscal quarters.

Instead, staff is recommending moving to a tri-annual variance reporting schedule that will align better with spending patterns and provides more in-depth information to Council for decision making purposes. Additional emphasis will be put on improved disclosure and mitigation plans to ensure all corporate risks are identified to Council in a timely manner and funding strategies are put in place to preserve reserve funds where possible. As such, although there will be fewer reports, the level of detailed analysis will be enhanced.

3) In response to outstanding Council resolutions that were deferred until the completion of the BMA Study, staff have considered the results of the BMA study and is recommending the following actions:
   - That pursuant to the Guelph Council Meeting of June 22, 2015, Guelph Police Services be formally notified that Council does not support their request to retain their budget surplus monies or their request to create a police contingency reserve.
   - That as per Report CS-2015-63, subsequent to considering the results of the BMA Study and to ensure highest and best use of City funds, that an additional contribution of $500,000 to each of the tax rate stabilization reserve and operating contingency reserve be recommended, and to refer this matter to the 2016 tax supported budget.

The City is facing a number of fiscal constraints including long-term capital replacement needs, underfunded stabilization reserves and on-going new capital development. As an organization we need to prioritize our funding requirements and direct these tax dollars to the highest priority area with a shared community mind-set. By supporting an environment where service areas keep their surplus monies for future use to themselves, we are not putting citizens first. Council should have the chance to decide annually where these surplus funds are directed based on need.

Additionally, with respect to determining the highest priority and best use of funds for contributions to reserves that are below the bench mark standards, staff have recommended an increase in reserve funding of $1M as part of the 2016 tax supported budget to address these shortfalls. These funds have been directed to the tax rate stabilization reserve and the operating contingency reserve as these reserves were identified as the highest priority or most deficient by the BMA study.

STAFF REPORT

CORPORATE STRATEGIC PLAN
Organizational Excellence
1.3 Build robust systems, structures and frameworks aligned to strategy

DEPARTMENTAL CONSULTATION
Consultation was undertaken with non-tax program areas as well as Engineering and Capital Infrastructure and Facilities Management.

FINANCIAL IMPLICATIONS
The cost of the BMA Financial Condition Assessment was $17,500 plus the unrecoverable portion of HST of $308 for a total cost of $17,808.

There are no financial implications resulting from this report. However, the Financial Condition Assessment Report will impact how staff approaches future budget development. Additionally, many of the recommendations include reviewing and amending/enhancing the City's financial policies. All financial implications of policy changes will be disclosed at time of Council approval.

Further, there are two recommendations made related to a request from the Guelph Police Services and a previous Committee Report, respectively.

COMMUNICATIONS
Communications have been released outlining the results of the BMA Management Consultants Financial Condition Assessment.

ATTACHMENTS
ATT-1 BMA Condition Assessment Action Plan

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BMA CONDITION ASSESSMENT ACTION PLAN - ATT 1

Action Plan	Timeline	Alignment with the Council Shared Agenda
Reserves and Reserve Funds		
Staff will perform a review of the existing reserves and reserve funds that will include; evaluating the purpose of reserves and reserve funds, setting financial plans and target balances, improving policies relating to accessing funds and contributing to reserves, consolidating reserves and ensuring the structure of the reserves and reserve funds align with the long-term strategic financial plan.	Completed by Q3 2016	These recommendations are not directly identified in the Council Shared Agenda. Sustainable financial management and prudent financial practices will however help the organization meet the long term goals identified.
Staff will report to Council annually with a new Reserve and Reserve Fund report on all transfers of funds in and out of all reserves as well as reporting on funding status compared to the approved targets.	April / May 2016 for the year ended 2015	
Staff will begin to phase out the use of stabilization reserves to fund ongoing operating costs.	2017 budget process	
Staff will continue to build the stabilization reserves through an increase in the dedicated transfer of $500,000 to the tax stabilization reserve and $500,000 to the operating contingency reserve.	2016 budget process	
Staff will review the JJEC funding process in 2016 with recommendations being communicated to all departments in time for the 2017 budget.	2017 budget process	
Management will develop an internal policy with guidelines on when it is appropriate to create a new program reserve.	End of 2016	
Capital Reserve & Reserve Funds and Asset Management		
Pending the approval of the dedicated resources requested through the 2016 budget, a detailed asset management plan will be developed. An asset management plan is essential to assessing the capital needs of the municipality and aligning our needs with long term capital planning.	2018	Capital infrastructure was identified as one of the top priorities listed on the Council Shared Agenda.
Staff will begin reporting capital project activity at the project level for significant projects as part of the capital variance report process. This will bring a further level of transparency to capital project and capital reserve management.	Starting for Q3 2015 Capital Variance Report	These recommendations are not directly identified in the Council Shared Agenda. Sustainable financial management and prudent financial practices will however help the organization meet the long term goals identified.
Capital project close and capital budget reallocation procedures will be formalized.	Mid 2016	

Action Plan	Timeline	Alignment with the Council Shared Agenda
Debt Management		
A wholesome review of the City's debt policy is scheduled to be performed in 2016. All recommendations included in the BMA assessment will be considered in the development of the revised policy.	2016	This recommendation was not directly identified in the Council Shared Agenda. Sustainable financial management and prudent financial practices will however help the organization meet the long term goals identified.
Other Recommendations		
Staff will develop a long term strategic financial plan that will incorporate all the fiscal policies.	2018-2019	These recommendations were not directly identified in the Council Shared Agenda. Sustainable financial management and prudent financial practices will however help the organization meet the long term goals identified.
The number of capital variance reports will be reduced from four times a year to three reporting on month ending April 30th, September 30th, and December 31st. That the number of operating variance reports be reduced from five times per year to three (April, September, and December) but that the analysis be improved to specifically include mitigation strategies for each program area forecasting a negative variance.	2016	
That pursuant to the Guelph Council Meeting of June 22, 2015, Guelph Police Services be formally notified that Council does not support their request to retain their budget surplus monies nor their request to create a police contingency reserve.	2015	
That as per Report CS-2015-63, subsequent to considering the results of the BMA Study and to ensure highest and best use of City funds, that an additional contribution of $500,000 to each of the tax rate stabilization reserve and operating contingency reserve be recommended and to refer this matter to the 2016 tax supported budget.	2016 budget process	

City of Guelph

Property Tax Policy

-

Tax Ratios

Corporate Services Committee
November 9, 2015

Property Tax Policy

- Property Tax Policy – Tax Ratios Report - Now
- 2016 Tax Policy - March 2016 - CS Committee
- 2016 Tax Bylaws – March 2016 - Council
- 2016 Capping Bylaw – April 2016 - Council

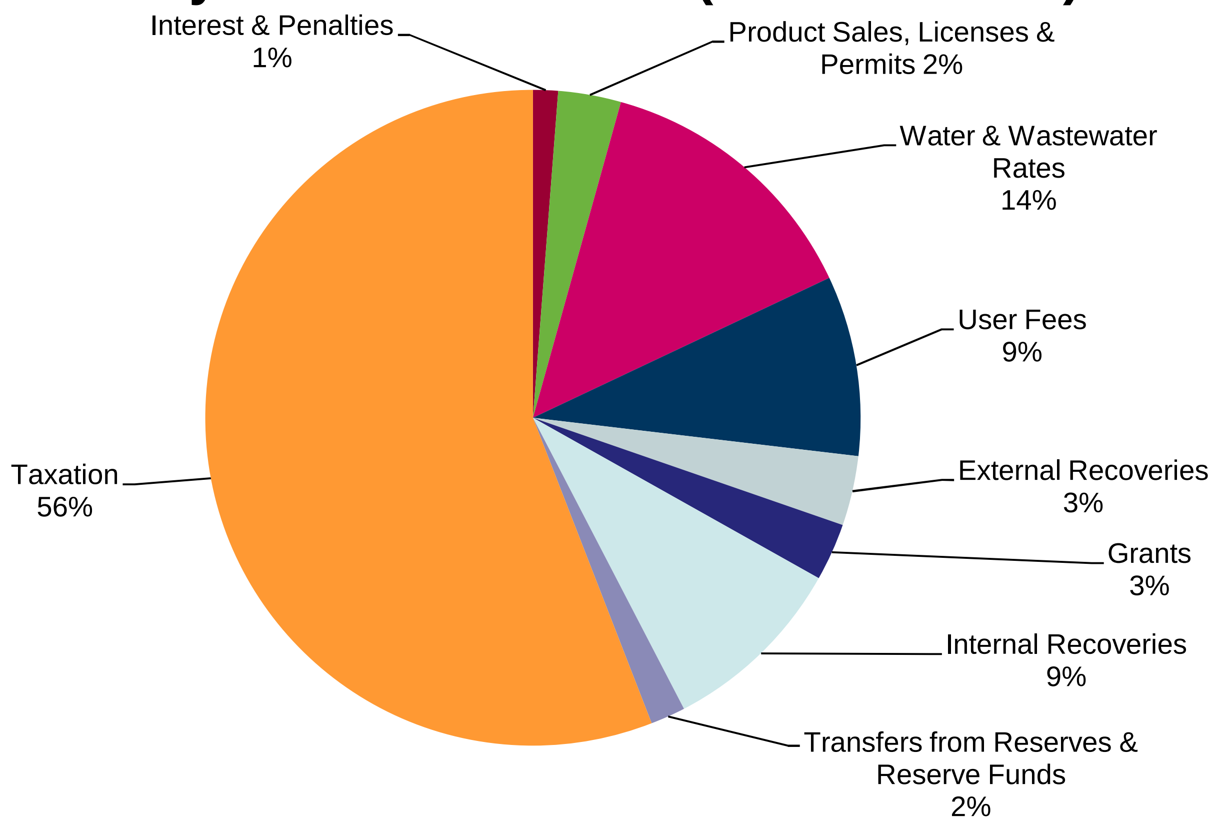
Property Taxes

- Property taxes are the principal means by which a municipality funds its budget.
- Property taxes are calculated by using the assessment of a property as determined by the Municipal Property Assessment Corporation (MPAC) and the tax rate approved by Council.
- In Guelph, property taxation raises approximately 56% of the net operating budget requirement.

Operating Budget: Revenues

- Graph below shows how funds were received based on 2015 budget

2015 City Revenue Sources ($381.6 million)

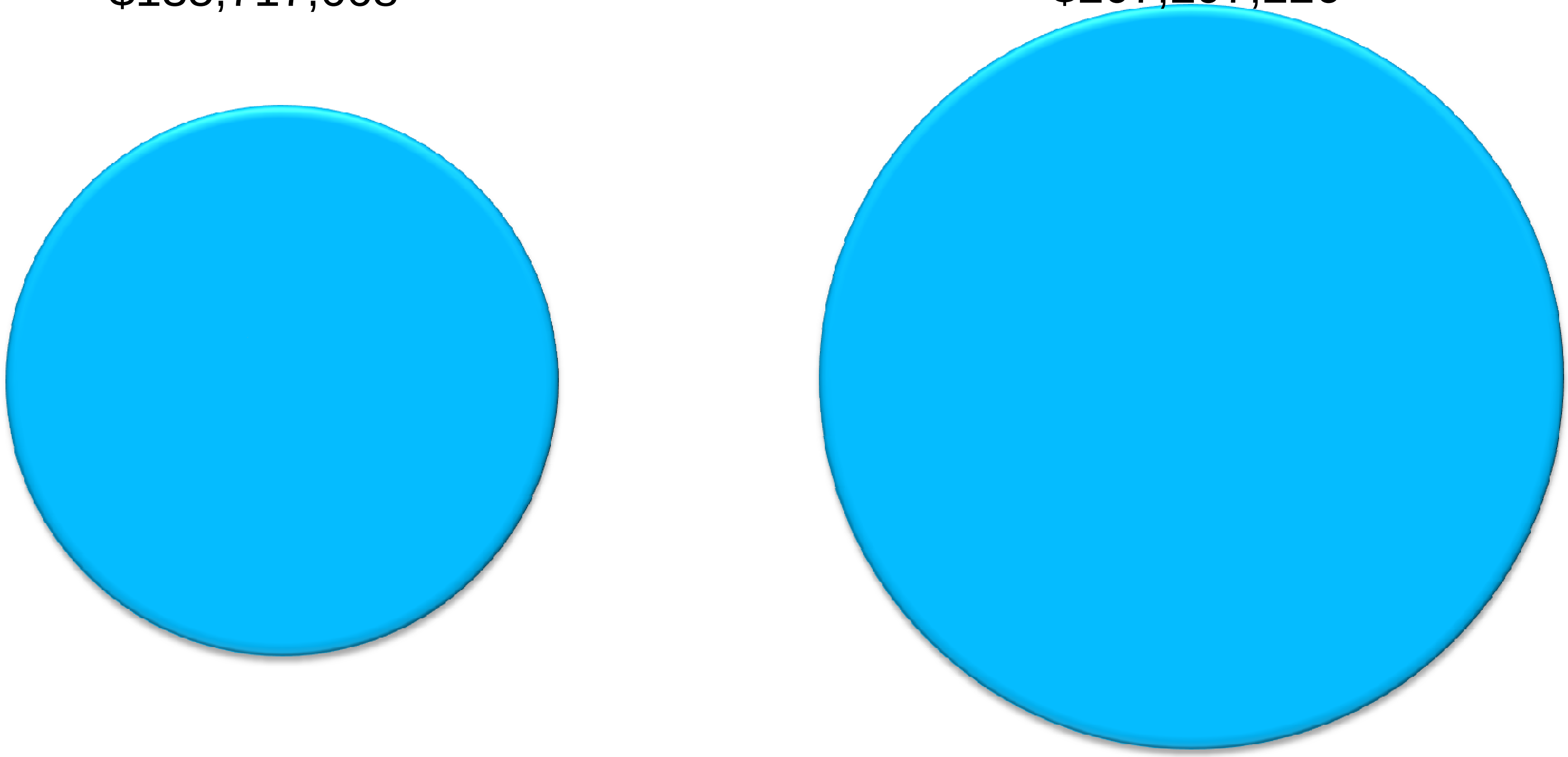


Tax for General Municipal Purposes

- Tax rates are calculated after the budget is determined once the final assessment roll is received from MPAC and tax policy is approved.
- Even in cases where the budget remains constant from one year to the next, taxes may change because of property reassessments or assessment phase-in.

Net 2007 Amount raised from Taxation and PIL's
$135,717,668

Net 2015 Amount raised from Taxation and PIL's
$207,297,226



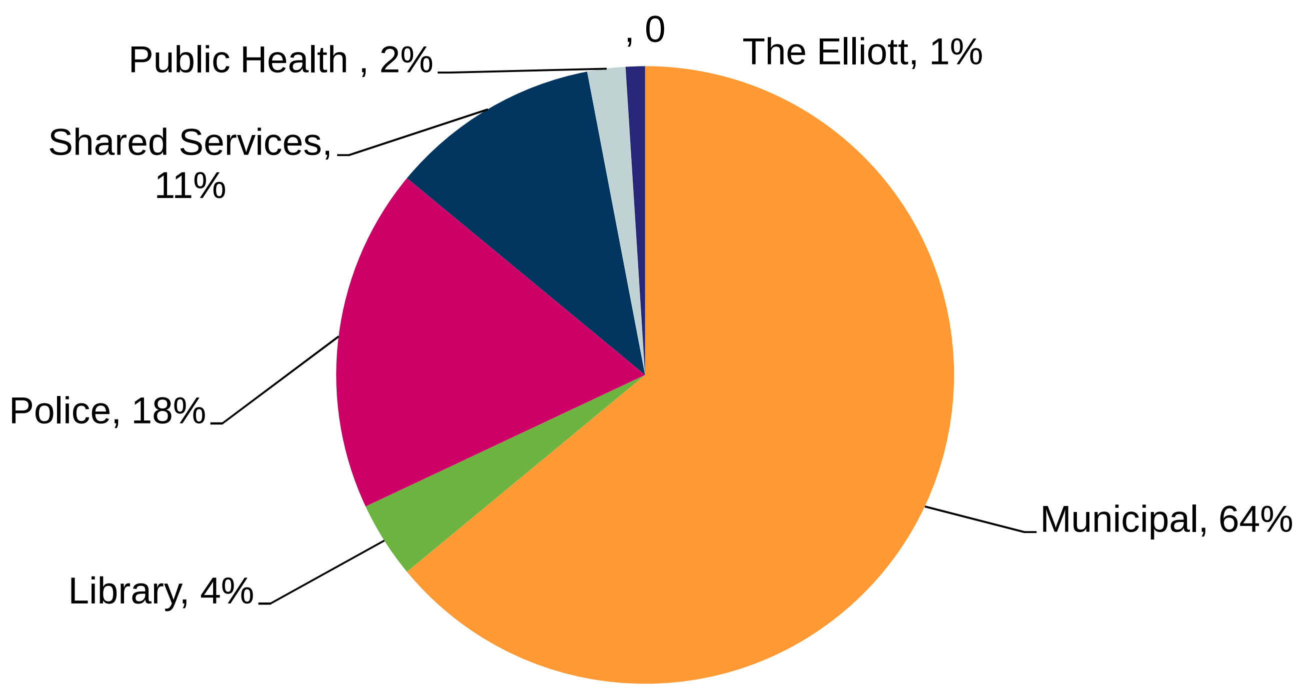
How are Tax Rates set?

- Tax Rates have three components that play a role in what the tax rate is. These Are:
  – The Assessment Base
  – The Tax Ratios
  – The Levy Requirement from the Budget

  "the amount to raise from Taxation and PIL's"

- The Assessment Base is weighted by the tax ratios and then divided by the **"the amount to raise from Taxation and PIL's"** in order to come up with the base tax rate (residential rate).

2015 Distribution of amount to raise from Municipal Tax & Payment in Lieu of Tax Dollars ($207.3 million)



Property Tax Classes

- Residential and Farm
- Multi-Residential
- Commercial: Occupied, Excess land and Vacant Land
- Industrial: Occupied, Excess land and Vacant Land
- Pipelines
- Farmlands
- Managed Forests

Optional Property Classes in Guelph

– New Multi-Residential

Assessment Composition

- Assessment composition shows what the percentage of assessment is in each of the 7 main property tax classes.
- Guelph’s assessment composition represents a diverse assessment.
- There is a strong industrial sector presence in Guelph

Unweighted Taxable Assessment Composition 2014

Municipality	Res	Multi-Res	Com	Ind	Pipe	Farm	Forest
Niagara Falls	70.70%	2.90%	24.30%	1.10%	0.40%	0.50%	0.00%
Mississauga	71.60%	3.10%	20.80%	4.30%	0.10%	0.00%	0.00%
Windsor	73.50%	3.80%	18.30%	3.80%	0.40%	0.20%	0.00%
Cambridge	75.10%	4.10%	14.60%	5.80%	0.20%	0.20%	0.00%
Kingston	75.60%	6.30%	16.30%	1.10%	0.30%	0.30%	0.00%
Barrie	77.00%	3.20%	17.20%	2.20%	0.20%	0.20%	0.00%
Oshawa	78.00%	4.80%	14.10%	2.40%	0.20%	0.50%	0.00%
Waterloo	78.70%	5.00%	13.50%	2.60%	0.20%	0.00%	0.00%
Kitchener	78.90%	6.80%	12.30%	1.80%	0.00%	0.10%	0.00%
Guelph	**79.10%**	**4.50%**	**11.60%**	**4.60%**	**0.20%**	**0.00%**	**0.00%**
London	80.50%	5.10%	12.20%	1.40%	0.20%	0.60%	0.00%
Hamilton	80.50%	4.80%	10.60%	1.90%	0.40%	1.70%	0.00%
Oakville	83.90%	2.10%	11.60%	2.20%	0.10%	0.10%	0.00%
Whitby	84.20%	2.00%	11.20%	1.90%	0.20%	0.50%	0.00%

Re-assessment

- Re-assessments are currently being conducted by MPAC on a four year schedule.
- The current re-assessment is being phased in over the 2013-2016 taxation years using a 2012 CVA (Current Value Assessment) as the end point for 2016.
- Any increase in assessment is phased in at 25% per year, any decrease in assessment is effective the 1st and subsequent years of the phase in.
- The next cycle is 2017-2020 phasing in to a 2016 CVA. Preliminary assessment values from MPAC mid 2016.

Impacts of Re-assessment

- Re-assessment can result in tax shifts, which is a change in the burden of one tax class compared with the other tax classes. Tax ratios can amplify this tax shift.
- Historically re-assessment results in higher volumes of tax write-offs in the first couple years of phase in as MPAC corrects any errors in values or tax classes.
- In an effort to mitigate these issues MPAC is committed to a more transparent and timely process. Methodology guides for certain sectors and preliminary values released in advance of roll return to allow for discussion and resolution.

Setting Tax Ratios for Annual Tax Policy

- Subsection 308(4) of Municipal Act, 2001
  - Requirement for all single tier municipalities to set tax ratios annually.
- Municipalities can set different tax ratios for different classes of property. (except for residential, farmland and managed forests)
- Tax ratios use the residential class as a base.
- Historically business classes have higher tax ratios and pay more tax.

What is a Tax Ratio?

- Relative tax burden across the property classes.
- Mathematical relationship between the tax rate for the residential class and the tax rates for other property classes.
- Residential class is the basis for comparison for other classes, its’ tax ratio is always 1.0
  - If the tax ratio for a class has a value of 2.0, the tax rate for the class when measured against the residential rate is two times more.
- Tax ratio for farmlands and managed forests will be 25% of the residential tax rate or .25.

Tax Policy and Tax Ratios

- Changing the tax ratios changes the distribution of taxes to be collected from each property class.
- Over the past number of years progress has been made on reducing the multi-residential and industrial tax ratios to better align with other comparable municipalities.
- As one tax ratio decreases the amount of taxes the other tax classes have to pay increases.

Guelph's Tax Ratios

Tax Year	Multi- Res	Commercial	Industrial
2008	2.740000	1.840000	2.630000
2009	2.596475	1.840000	2.630000
2010	2.453000	1.840000	2.630000
2011	2.309425	1.840000	2.630000
2012	2.165900	1.840000	2.630000
2013	2.123900	1.840000	2.523700
2014	2.081900	1.840000	2.417400
2015	2.039900	1.840000	2.311100
Proposed 2016	1.997900	1.840000	2.204800

Guelph vs. Selected Comparators

2014 Tax Ratios

Municipality	Multi- Res	Commercial	Industrial
Barrie	1.0000	1.4331	1.5163
Brantford	2.0472	1.8755	2.4730
Durham Region	1.8665	1.4500	2.2598
Guelph	**2.0819**	**1.8400**	**2.4174**
Halton Region	2.2619	1.4565	2.3599
Hamilton	2.7400	1.9800	3.1752
Kingston	2.2917	1.9800	2.6300
London	1.9800	1.9800	2.2200
Niagara Region	2.0440	1.7586	2.6300
Waterloo Region	1.9500	1.9500	1.9500
Average	**2.0263**	**1.7704**	**2.3632**

Table 2: Comparison of Tax Ratios for Municipalities on the 401 Corridor
(Sorted from Highest Ratio to the Lowest Ratio)

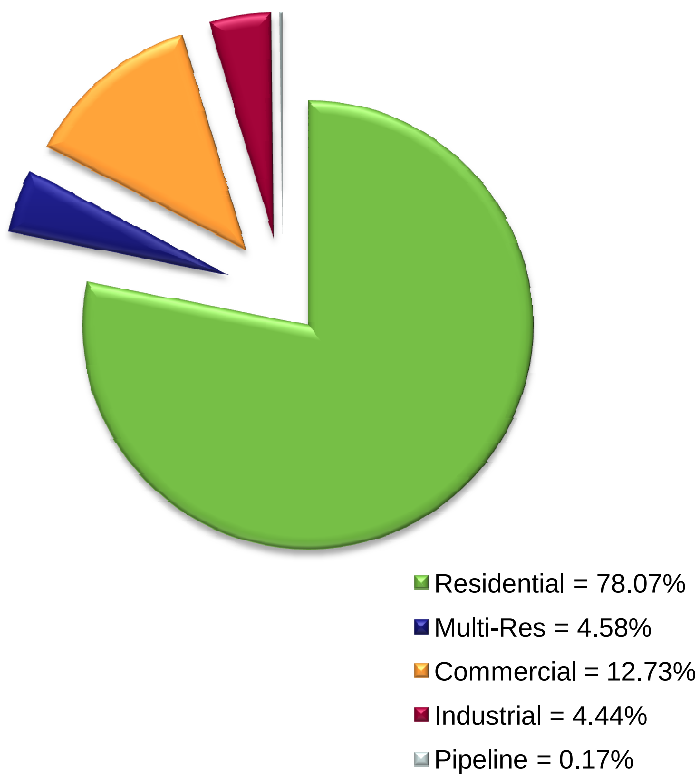
Municipality	Multi-Residential
Hamilton City*	2.74
Oxford County	2.74
Elgin County	2.35
Halton Region	2.26
Chatham-Kent	2.15
Guelph City	2.04
London City	1.95
Waterloo Region	1.95
Wellington County	1.89
Middlesex County	1.77
Median	2.10
Average	2.18

Municipality	Residual Commercial
Hamilton City*	1.98
Chatham-Kent	1.95
London City	1.95
Waterloo Region	1.95
Oxford County	1.90
Guelph City	1.84
Elgin County	1.64
Halton Region	1.46
Wellington County	1.46
Middlesex County	1.14
Median	1.87
Average	1.73

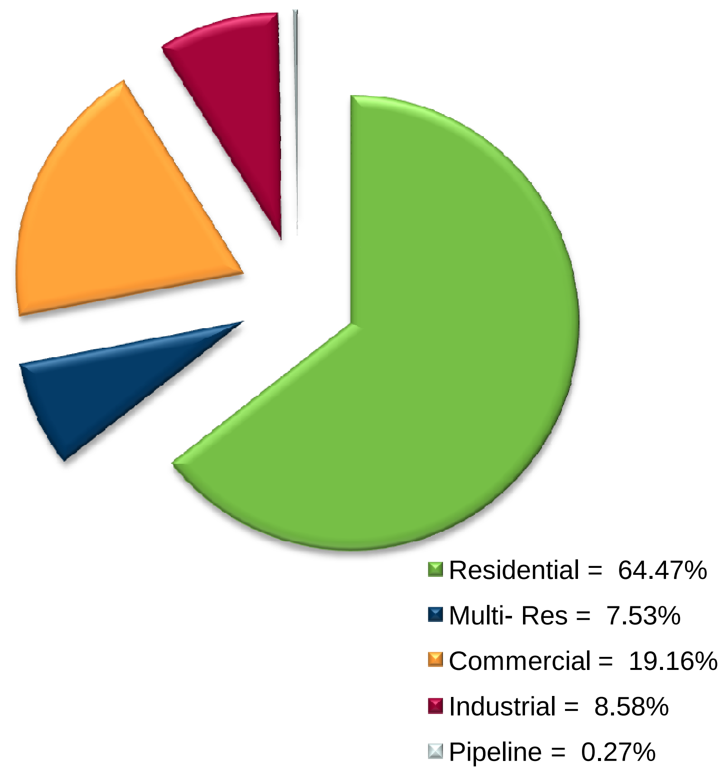
Municipality	Residual Industrial
Hamilton City*	3.12
Oxford County	2.63
Wellington County	2.40
Halton Region	2.36
Guelph City	2.31
Elgin County	2.23
Chatham-Kent	2.22
London City	1.95
Waterloo Region	1.95
Middlesex County	1.75
Median	2.27
Average	2.29

*Hamilton added due to proximity and economic relationship with Guelph and Highway 401 Corridor

2015 - Assessment Only if All Tax Ratios =1.00



2015 - Weighted Assessment – Who Paid in 2015



Taxable Assessment Composition - 2014

Municipality	Res Unweighted Assessment	Res Weighted Assessment
Niagara Falls	70.70%	58.0%
Mississauga	71.60%	63.5%
Windsor	73.50%	57.1%
Cambridge	75.10%	61.5%
Kingston	75.60%	61.3%
Barrie	77.00%	71.5%
Oshawa	78.00%	66.4%
Waterloo	78.70%	66.2%
Kitchener	78.90%	66.5%
Guelph	**79.10%**	**65.7%**
London	80.50%	68.2%
Hamilton	80.50%	66.0%
Oakville	83.90%	76.3%
Whitby	84.20%	77.8%

Points to Consider

- Diverse the Revenue Sources
  - Higher tax ratios and therefore higher tax rates result in a greater dependency for taxation revenue on large individual properties.
- Comparison across the province
  - City of Guelph’s commercial, industrial and multi-residential ratios remain higher then the provincial average and some of our neighbouring Municipalities.

Tax Policy for 2016

- The City of Guelph has been working towards lowering the industrial and multi-residential ratios to better align with other comparable municipalities, with the recognition that reducing our tax ratios is imperative for the sustainability of the business sector in Guelph while mitigating the transitional impact on the residential class.
- For the 2016 tax policy, staff recommend to continue to lower tax ratios on multi-res and industrial tax classes as in the previous three years.

The End

STAFF REPORT

TO	Corporate Services Committee
SERVICE AREA	Corporate Services, Finance
DATE	November 9, 2015
SUBJECT	**Property Tax Policy – Tax Ratios**
REPORT NUMBER	CS-2015-82

EXECUTIVE SUMMARY

PURPOSE OF REPORT

To provide information as requested by Committee and Council related to Property Tax Policy direction for 2016. The attached reports prepared by Municipal Tax Advisory Group (MTAG) dated October 2015 and Municipal Tax Equity (MTE) Consultants Inc. dated January 2014, contain this information.

KEY FINDINGS

Two independent third party reports have provided a review of the City's current tax ratios; as well as the City's position among comparator groups. The general observation is that Guelph is sitting in the mid-range with its commercial, industrial and multi-residential class tax ratios.

In the absence of overwhelming data to suggest otherwise, altering the tax ratio policy direction now with the new reassessment for the 2017-2020 taxation years not due to be released until 2016, would be inadvisable. Thus the continuation of reducing multi-residential and industrial ratios is suggested for 2016.

A change to one tax ratio affects the tax burden of all other tax classes. The impact of reducing the multi-residential ratio as detailed the body of the report is a tax shift of .15%. The impact of reducing the industrial ratio as detailed in the body of the report is .37%. Reducing both ratios have a combined effect resulting in an overall tax shift of .52%.

For tax policy 2017-2020, detailed analysis will be done to measure the tax shifts due to the 2016 reassessment and at that time staff will seek direction on setting tax policy.

FINANCIAL IMPLICATIONS

There are no financial implications, tax ratios apportion the total tax to be levied among the different property tax classes.

STAFF REPORT

ACTION REQUIRED
The Corporate Services Committee receives Report CS-2015-82 entitled Property Tax Policy – Tax Ratios and approves the recommendations.

RECOMMENDATION

THAT Report CS-2015-82 entitled Property Tax Policy – Tax Ratios be received for information; and

THAT once the 2017-2020 four year phase in assessment cycle is finalized in 2016, staff bring forward a report analyzing tax shifts and seeking tax policy direction; and

THAT for the 2016 Tax Policy Report, that staff recommend reductions consistent with the first 3 years of the 2013-2016 four year assessment phase-in cycle reducing the multi-residential and the industrial tax ratios at the following rate of .042 and .1063 to 1.9979 and 2.2048 respectively.

BACKGROUND

Council is required to make a number of tax policy decisions annually. One of those decisions is to set the tax ratios before the rating by-laws can be adopted.

Tax ratio decisions are usually made in conjunction with reassessments. The current four year phase-in assessment cycle is 2013-2016.

At the Council meeting of April 29, 2013, City Council approved the 2013 City of Guelph Property Tax Policies and requested that "the Property Tax Policy, specifically as it relates to all classes ratio, be looked at to establish a long term objective and rationale for these categories in advance of the next tax policy annual review."

In response to Council's request, staff enlisted the assistance of Municipal Tax Equity (MTE) Consultants Inc., to both augment the body of research surrounding the City's current tax ratios and to demonstrate the potential outcomes and impacts of any changes to the status quo. This was presented on March 3, 2014 as Report FIN-14-10 to the Corporate Administration, Finance and Enterprise Committee.

During the setting of Tax Policy for 2015, Corporate Services Committee and Council requested that a further report on tax ratios in advance of 2016 Tax Policy be brought forward.

In response to this request, staff engaged the services of Municipal Tax Advisory Group (MTAG) to have a subsequent look into comparators tax ratios and impacts.

REPORT

An analysis of tax ratios cannot be done in isolation, and includes a review of annual tax assessment changes and the impact of the aggregate changes that one tax class experiences in relation to the other tax classes. Thus it is practice to look at these assessment changes in relation to reassessment cycles. The current reassessment cycle is 2013-2016, and as such we are going into the fourth and final year of that cycle. To change direction in tax ratio policy now without compelling evidence to do so would be ill-advised.

In the attached report from MTAG it compares the City of Guelph tax ratios to that of comparators; we find that we are situated in the mid-range. This information does not provide a compelling argument to drastically alter the City's approach to tax policy or any particular ratio.

The City of Guelph's commercial ratio while higher than the average in the overall ratio survey is situated well to major comparators along the 401 corridor. In conjunction with the previous report in 2014 it is determined at this time that no changes are recommended. Guelph's industrial ratio is currently higher than the median and the average in comparison to other municipalities on the 401 corridor and as shown in the overall ratio study. Thus a continuation of the policy to reduce the industrial ratio appears prudent. Guelph's multi-residential ratio, is placed in the middle of the group of comparators within the 401 corridor but higher than the average and median in the overall ratio study. City of Guelph staff working on affordable housing strategies are supportive of lowering the multi-residential ratio. It is reasonable to continue the reduction for the multi-residential class for 2016.

As outlined in Table 1, since 2013 the City of Guelph has annually reduced the industrial ratio by .1063 and the multi-residential ratio by .042, annually. For 2016 it is recommended that we to continue with the status quo from the previous 3 years and reduce the ratios further to 2.2048 for industrial and 1.9979 for multi-residential.

Table 1

City of Guelph Tax Ratios

Tax Year	Multi- Res	Commercial	Industrial
2008	2.740000	1.840000	2.630000
2009	2.596475	1.840000	2.630000
2010	2.453000	1.840000	2.630000
2011	2.309425	1.840000	2.630000
2012	2.165900	1.840000	2.630000
2013	2.123900	1.840000	2.523700
2014	2.081900	1.840000	2.417400
2015	2.039900	1.840000	2.311100
2016 Proposed	1.997900	1.840000	2.204800

There is a direct relationship between all tax ratios. The change of a tax ratio for one tax class shifts the tax burden to the other tax classes. Based on preliminary data the proposed changes to the ratios for 2016 will have the following impact:

Multi-Residential Class Ratio Reduction

The continued reduction of the multi-residential ratio from 2.0399 to 1.9979 will result in a tax shift of approximately 0.15% to all the other tax classes. This reduction will result in a reduction in the multi-residential tax class of 1.91%.

Industrial Class Ratio Reduction

With a movement to lower the industrial ratio from 2.311 to 2.2048 the total tax burden to the industrial class will reduce by 4.25% with a resulting tax shift to the other classes of .37%.

Combined Multi-Residential and Industrial Ratio Reduction

When combining the impact of both the multi-residential and industrial ratio reductions, the net results in the tax burden are that the multi-residential decreases by 1.54% and the tax burden to the industrial class decreases by 4.1% with an increase experienced by the other tax classes of .52%. This .52% will represents an increase of approximately $17 to the average residential property.

CORPORATE STRATEGIC PLAN

City Building
3.2 Be economically viable, resilient, diverse and attractive to business

CONSULTATION

Guelph Chamber of Commerce
City Staff re: Affordable Housing and Multi-Residential

FINANCIAL IMPLICATIONS

There are no financial implications, tax ratios apportion the total tax to be levied among the different property tax classes.

COMMUNICATIONS

Communications as part of the Committee and Council agenda packages.

ATTACHMENTS

ATT-1 Tax Ratio Review, 2016 - Ratio Reduction Consideration – October 2016
ATT-2 FIN-14-10 Property Tax Policy – Tax Ratios

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TAX RATIO REVIEW, 2016
RATIO REDUCTION CONSIDERATION:
CITY OF GUELPH

Prepared by:
Municipal Tax Advisory Group

October 2015

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PREFACE

Over the last several years, the City of Guelph has been carefully examining its relative tax burden relationships, which has led to reductions in both the municipality's multi-residential and industrial tax ratios. With Ontario's current four year assessment cycle about to conclude in 2016 and a full general reassessment pending for 2017 taxation, it is timely for Council of the City of Guelph to contemplate the appropriateness of further tax ratio adjustments within this context.

The following report has been prepared, relying heavily on earlier analyses and other relevant material available, to further assist the City of Guelph in examining its tax ratios in an attempt to determine if current tax ratios result in a reasonable distribution of the overall tax burden between the various class taxes that comprise the City's total assessment base. The review also includes a windshield perspective on tax ratios from an economic competitiveness perspective when compared to other similar municipalities. Specific attention has been given to how the City compares to some of its neighbouring jurisdictions and other municipalities located on the Highway 401 corridor. This comparison has been undertaken against tax ratios, tax rates and the tax impact on specific property types.

The following document has been prepared to augment the existing body of analyses and literature available to the City of the Guelph in respect of this issue and to focus the discussion on a suggested course of action for the City based on the direction council would like to take.

To that end, the Municipal Tax Advisory Group respectfully offers Staff and Council the comparative analyses and observations required to assist with the development of both short and long term tax policies and strategies. This insight is provided within the context of:

- Tax ratio survey and 401 corridor comparison;
- Tax rate comparisons,
- Assessment Growth, and
- Class Tax Burden for Ratio Reductions

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EXECUTIVE SUMMARY

Regular reassessments of all property are mandated by the Province in order to ensure that assessments relied upon for property tax purposes are in fact reflective of changing market conditions. The last comprehensive update was undertaken for 2013 taxation based on an effective valuation date of January 1, 2012; the next update is scheduled for 2017 taxation based on an effective valuation date of January 1, 2016. The Tax landscape will change for the 2017 taxation year. It will be imperative that a comprehensive sensitivity analysis be undertaken to quantify the scope and magnitude of tax shifts that result.

Guelph City Council has regularly reduced the ratio for the multi-residential class since 2009 and the industrial class ratio since 2013. These ratio changes redistribute the property tax to all other classes while at the same time reduce the tax burden for the ratio reduced classes. Based on comparisons with other municipalities, a ratio reduction following City Council's current practice will continue to position the municipality's class taxes for multi-residential and industrial to a more favourable position.

Guelph's multi-residential ratio ranks 13th from the top of the municipalities surveyed which suggests that the ratio is above average and median. Consequently, in keeping with City Council's current policy of controlled managed reduction, a further reduction in 2016 would be reasonable when compared with other municipalities.

The Municipal Tax Advisory Group does not recommend any changes to the City's commercial tax ratio at this time; however, this decision should be revisited when preliminary 2016 market value (for 2017 taxation) data becomes available.

The comparison of industrial ratios with other municipalities indicates that Guelph's industrial ratio is slightly above its closest comparables and on the higher end of the scale. While new CVA will be issued in 2016 for 2017 taxation, Council may wish to continue with its downward movement of the ratio or tax burden for the class to continue to improve market conditions for industrial expansion and growth

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The Rationale, Rules and Restrictions on Tax Ratios

As part of the Harris Government's attempts in 1998 to improve the simplicity and transparency of Ontario's property tax regime, a system of unique property classes and variable tax rates was implemented as part of the new Ontario Fair Assessment System (OFAS). Seven main classes of property were created, including: residential, multi-residential, commercial, industrial, managed forest, farm and pipeline, together with the option to further employ a new multi-residential, shopping centre, office building, parking lot and large industrial class where desirable. As a starting point, the Province calculated and prescribed "transition ratios" for each class of property and for each upper and single tier municipality throughout Ontario to represent the relationship of each new class of property's previous share of the total tax burden (pre-OFAS) to that previously borne by residential property.

Since that time, each property class has remained eligible to be treated at a distinct rate of taxation for municipal purposes at the discretion of individual upper and single tier municipal governments. This variable tax rate scheme is governed by the setting of "tax ratios"; tax ratios dictate the relationship of each class's tax rate to the rate applied to residential property.

Municipalities are granted a certain degree of autonomy to establish tax rate and burden relationships for different property types to reflect local priorities on an annual basis. It should, however, be noted that the municipal community does not have unfettered authority to arbitrarily set variable tax rates at completely discretionary levels.

Consistent with the applicable regulations, the "Ranges of Fairness" prescribed by the Province for each class of property limit the City's ability to alter or vary tax rates. Where an existing tax ratio exceeds the prescribed range of fairness, tax ratio increases are only permitted to offset a shift in taxation that might result from a general reassessment. The calculation and setting of "Class Neutral Tax Ratios" is allowed by the Province, but only in accordance with a strictly regulated formula.

The City must also be mindful of the regulated "Threshold Ratios" that apply to the non-residential classes. Property classes with tax ratios exceeding the threshold ratios are protected to a certain extent from municipal budget increases until such time as their respective Council's approve tax ratio reductions to bring them to or below the established maximum.

These limitations on tax ratio setting flexibility must be respected by municipalities as part of their annual tax ratio setting exercise. As a consequence, municipalities charged with the responsibility of making decisions affecting the apportionment of the tax burden must be mindful of these business rules.

On the basis of these Provincial guidelines, Guelph Council in satisfying its 2016 tax ratio setting responsibility may choose to do one of the following for each class of property:

1. Adopt the previous year's actual tax ratio for the class for the current tax cycle in order to maintain the "status quo"; or
2. Establish a new tax ratio for any class that is closer to or within the Range of Fairness; or

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3. Reset tax ratios at "revenue neutral" levels in order to mitigate any reassessment related tax shifts that may be occurring.

Table 1 illustrates current ratio status approved by City Council for the 2015 taxation year.

Table 1: 2015 Tax Ratio Summary

Class	2015 Tax Ratio	Ranges of Fairness		Provincial Threshold Ratio	Threshold Applicable
		Lower Limit	Upper Limit		
Residential	1.000000	1.0000	1.0000		
Farmland	0.250000	0.0000	0.2500		
Managed Forest	0.250000	0.2500	0.2500		
Multi-Residential	2.039900	1.0000	1.1000	2.7400	NO
New Multi-Residential	1.000000				
Commercial	1.840000	0.6000	1.1000	1.9800	NO
Industrial	2.311100	0.6000	1.1000	2.6300	NO
Pipeline	1.917500	0.6000	0.7000		

By changing the tax ratio for any class of property, Council has the ability to influence the overall apportionment of the tax burden between property classes. Moreover, ratio determination can be used as one of many tools available to assist in economic development within the City. Competitive advantage is always sought by business and industry and tax levels are one of numerous considerations for locating a business[1] and more importantly for support of existing commerce and industry as part of the City's Business Retention and Expansion policies and initiatives.

Before any final decisions regarding tax ratios are made, the City should survey the tax burden landscape and make informed judgments about current effects and long term impacts. It should be noted that a comprehensive Province-wide reassessment will be completed in 2016 for the 2017 taxation year, at which time the rules can and may change.

If tax ratio changes are being contemplated, the consequential impact on taxpayers throughout the City must be analyzed. Additional support to prepare further tax ratio sensitivity specific to the City's preferences is readily available upon request.

Before embarking on explicit tax rate sensitivity analysis, this report will survey the landscape to provide City Council with a reasonable level of assurance in respect of its current tax policies and ratio levels. To

[1] Empirical evidence does not necessarily support that property taxes are a major consideration for locating or expanding a business.

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augment this analysis, Council should also carefully consider the following qualitative factors as part of the decision-making process affecting tax ratio treatment.

- Tax shifts will inevitably result each year based on the return of a newly revised assessment roll reflecting changes in property state, use, condition and assessed value; depending on the magnitude of such updates, the tax burden will shift both within and between property classes. Tax ratio changes may either exacerbate or offset tax shifts related to market updates and physical changes to property.
- Tax ratio changes approved by Council *only* affect the distribution of the municipal levy; tax rates for education purposes, which are annually regulated by the Province, are not subject to municipal tax ratio decisions.
- Tax ratio reductions may be *permanent* where an approved tax ratio falls outside of the Range of Fairness. The rules affecting tax ratio movement apply to any and all revised tax ratios.
- Tax ratio reductions for any class of property will trigger increases in tax rates/taxation for all other taxpayers within the same jurisdiction. The cost to other classes of property and the impact on payments-in-lieu of tax must be quantified and understood.
- Approved tax ratio decreases for any one class of property may result in additional requests for preferential tax ratio treatment from other classes of ratepayers. It is not uncommon once a reduction in a tax ratio for one class is approved for other classes to demand similar consideration.
- The existence of other compelling evidence, if any, to support tax ratio changes and the demands of special interests or specific stakeholder groups pertaining to the setting of tax rates must be carefully weighed.
- The competitiveness of each class of property's tax ratio relative to the treatment of that same class in neighbouring jurisdictions should be considered in determining if tax ratio adjustments are warranted.
- Impacts if any, on Ontario Municipal Partnership Fund need to be modelled and the results understood prior to ratio adjustment. Changes in ratios may have an impact on the City's OMPF revenue.
- Impacts on economic development initiatives and community improvement polices should be taken into consideration prior to considering tax ratio adjustments. A reduction in one class may negatively impact a class subject to economic development policies such as might be approved in City Community Improvement Policies under the *Planning Act*. Planning policies and economic development strategies need to be considered.
- Economic development strategies may need to be developed to advance a particular City Council directed focus through tax ratio adjustment or maintenance.

A survey of 2015 tax ratios employed by a broad cross section of upper and single tier municipalities in Southwestern Ontario has been undertaken to assist the City in determining the tax ratios to employ for the various property classes for 2016 based on Guelph's relative competitiveness. "Appendix 1" illustrates the results of this inter-jurisdictional scan of tax ratios in neighbouring jurisdictions.

City Council has the difficult task of not only balancing and managing the competing demands and tax burdens of various property classes, it must also look at its competitive advantage or disadvantage in

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Ontario's market. To demonstrate Guelph's relative ratio position from an economic and geographic perspective, the Municipal Tax Advisory Group has prepared Table 2 to document Guelph's relative tax ratio relationships with other municipalities located along Ontario's artery of commerce and traffic, the Highway 401 Corridor. In these instances we have concerned ourselves with three classes: multi-residential; commercial; and industrial. Despite Hamilton not being on the 401 corridor but due to its proximity with Guelph, we have included Hamilton ratios for information.

Tax Ratio Survey Observations

In Appendix 1 we have listed all municipalities surveyed alphabetically for ease of reference. One important fact about ratio comparison is that there are several municipalities in Ontario (and contained within Appendix 1) where all classes are taxed at the same or similar level to their residential property. Those ratios are around 1.0. Historically, some of those municipalities opted for market value tax for all properties prior to the 1998 tax regime. These values tend to skew averages and readers are cautioned to be aware of the significant differences among Ontario's municipalities in this regard.

Multi-Residential Class

Of the municipalities sampled in the Appendix 1, Guelph's multi-residential ratio ranks 13th from the top, which suggests that the ratio is above average and median. Consequently, in keeping with City Council's current policy of controlled managed reduction, a further reduction in 2016 would be reasonable when compared with other municipalities. Guelph's multi-residential ratio also falls in the middle of the range for those municipalities surveyed located along the 401 corridor (Table 2) but is slightly above the closest municipalities within the corridor.

The conclusion that can be drawn from this comparative analysis is that Guelph is well situated and reasonably treating its multi-residential class. A further minor reduction would be in keeping with City Council's strategy in respect of the class tax. Guelph has annually reduced the multi-residential ratio since 2009. Council is aware that a reduction in ratio in one or more tax classes shifts tax burden to the other classes. Municipal Tax Advisory Group has quantified the shift illustrated in Tables 8, 9 and 10 . Moreover, given that all new market value assessment will be returned in 2016 for 2017 taxation, the City will need to closely monitor the impacts from the change in CVA. Shifts in tax between classes are inevitable if any class values change at a greater or lesser rate than other classes.

Commercial Classes

Guelph's commercial ratio is in the top ten of the municipalities surveyed, ranking 9th (Appendix 1).

While the City might consider further discussion about moving the ratio for this class, the fact that its ratio is squarely in the centre of the sample group of municipalities located on the Highway 401 corridor suggests that no changes are warranted at this time (Table 2). Guelph's commercial ratio, unlike the multi-residential ratio, is on the lower end of the major comparators (London, Waterloo Region). Changing

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ratios now without compelling reasons in the face of new assessment valuations in 2016 could create problems or issues resulting from the pending reassessment. On the positive side of this argument, Council can change the ratio in 2017 to mitigate potential problems from reassessment. A change at this time might exacerbate or mitigate new market value assessment shifts which may be irreversible.

The Municipal Tax Advisory Group does not recommend any changes to the City's commercial tax ratio at this time; however, this decision should be revisited when preliminary 2016 market value (for 2017 taxation) data becomes available.

Industrial Classes

The ratio comparison of Guelph with other municipalities in Table 2 indicates that Guelph's industrial ratio is slightly above its closest comparables and on the higher end of the scale. While new CVA will be issued in 2016 for 2017 taxation, Council may wish to continue with its downward movement of the ratio or tax burden for the class to continue to improve market conditions for industrial expansion and growth. A reduction in ratio supports economic development initiatives and helps to improve the climate for industry. Guelph ranks 11th on the list of municipalities in Appendix 1. A reduction in the ratio for the industrial class could be considered reasonable when also compared to closer municipalities on the 401 corridor that have any impact on Guelph economy (London, Waterloo Region for example).

Table 2: Comparison of Tax Ratios for Municipalities on the 401 Corridor (Sorted from Highest Ratio to the Lowest Ratio)

Municipality	Multi-Residential
Hamilton City*	2.74
Oxford County	2.74
Elgin County	2.35
Halton Region	2.26
Chatham-Kent	2.15
Guelph City	2.04
London City	1.95
Waterloo Region	1.95
Wellington County	1.89
Middlesex County	1.77
Median	2.10
Average	2.18

Municipality	Residual Commercial
Hamilton City*	1.98
Chatham-Kent	1.95
London City	1.95
Waterloo Region	1.95
Oxford County	1.90
Guelph City	1.84
Elgin County	1.64
Halton Region	1.46
Wellington County	1.46
Middlesex County	1.14
Median	1.87
Average	1.73

Municipality	Residual Industrial
Hamilton City*	3.12
Oxford County	2.63
Wellington County	2.40
Halton Region	2.36
Guelph City	2.31
Elgin County	2.23
Chatham-Kent	2.22
London City	1.95
Waterloo Region	1.95
Middlesex County	1.75
Median	2.27
Average	2.29

*Hamilton added due to proximity and economic relationship with Guelph and Highway 401 Corridor

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Tax Ratio Conclusions

City Council has embarked on a tax class management policy since 2009 that sees reduced ratios, hence class tax burden for the multi-residential class and more recently since 2013, the industrial class. The annual changes are minor in nature, but do compound over time to the benefit of the class but to the detriment of the other classes as they share in the shift in tax from multi-residential and industrial classes. However, continued reduction of the ratios on the current trajectory will continue to position Guelph's multi-residential and industrial classes to better competitive and comparative advantage, when compared to other area municipalities.

It will be imperative that a comprehensive sensitivity analysis be undertaken to quantify the scope and magnitude of tax shifts that result from the new CVA for 2017. Altering ratios now in the face of all new assessment in 2016 for 2017 taxation may have tax impacts which may be difficult to mitigate based on tax ratio decisions made in 2016. The City will want to assure itself that regardless of circumstances today, the class taxes should be reduced.

The City should be prepared to develop a comprehensive plan and strategy that will manage tax burdens by class, initiate economic development goals and objectives and establish a climate of managed and balanced competitive growth opportunities through long term tax ratio management. A ratio change brings a degree of permanency; the City cannot reverse the tax ratio decision and only in very limited cases can changes be made but with potentially significant impacts on other classes. The new CVA (preliminary CVA release in early 2016) for 2017 taxation will provide the City with measurable and quantifiable data with which to formulate long term strategy and goals. Depending on emerging assessment trends, tax shifts between classes should be anticipated.

Tax Rate Comparisons

The data in the following tables has largely been gleaned from past reports and other readily available sources of formation.[2]

Tax rates, levies and budgets vary considerably between jurisdictions making it extremely difficult to easily draw comparisons. For example, ambulance costs in Guelph appear on its levy. In two tier jurisdictions those costs are distributed proportionally among all lower tier municipalities within the upper tier. There are many examples of such circumstances; consequently, tax rate comparison must be undertaken with knowledge that rate variations are governed by both systemic municipal responsibilities and limitations, as well as local municipal directed policies and priorities, combined. As a result, caution must be exercised in interpreting the results of direct tax rate comparison knowing that there are these variations. Comparing tax rates between municipalities do not in themselves provide an indication that ratios should or should not be adjusted.

[2] Municipal Tax Advisory Group has not undertaken any detailed analysis to verify the correctness of the data produced by other firms or companies.

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Municipal tax rates are difficult if not next to impossible to compare. As an example, and to simplify the discussion, assume there are two municipalities with identical properties. Due to location of the properties (one located on highway 401 corridor and the other in rural Ontario in this example), the market value of the two identical properties can be significantly different. If the same property was assessed at $500,000 in one municipality and $400,000 in rural Ontario municipality, the tax rates to raise the same amount of tax would be different.

Illustration of Tax Rate Differences

Municipality	Value	Tax Rate	Tax Levy
401 Corridor Property	500,000	0.1000%	$ 500.00
Rural Ontario Property	400,000	0.1250%	$ 500.00

In this illustration, to raise $500, the tax rate for the $500,000 property would be 0.1%. However, to raise the same tax probably for the same purposes (gasoline, supplies, operating costs, capital, etc.) the tax rate for the rural Ontario property would be 0.125% (higher) to raise the same tax. The rates cannot be compared. They raise the same tax for the same purpose, but the assessment value is different. Consequently, the tax and not the tax rates is the more appropriate tool to compare, although there are still differences due to municipal decisions and systemic requirements. Stir in assessment mix (greater industrial CVA in one municipality or high concentration of farm property in another municipality) and the comparing of tax rates becomes even more complex and difficult. This simple "Illustration of Tax Rate Differences" table demonstrates the difficulty in comparing tax rates.

In the following Tables 3, 4 and 5, the Municipal Tax Advisory Group has reproduced tax rates and displayed them in percentage format despite the difficulties in comparing tax rates.

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Table 3: Upper and Lower Tier Combined Tax Rate

Municipality	Residential	Multi-Residential	Commercial			Industrial	
			Residual Commercial	Office Building	Shopping Centre	Residual Industrial	Large Industrial
Guelph City	1.0434%	2.1723%	1.9199%	1.9199%	1.9199%	2.5223%	2.5223%
Halton Hills	0.7087%	1.6031%	1.0323%	1.0323%	1.0323%	1.6725%	1.6725%
Waterloo	0.9762%	1.9037%	1.9037%	1.9037%	1.9037%	1.9037%	1.9037%
Kitchener	1.0001%	1.9502%	1.9502%	1.9502%	1.9502%	1.9502%	1.9502%
London	1.1648%	2.3063%	2.3063%	2.3063%	2.3063%	2.5858%	2.5858%
Summary results following are for all municipalities included in the 2014 BMA Municipal Study.							
Average	1.0821%	2.0563%	1.7326%	1.7554%	1.7554%	2.3007%	2.4322%
Median	1.0757%	1.9819%	1.6286%	1.6286%	1.6286%	2.1902%	2.1970%
Minimum	0.5200%	0.6285%	0.6941%	0.6941%	0.6941%	0.6941%	0.6941%
Maximum	2.5296%	5.6981%	3.3640%	4.5146%	3.7720%	5.2108%	7.4608%

Source: 2014 BMA Municipal Study

The reader must keep in mind that Education tax rates are prescribed by the Province of Ontario. Ratio changes (reductions) and adjustments by City Council cannot affect those rates.

Table 4: Education Tax Rate

Municipality	Residential	Multi-Residential	Commercial			Industrial	
			Residual Commercial	Office Building	Shopping Centre	Residual Industrial	Large Industrial
Guelph City	0.2030%	0.2030%	1.4022%	1.4022%	1.4022%	1.5600%	1.5600%
Halton Hills	0.2030%	0.2030%	0.9232%	0.9232%	0.9232%	1.5206%	1.5206%
Waterloo	0.2030%	0.2030%	1.4600%	1.4600%	1.4600%	1.5600%	1.5600%
Kitchener	0.2030%	0.2030%	1.4600%	1.4600%	1.4600%	1.5600%	1.5600%
London	0.2030%	0.2030%	1.4600%	1.4600%	1.4600%	1.5600%	1.5600%
Summary results following are for all municipalities included in the 2014 BMA Municipal Study.							
Average	0.2030%	0.2030%	1.2411%	1.2431%	1.2380%	1.4561%	1.4542%
Median	0.2030%	0.2030%	1.2200%	1.2200%	1.2200%	1.5600%	1.5600%
Minimum	0.2030%	0.2030%	0.6487%	0.6487%	0.6487%	0.7926%	0.7926%
Maximum	0.2030%	0.2030%	1.4609%	1.4600%	1.4600%	1.5600%	1.5600%

Source: 2014 BMA Municipal Study

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Table 5: Combined Municipal and Education Tax Rate

Municipality	Residential	Multi-Residential	Commercial			Industrial	
			Residual Commercial	Office Building	Shopping Centre	Residual Industrial	Large Industrial
Guelph City	1.2464%	2.3753%	3.3221%	3.3221%	3.3221%	4.0823%	4.0823%
Halton Hills	0.9117%	1.8061%	1.9555%	1.9555%	1.9555%	3.1931%	3.1931%
Waterloo	1.1792%	2.1066%	3.3636%	3.3636%	3.3636%	3.4636%	3.4636%
Kitchener	1.2031%	2.1532%	3.4102%	3.4102%	3.4102%	3.5102%	3.5102%
London	1.3678%	2.5093%	3.7663%	3.7663%	3.7663%	4.1458%	4.1458%
Summary results following are for all municipalities included in the 2014 BMA Municipal Study.							
Average	1.2851%	2.2593%	2.9738%	2.9986%	2.9924%	3.7568%	3.8864%
Median	1.2787%	2.1849%	3.0004%	2.9945%	2.9945%	3.7502%	3.7570%
Minimum	0.7230%	0.8315%	1.6959%	1.6959%	1.6959%	1.8397%	1.8397%
Maximum	2.7326%	5.9011%	4.7529%	5.7346%	4.9920%	6.4308%	8.6808%

Source: 2014 BMA Municipal Study

Due to varied tax requirements by municipalities, the Municipal Tax Advisory Group has attempted to compare similar size municipalities or municipalities with “like services” where data are available in order to determine if there are any indicators that Guelph could use to consider tax ratio adjustments. Notwithstanding the limitations in rate comparisons, it appears that multi-residential and industrial rates are on the high side and ratio reduction would assist to reduce the rates.

Growth in Assessment

As we examine growth along the 401 corridor, the growth percentages increase as we move closer towards Toronto. There is no reason to suspect that this pattern will significantly change. As growth happens, so does assessment value. Guelph should carefully monitor the value changes for the 2017 taxation year.

Changes in assessment between CVA base years does not represent growth but rather a restatement of the current properties. This restatement of CVA will reflect differently between classes; for example, residential value may increase at a greater rate than industrial assessment. The effect of the CVA increase out stripping other classes effectively represents tax reduction in other classes, which may also represent notional ratio reductions by value. The City needs to closely monitor the new CVA. It is expected to see a preliminary roll in the spring of 2016 for 2017 taxation.

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Table 6: Historical Growth Tables

Municipality	2012 Tax Year		Percent Change
	Returned 2008 CVA	Year End 2008 CVA	
Guelph City	14,928,619,267	15,225,625,385	1.99%
Halton Hills	8,889,954,695	8,966,799,095	0.86%
Waterloo City	13,742,240,800	13,980,471,220	1.73%
Kitchener City	21,893,266,617	22,292,908,149	1.83%
London	36,434,128,902	36,977,558,969	1.49%
Provincial	1,806,143,603,532	1,833,011,404,023	1.49%

Source: 2012 Market Change Profile

Municipality	2013 Tax Year		Percent Change
	Returned 2012 CVA	Year End 2012 CVA	
Guelph City	17,348,664,325	17,661,537,579	1.80%
Halton Hills	10,748,642,295	11,089,069,504	3.17%
Waterloo City	16,227,025,120	16,573,514,674	2.14%
Kitchener City	25,839,609,728	26,208,597,634	1.43%
London	40,831,534,634	41,301,004,273	1.15%
Provincial	2,178,178,085,900	2,204,054,858,110	1.19%

Source: 2013 Market Change Profile

Municipality	2014 Tax Year		Percent Change
	Returned 2012 CVA	Year End 2012 CVA	
Guelph City	17,661,537,579	17,986,360,898	1.84%
Halton Hills	11,089,069,504	11,247,315,013	1.43%
Waterloo City	16,573,514,674	17,016,332,886	2.67%
Kitchener City	26,208,597,634	26,821,056,343	2.34%
London	41,301,004,273	41,922,517,906	1.50%
Provincial	2,204,056,592,710	2,237,694,334,448	1.53%

Source: 2014 Market Change Profile

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Tax Ratio Reduction

City Council has embarked on a program of tax ratio reduction for the multi-residential and industrial classes. Table 7 illustrates the historic ratio changes for the two classes. Should City Council decide to maintain this same trajectory of reduction, Municipal Tax Advisory Group has produced three tables to model the effect of tax ratio reductions: Table 8, multi-residential ratio reduction and impact on all classes; Table 9, industrial ratio reduction and impact on all classes; Table 10, combined multi-residential and industrial ratio reductions and impact on all classes.

Table 7: Historic Ratio Reduction

Realty Tax Class	2008	2009	2010	2011	2012	2013	2014	2015	2016
Multi-Residential	2.740000	2.596475	2.452950	2.309425	2.165900	2.123900	2.081900	2.039900	1.997900
Change		0.143525	0.143525	0.143525	0.143525	0.042000	0.042000	0.042000	0.042000
Industrial	2.630000	2.630000	2.630000	2.630000	2.630000	2.523700	2.417400	2.311100	2.204800
Change						0.106300	0.106300	0.106300	0.106300

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Multi-Residential Class Ratio Reduction

The reduction of the multi-residential ratio from 2.0399 to 1.9979 will cause a tax shift of approximately 0.15% to all other classes. Table 8 details the change in tax using notional or revenue neutral taxes[3]. The multi-residential class will see a class tax burden reduction of 1.91%. This value is determined solely on the reduction of the multi-residential ratio and no other changes. Table 10 demonstrates the changes in tax burden by class if both multi-residential and industrial ratios are reduced.

Table 8: Multi Residential Ratio Reduction
Tax Impact on other Classes

Realty Tax Class	CVA Tax		Change in Tax	
	2016 Revenue Neutral Taxes	2016 Modelled Taxes (M.Res. @ 1.9979)	$	%
Taxable				
Residential	$134,541,965	$134,747,130	$205,165	0.15%
Farm	$11,961	$11,979	$18	0.15%
Managed Forest	$2,271	$2,275	$3	0.15%
Multi-Residential	$15,353,730	$15,061,007	-$292,723	-1.91%
New Multi-Residential	$522,670	$523,467	$797	0.15%
Commercial	$36,218,315	$36,273,547	$55,232	0.15%
Industrial	$16,592,675	$16,617,974	$25,299	0.15%
Pipeline	$548,620	$549,456	$837	0.15%
Sub-Total Taxable	**$203,792,207**	**$203,786,836**	**-$5,371**	**0.00%**
Payment In Lieu				
Residential	$26,680	$26,720	$41	0.15%
Commercial	$3,402,827	$3,408,016	$5,189	0.15%
Industrial	$75,655	$75,770	$115	0.15%
Sub-Total PIL	**$3,505,161**	**$3,510,506**	**$5,345**	**0.15%**
Total Taxable and PIL	**$207,297,368**	**$207,297,342**	**-$26**	**0.00%**

[3] Taxes are calculated using 2015 tax rates applied to the roll returned for 2015 taxes including phased CVA for 2016. The assessment roll for 2016 is not yet returned for 2016 taxation, therefore, mid-year CVA adjustments are not reflected in the tax calculations.

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Industrial Class Ratio Reduction

The impact of reducing the Industrial Ratio from 2.311 to 2.2048 results in a tax shift to all other classes of approximately 0.37%. The industrial class will see a reduction in tax burden of 4.25%. Similar to the comments about ratio reduction for multi-residential, this reduction and tax shift value is determined solely on the reduction of the industrial ratio and no other changes. Table 10 demonstrates the changes in tax burden by class if both multi-residential and industrial ratios are reduced.

Table 9: Industrial Ratio Reduction Tax Impact on other Classes

Realty Tax Class	CVA Tax		Change in Tax	
	2016 Revenue Neutral Taxes	2016 Modelled Taxes (Ind. @ 2.2048)	$	%
Taxable				
Residential	$134,541,965	$135,041,319	$499,354	0.37%
Farm	$11,961	$12,005	$44	0.37%
Managed Forest	$2,271	$2,280	$8	0.37%
Multi-Residential	$15,353,730	$15,410,710	$56,981	0.37%
New Multi-Residential	$522,670	$524,610	$1,940	0.37%
Commercial	$36,218,315	$36,352,739	$134,425	0.37%
Industrial	$16,592,675	$15,888,234	-$704,441	-4.25%
Pipeline	$548,620	$550,656	$2,036	0.37%
Sub-Total Taxable	**$203,792,207**	**$203,782,555**	**-$9,652**	**0.00%**
Payment In Lieu				
Residential	$26,680	$26,779	$99	0.37%
Commercial	$3,402,827	$3,415,456	$12,630	0.37%
Industrial	$75,655	$72,443	-$3,212	-4.25%
Sub-Total PIL	**$3,505,161**	**$3,514,678**	**$9,517**	**0.27%**
Total Taxable and PIL	**$207,297,368**	**$207,297,232**	**-$136**	**0.00%**

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Combined Multi-Residential and Industrial Ratio Reduction

The combined reduction of the multi-residential and industrial ratio reduces the tax in the multi-residential class by 1.54% and industrial class by 4.1%. As each of these classes share in the other class reductions, these percentages represent the cumulative effect of ratio reduction for both classes at the same time.

The overall impact to the residential and commercial classes will be an increase in tax burden for the classes of 0.52% for 2016 tax year. This change does not reflect any budget changes and levy adjustments that may occur in 2016.

Table 10: Combined Multi-Residential and Industrial Ratio Reduction Tax Impact on other Classes

Realty Tax Class	CVA Tax		Change in Tax	
	2016 Revenue Neutral Taxes	2016 Modelled Taxes (MRes @ 1.9979, Ind @ 2.2048)	$	%
Taxable				
Residential	$134,541,965	$135,248,072	$706,106	0.52%
Farm	$11,961	$12,023	$63	0.52%
Managed Forest	$2,271	$2,283	$12	0.52%
Multi-Residential	$15,353,730	$15,116,998	-$236,732	-1.54%
New Multi-Residential	$522,670	$525,414	$2,743	0.52%
Commercial	$36,218,315	$36,408,398	$190,083	0.52%
Industrial	$16,592,675	$15,912,566	-$680,109	-4.10%
Pipeline	$548,620	$551,499	$2,879	0.52%
Sub-Total Taxable	**$203,792,207**	**$203,777,252**	**-$14,955**	**-0.01%**
Payment In Lieu				
Residential	$26,680	$26,820	$140	0.52%
Commercial	$3,402,827	$3,420,686	$17,859	0.52%
Industrial	$75,655	$72,554	-$3,101	-4.10%
Sub-Total PIL	**$3,505,161**	**$3,520,059**	**$14,898**	**0.43%**
Total Taxable and PIL	**$207,297,368**	**$207,297,311**	**-$57**	**0.00%**

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CONCLUDING REMARKS

Guelph City Council has regularly reduced the ratio for the multi-residential class since 2009 and the industrial class ratio since 2013. These ratio changes redistribute the property tax to all other classes while at the same time reduce the tax burden for the ratio reduced classes. Based on comparisons with other municipalities, a ratio reduction follows City Council's current practice and continues to position the municipality's class taxes for multi-residential and industrial to a more favourable position.

However, prior to making any further ratio changes for the 2017 year, Council ought to review the change in tax burden and the impact of the change in CVA. Reduction of ratios has a degree of permanency and mitigation of tax shifts arising from new market value assessment for 2017 may be challenging. The City should be able to review its preliminary data for 2017 expected in the spring of 2016. City Council, in conjunction with its planning and economic development initiatives will be able to survey the local and broad municipal tax landscape and approve long term policies and directives to give effect to an overall corporate strategy.

The Municipal Tax Advisory Group would be pleased to provide further detail, support and analysis on an as needed basis in response to local concerns or interests, which may be identified subsequent to the publication of this report. Additional support is also readily available to interpret and communicate the results of this analytical exercise to ensure informed decision making and to achieve locally desirable tax outcomes for the 2016 tax year and future budget cycles.

For further information, please do not hesitate to contact the undersigned.

Respectfully submitted,

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APPENDIX 1: Tax Ratio Survey

Municipality	Multi-Residential	Commercial				Industrial	
		Residual Commercial	Office Building	Shopping Centre	Parking Lot	Residual Industrial	Large Industrial
Brant County	1.70	1.92				2.57	
Bruce County	1.00	1.23				1.75	
Chatham-Kent Municipality	2.15	1.95	1.57	2.25	1.31	2.22	2.22
Dufferin County	2.68	1.22				2.20	
Durham Region	1.87	1.45	1.45	1.45		2.26	2.26
Elgin County	2.35	1.64				2.23	2.83
Essex County	1.96	1.08	1.16		0.56	1.94	2.69
Frontenac County	1.00	1.00				1.00	
Grey County	1.44	1.31				1.86	
Guelph City	2.04	1.84				2.31	
Haliburton County	1.39	1.48				1.72	
Halton Region	2.26	1.46				2.36	
Hamilton City	2.74	1.98			1.98	3.12	3.66
Hastings County	1.15	1.10				1.13	
Huron County	1.10	1.10				1.10	
Kawartha Lakes City	1.98	1.28				1.28	
Lambton County	2.40	1.63	1.54	2.08	1.09	2.05	3.00
Lanark County	2.33	1.68				2.57	
Leeds and Grenville	1.00	1.35		1.35		1.81	2.80
Lennox and Addington	2.22	1.42				2.17	2.73
London City	1.95	1.95				1.95	
Middlesex County	1.77	1.14				1.75	
Muskoka District	1.00	1.10				1.10	
Niagara Region	2.04	1.76				2.63	
Norfolk County	1.69	1.69				1.69	
North Bay City	2.21	1.88				1.40	
Northumberland County	2.22	1.52				2.63	
Oxford County	2.74	1.90				2.63	2.63
Perth County	2.15	1.25				1.97	
Peterborough County	1.78	1.10				1.54	
Prescott and Russell	2.04	1.44				3.10	4.17
Prince Edward County	1.44	1.11				1.39	
Renfrew County	1.94	1.81				2.93	3.65
Simcoe County	1.54	1.25				1.54	
Waterloo Region	1.95	1.95				1.95	
Wellington County	1.89	1.46				2.40	
York Region	1.00	1.12				1.31	
Average Ratio	**1.84**	**1.47**	**1.43**	**1.78**	**1.24**	**1.99**	**2.97**
Median Ratio	**1.95**	**1.45**	**1.49**	**1.77**	**1.20**	**1.95**	**2.80**

STAFF REPORT

TO	Corporate Administration, Finance and Enterprise Committee
SERVICE AREA	Finance and Enterprise Services
DATE	March 3, 2014
SUBJECT	**Property Tax Policy – Tax Ratios**
REPORT NUMBER	FIN-14-10

EXECUTIVE SUMMARY

PURPOSE OF REPORT
To provide additional information as requested per Council resolution passed at the April 29, 2013 meeting of City Council. That resolution being "That Property Tax Policy, specifically as it relates to all classes ratio, be looked at to establish a long term objective and rationale for these categories in advance of the next tax policy annual review". The attached report prepared by Municipal Tax Equity (MTE) Consultants Inc. contains this additional information.

KEY FINDINGS
As a result of MTE's review of the City's historic ratio movement decisions, current ratios levels and the City's position among the comparator group, their general observation is that Guelph has managed its tax ratios in an active and thoughtful manner.

In terms of 2014 and future taxation years, MTE reports that there is no one overt indicator that suggests the City must reduce its business class tax ratios. No ratio is currently above or even at the provincial threshold and all seem reasonably positioned within those of the comparator group.

In summary, MTE does not recommend any changes to the city's tax ratios.

FINANCIAL IMPLICATIONS
There are no financial implications resulting from this report.

ACTION REQUIRED
Corporate Administration, Finance and Enterprise Committee to receive for information.

RECOMMENDATION
(1) That report FIN-14-10, "Property Tax Policy – Tax Ratios", be received for information.

(2) That no change be made to the City's current approach to setting its tax ratios being a phased in reduction of the multi-residential and the industrial property class ratio to match the timing of the assessment phase in as outlined under Scenario 4 on page 36 of the attached report.

BACKGROUND

Council is required to make a number of tax policy decisions annually. One of those decisions is to set the tax ratios before the rating by-laws can be adopted.

At Council meeting of April 29, 2013, City Council approved the 2013 City of Guelph Property Tax Policies. but requested that " the Property Tax Policy, specifically as it relates to all classes ratio, be looked at to establish a long term objective and rationale for these categories in advance of the next tax policy annual review."

In response to Council's request, staff enlisted the assistance of Municipal Tax Equity (MTE) Consultants Inc., to augment the body of research surrounding the City's current tax ratios and to demonstrate the potential outcomes and impacts of any changes to the status quo.

REPORT

In the attached report, MTE explores a broad range of quantitative and qualitative factors. Their analysis is presented in the following structure:

Part 1: Overview and background related to tax ratios and ratio movement within Ontario's overall property tax system.
Part 2: A qualitative review of the City's current and historical ratio circumstances and a detailed comparison and discussion as to how the City's ratios compare to other similar and dissimilar jurisdictions from within the broader region and across the province.
Part 3: Discussion and quantification related to current assessment and tax trends, and future year projections. This analysis will provide a critical foundation for considering the potential impact of tax policy schemes that differ from the status quo.
Part 4: Quantitative analysis modeling the potential impacts of various ratio change scenarios.

As a result of MTE's review of the City's historic ratio movement decisions, current ratios levels and the City's position among the comparator group, their general observation is that Guelph has managed its tax ratios in an active and thoughtful manner. Decisions to change, freeze and watch ratios have been made deliberately, on the basis of specific policy goals and in light of solid quantitative analysis.

In terms of 2014 and future taxation years, MTE reports that there is no one overt indicator that suggests the City must reduce its business class tax ratios. No ratio is currently above or even at the provincial threshold and all seem reasonably positioned within those of the comparator group. The City's ratios are not the lowest, but they are not dissimilar to what are being applied among the other jurisdictions.

Although MTE does not go as far as recommending any of the tax ratio change scenarios presented in their report, they do suggest that either Scenario 3 (the staged approach to the approximate average of the comparator group) or Scenario 4 (a continuation of the approach set in motion for 2013, being a phased in reduction of the multi-residential ratio and the industrial property class ratio to match that of the assessment phase in) would be reasonable choices if there is an interest in moving one or more of the business class ratios downward.

CORPORATE STRATEGIC PLAN

3.2 Be economically viable, resilient, diverse and attractive to business

FINANCIAL IMPLICATIONS

There are no financial implications

ATTACHMENTS

ATT-1 Tax Ratio Survey and Sensitivity Analysis

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Tax Ratio Survey and Sensitivity Analysis

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Disclaimer and Caution

The information, views, data and discussions in this document and related material are provided for general reference purposes only.

Regulatory and statutory references are, in many instances, not directly quoted excerpts and the reader should refer to the relevant provisions of the legislation and regulations for complete information.

The discussion and commentary contained in this report do not constitute legal advice or the provision of legal services as defined by the *Law Society Act,* any other Act, or Regulation. If legal advice is required or if legal rights are, or may be an issue, the reader must obtain an independent legal opinion.

Decisions should not be made in the sole consideration of or reliance on the information and discussions contained in this report. It is the responsibility of each individual in either of a decision-making or advisory capacity to acquire all relevant and pertinent information required to make an informed and appropriate decision with regards to any matter under consideration concerning municipal finance issues.

MTE is not responsible to the municipality, nor to any other party for damages arising based on incorrect data or due to the misuse of the information contained in this study, including without limitation, any related, indirect, special or consequential damages.

INTRODUCTION

Overview

Single-tier municipalities in the Province of Ontario are charged with the task of establishing a host of property tax policies to apportion the tax burden within and between tax classes. The following tools may be used to change or achieve local tax policy objectives, target the benefits of growth, or redistribute the impacts of assessment change[1].

1. Tax ratios may be adjusted to affect the level of taxation on different tax classes;
2. Optional business property classes may be employed or collapsed to alter taxation within broad commercial or industrial tax classes;
3. A new multi-residential property class may be used to create tax differentials between new and existing buildings; and
4. Graduated taxation schemes for the business classes can be used to impose higher rates of taxation on properties with higher current value assessment in order to provide tax relief on properties with lower assessed values.

Of the myriad challenges created by this responsibility and the associated options, the City of Guelph has, for several years, been particularly interested in the tax burden relationship created by its tax ratios, which in many ways form the cornerstone of Ontario's tax rate system as they dictate the rates of municipal taxation for each property class, in relation to the rate at which property in the residential class is taxed.

The assistance of Municipal Tax Equity (MTE) Consultants Inc. has been enlisted to augment the body of research surrounding the City's current tax ratios and to demonstrate the potential outcomes and impacts of any changes to the status quo. In response, MTE has undertaken to prepare this report in order to consider and explore a broad range of quantitative and qualitative questions in respect of the issues at hand.

General Outline and Report Structure

In response to the priorities and requirements conveyed by City finance staff, MTE has structured our analytical efforts to focus on seven distinct avenues of enquiry. The results of these efforts are presented in each of the following sections, which comprise this report.

Part 1: Overview and background related to tax ratios and ratio movement within Ontario's overall property tax system.

Part 2: A qualitative review of the City's current and historical ratio circumstances and a detailed comparison and discussion as to how the City's ratios compare to other similar and dissimilar jurisdictions from within the broader region, and across the province.

Part 3: Discussion and quantification related to current assessment and tax trends, and future year projections. This analysis will provide a critical foundation for considering the potential impact of tax policy schemes that differ from the status quo.

Part 4: Quantitative analysis modeling the potential impacts of various ratio change scenarios.

[1] The by-law deadline for many tax policy decisions is December 31st of the subject taxation year.

Scope of the Study

This study has been prepared for the consideration of staff and Council to assist with the municipality's tax policy responsibilities. The core material is intended to provide a thorough analysis of the local tax ratio scheme, as well as the impact of reassessment, phase-in, and ratio changes.

The analysis contained in this report is based on the 2013 tax policy scheme adopted by the municipality, the general purpose municipal levy imposed for 2013, and on MPAC's 2013 (for 2014) Roll Based Market Change Profile (MCP) Data, which contains a number of sets of current value assessment (CVA) information for each property including:

- 2012 Full CVA as Revised, which becomes the Phase-In Base Value for the next four years;
- Phased and Full CVA values for each of the 2013, 2014 and 2015 taxation years; and
- Full 2016/Destination CVA's based on the new valuation date of January 1, 2012.

These various inputs and parameters will be relied upon to build a thorough quantitative model of the municipality's 2014 property assessment and taxation landscape as it would exist in the absence of any budgetary or tax policy changes. We will also model the impacts of various tax policy options and choices, to demonstrate how such changes could impact and influence final tax outcomes.

Assumptions and Limiting Conditions

In reviewing the results set out in this report, the following assumptions and limiting conditions should be considered.

While no significant property tax or assessment reforms are anticipated for the current taxation year, the possibility that changes in tax policy could be introduced by the Province does exist. Results presented in this report may be affected by Provincial regulatory and/or statutory changes or decisions about municipal tax policy that could occur subsequent to the publication of this document. MTE will update the analysis, upon request, in such an event.

Analysis contained in this report is based on the use of tax rates for general municipal purposes only. All municipal tax rate calculations and tax levies have been calculated based on the following protocol:

- 2013 tax calculations are based on actual 2013 tax rates as supplied by the municipality to MTE;
- Revenue neutral rates have been calculated for the purposes of 2014, 2015 and 2016;
- Tax amounts represent CVA taxes; no capping adjustments have been applied except where explicitly noted;
- Tax rate calculations have been based on taxable and grantable (payment in lieu) assessment as requested by the municipality; and
- Revenue from payments in lieu of taxes has been included at the full value of assessment times the appropriate tax rate. Recognizing that municipalities may be unable to recover the full amount of those revenues from the Federal or Provincial governments, appropriate allowances should be made in interpreting the results.

PART ONE: QUALITATIVE ISSUE OVERVIEW

Differential Tax Treatment – Municipal Tax Ratios

Property taxes are based on the assessed value of a property multiplied by the applicable tax rates for education and municipal purposes, both of which vary by class. While education rates are set by the Province via regulation, municipal purpose rates for each class are set in accordance with the applicable, municipally established tax ratios. The tax ratio for a class expresses the relationship of the class's rate to the tax rate for the residential class, which is the basis for determining all other rates.

The tax ratio for the residential class is legislated at 1.0, while the farm and managed forest classes have a prescribed tax ratio of 0.25. The farm ratio may be reduced to a level of 0.0, however, any reduction only applies to the municipal portion of the tax bill. In setting tax ratios for all other property classes, municipalities must do so within the guidelines prescribed by the Province. Council may choose to adopt either the status quo tax ratio for any class; or establish a new tax ratio for the year that is closer to or within the Range of Fairness, as shown in Table 1.

Table 1
2014 Starting Tax Ratios and Provincial Limits

Realty Tax Class	Status Quo Tax Ratios	Ranges of Fairness		Threshold Ratios	
		Lower Limit	Upper Limit	Threshold	Subject to Levy Restriction
Residential	1.0000	1.00	1.00	-	-
Farm	0.2500	0.00	0.25	-	-
Managed Forest	0.2500	0.25	0.25	-	-
New Multi-Residential	1.0000	1.00	1.10	-	-
Multi-Residential	2.1239	1.00	1.10	2.74	No
Commercial	1.8400	0.60	1.10	1.98	No
Industrial	2.5237	0.60	1.10	2.63	No
Pipeline	1.9175	0.60	0.70	-	-

Table 1 also includes a comparison of the municipality's status quo/starting tax ratios to the current Provincial Threshold Ratios. Where the ratio for a class exceeds the prescribed threshold ratio, municipal levy increases born by that class are constrained. As can be seen, the City is not currently subject to levy restriction for any class of property.

Class Neutral Transition Ratios

In addition to the two legislated options, which limit municipalities to using either their starting ratios, or ratios that are closer to/within the ranges of fairness, there has been some latitude provided over the past several years to assist municipalities to mitigate reassessment and phase-in related tax shifts. Under this program, municipalities have been able to *reset* their maximum tax ratios for a year in order to achieve, or approximate, year-over-year class neutrality.

This option has been strictly regulated and relies on a provincially mandated formula that determines new maximum transition ratios. While ratios calculated under this program may exceed a municipality's starting ratios, it is also possible for a new maximum ratio to be lower than the starting ratio. When this is the case, and the municipality chooses to increase one or more of its ratios beyond its starting level, it must also reduce any ratios that if left at their starting level, would exceed the new maximums. In the City of Guelph's case, MTE estimates that this would mean that the multi-residential tax ratio would have to be reduced if the commercial, industrial or pipeline were increased.

Another nuance of this program as it has existed in previous years is that the residential, farm, managed forest and new multi-residential ratios are held constant. As a result, the formula does not result a perfect rebalancing of taxes among all classes.

MTE has not included any specific quantitative models based on increasing any ratio under this program as the Province has yet to indicate if it intends to provide this flexibility for 2014. As such, there is no current option to increase tax ratios.

Optional Property Tax Classes

Optional tax classes give upper and single-tier municipalities the flexibility to set different tax ratios for property falling into different sub-categories of the broad commercial and industrial classes. The constituent classes for each are as follows:

Commercial Broad Class:
- Residual Commercial
- Office Building
- Shopping Centre
- Parking Lot

Industrial Broad Class:
- Residual Industrial
- Large Industrial

The City of Guelph does not currently employ any optional commercial or industrial property class; however, if it were to consider a change in this regard, the City could redistribute the tax burden <u>within</u> one, or both of these broad classes. That is, the City could alter the balance of taxation between properties classified as shopping centre and other commercial properties, but the overall burden of the commercial class would remain the same.

Where a municipality elects to use optional commercial or industrial tax classes, changes to tax ratios are regulated based on the relationship of the municipality's broad class ratios to the Ranges of Fairness (the weighted average of the industrial and large industrial ratios is deemed to be the broad industrial class ratio). The current starting ratio for each class would become the starting *Broad Class Ratio*.

The other optional property class available to the City, and which Guelph has already adopted is the new multi-residential class. This class functions differently than the optional commercial and industrial classes in that it stands apart from the multi-residential class and only includes newly built or converted multi-residential properties.

The adoption of the new multi-residential class does not impact the tax ratio or tax treatment of properties in the multi-residential class. Once adopted, properties that have qualified into the new multi-residential class will continue for the duration of the 35 year period, even if Council passes a by-law to discontinue the class for subsequent years.

Considering Tax Ratio Changes

With the exception of some extreme circumstances, there is rarely an instance where a tax ratio change is a clear and obvious policy choice. While this can be said for the majority of a council's decision making responsibilities, the fact that a change for any one class will impact the tax burden for properties in all other classes, make this particularly true when tax ratio changes are being considered. Decision makers must not only consider whether a ratio change favorable to one class is desirable, but also whether or not the reasons for that change are compelling enough to impose the cost of that change on other segments of the tax base.

This in mind, tax ratio decisions should not be made without a significant measure of consideration and a thorough understanding of the qualitative motivations behind the decision and a quantitative impact of Council's options and preferred choice. The following matrix has been prepared to organize some of the more common motivations that have been relied upon by municipalities in their decision to reduce, increase or maintain their tax ratios. These are not formulaic answers to ratio questions, but they can be helpful in assisting staff and decision makers frame their own thoughts and options.

Tax Ratio Decisions	Possible Motivating Policy Considerations
Ratio Reductions	– Compensation for assessment related tax shift onto one or more property classes; – Response to specific requests/demands from local business class property owners; – Establish or signal a *business friendly* atmosphere for existing and/or future or potential businesses; and/or – Competitiveness/equity considerations in light of ratios in other similar or neighbouring jurisdictions
Ratio Increases (where permitted)	– Increase tax ratios is generally made to avoid inter-class and inter-municipal tax shifts
Maintaining the Status Quo	– Concerns for the costs that will be shifted to other classes and the potential impact on PILs; – Tax ratio reductions carry with them a degree of permanence (i.e. Municipalities may not have the opportunity to move them back to their former levels in future years if preferences and/or assessment circumstances change); – The competitiveness of the municipality's current tax ratios – The absence of compelling reasons or evidence to suggest that the reductions are warranted; – The anticipated impact of tax shifts onto the residential and farm classes (This can be a particularly compelling consideration in light of the fact that property tax is a tax deductible expense for business class properties); and/or – The potential for ratio reductions to exacerbate reassessment/phase-in related tax shifts from non-residential to residential/farm classes

PART TWO: THE CITY OF GUELPH'S TAX RATIOS IN CONTEXT

Ratio History and Flexibility

The City's tax ratios have remained fairly stable over time, with the exception of a recent phased reduction to the multi-residential ratio and a downward adjustment to the industrial class ratio for 2013. A chronological summary of the City's tax ratios from 2008 through 2013 is contained in Table 2.

Table 2
City Tax Ratio Progression 2008-2013

Realty Tax Class	2008	2009	2010	2011	2012	2013
Residential	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000
Farm	0.250000	0.250000	0.250000	0.250000	0.250000	0.250000
Managed Forest	0.250000	0.250000	0.250000	0.250000	0.250000	0.250000
New Multi-Residential	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000
Multi-Residential	2.740000	↓ 2.596475	↓ 2.453000	↓ 2.309425	↓ 2.165900	↓ 2.123900
Commercial	1.840000	1.840000	1.840000	1.840000	1.840000	1.840000
Industrial	2.630000	2.630000	2.630000	2.630000	2.630000	↓ 2.523700
Pipeline	1.917500	1.917500	1.917500	1.917500	1.917500	1.917500

Inter-Jurisdictional Comparisons

As part of this study, MTE has conducted a survey of tax ratios employed by a group of comparator municipalities identified by the City. The complete list of jurisdictions is contained in Table 3, however, the majority of our comparative analysis will focus of the upper and single-tier municipalities, as they are the ones making the actual tax ratio decisions. Included in this listing is the tier level, size of total assessment base, population and household counts. This can assist the reader in determining which jurisdictions are most similar, or dissimilar to the City in terms of their general demographics, size and municipal status.

The 2013 tax ratios for each ratio setting jurisdiction are set out in Table 4. This table also serves to illustrate the optional tax class structure for each of the comparator municipalities. Where a commercial or industrial ratio is displayed in *grey italic text*, the municipality does not actively maintain that optional class and assessment within that class will attract the residual class ratio. No ratio has been included for municipalities that do not maintain the new multi-residential class as no properties will be classified as new multi-residential until the class has been adopted.

In reviewing and interpreting this information it is important for the reader to be aware that the residential and managed forest ratios for all jurisdictions are fixed at 1.0 and 0.25 respectively and that all ratios have been rounded to four (4) decimal places for ease of reference and comparability.

Table 3
Comparator Municipalities with 2012 Assessment and Population Stats[2]

Municipality	Tier Level	Total CVA (Billions)	Households (Thousands)	Population (Thousands)
Guelph C	**Single-Tier**	**13.8**	**52.2**	**121.7**
Barrie C	Single-Tier	14.8	52.2	143.0
Brantford C	Single-Tier	8.1	39.3	94.6
Chatham-Kent M	Single-Tier	9.2	47.2	104.1
Durham Region	Upper-Tier	69.5	225.5	644.9
Ajax T	Lower-Tier	11.8	36.1	117.1
Oshawa C	Lower-Tier	14.2	59.9	152.5
Pickering C	Lower-Tier	11.7	30.1	94.0
Whitby T	Lower-Tier	14.3	42.5	130.1
Greater Sudbury C	Single-Tier	13.1	74.1	161.9
Halton R	Upper-Tier	85.7	183.7	505.7
Oakville T	Lower-Tier	28.0	63.4	184.1
Burlington C	Lower-Tier	36.3	69.2	174.1
Hamilton C	Single-Tier	51.2	215.7	535.2
Kingston C	Single-Tier	12.7	53.2	124.6
London C	Single-Tier	33.4	169.1	369.9
Niagara Region	Upper-Tier	44.8	191.2	446.7
Niagara Falls C	Lower-Tier	9.2	35.2	83.0
St. Catharines C	Lower-Tier	12.0	59.0	131.4
Ottawa C	Single-Tier	115.9	387.7	935.1
Peel Region	Upper-Tier	174.4	412.0	1,382.0
Brampton C	Lower-Tier	56.9	152.8	540.1
Mississauga C	Lower-Tier	106.4	235.0	743.0
Thunder Bay C	Single-Tier	6.9	49.5	108.4
Waterloo R	Upper-Tier	54.8	199.5	559.0
Cambridge C	Lower-Tier	12.9	47.8	132.9
Kitchener C	Lower-Tier	20.8	88.5	234.1
Waterloo C	Lower-Tier	12.6	42.6	129.1
Wellington Co	Upper-Tier	12.0	32.2	94.6
Windsor C	Single-Tier	15.2	97.9	210.9
York Region	Upper-Tier	176.8	332.8	1,108.6
Markham T	Lower-Tier	49.2	94.1	323.8
Richmond Hill T	Lower-Tier	31.2	59.2	195.1
Vaughan C	Lower-Tier	56.6	88.5	311.2

[2] 2012 Financial Information Return as published by the Ministry of Municipal Affairs and Housing.

Table 4
2013 Tax Ratio and Optional Class Survey by Ratios Setting Authority

Municipality	Farm	Multi-Residential	New Multi-Residential	Commercial Residual	Shopping Centre	Office Building	Parking Lot	Industrial Residual	Large Industrial	Pipeline
Guelph C	**0.2500**	**2.1239**	**1.0000**	**1.8400**	***1.8400***	***1.8400***	***1.8400***	**2.5237**	***2.5237***	**1.9175**
Barrie C	0.2500	1.0000	N/A	1.4331	*1.4331*	*1.4331*	*1.4331*	1.5163	*1.5163*	1.1039
Brantford C	0.2500	2.0472	1.5000	1.8755	*1.8755*	*1.8755*	*1.8755*	2.4730	*2.4730*	1.7404
Chatham-Kent	0.2200	2.1488	N/A	1.9605	2.2629	1.5800	1.3120	2.4350	2.4350	1.2742
Durham Region	0.2000	1.8665	N/A	1.4500	1.4500	1.4500	*1.4500*	2.2598	2.2598	1.2294
Greater. Sudbury C	0.2500	2.2775	1.0000	2.2149	*2.2149*	*2.2149*	*2.2149*	3.1801	3.6044	2.0960
Halton R	0.2000	2.2619	2.0000	1.4565	*1.4565*	*1.4565*	*1.4565*	2.3599	*2.3599*	1.0617
Hamilton C	0.1927	2.7400	1.0000	1.9800	*1.9800*	*1.9800*	1.9800	3.2078	2.7615	1.7367
Kingston C	0.2500	2.3556	1.0000	1.9800	*1.9800*	*1.9800*	*1.9800*	2.6300	*2.6300*	1.1728
London C	0.2249	2.0475	N/A	1.9800	*1.9800*	*1.9800*	*1.9800*	2.6300	*2.6300*	1.7130
Niagara Region	0.2500	2.0440	1.0000	1.7586	1.7586	1.7586	1.7586	2.6300	*2.6300*	1.7021
Ottawa C	0.2000	1.6068	1.0000	1.8903	1.5723	2.2837	1.2385	2.6199	2.4986	1.6130
Peel R[3]	0.2500	1.7788	N/A	1.4098	*1.4098*	*1.4098*	*1.4098*	1.5708	*1.5708*	1.1512
Thunder Bay C	0.2500	2.7400	N/A	1.9527	*1.9527*	*1.9527*	*1.9527*	2.4300	2.4650	2.1520
Waterloo R	0.2500	1.9500	1.0000	1.9500	*1.9500*	*1.9500*	*1.9500*	1.9500	*1.9500*	1.1613
Wellington Co	0.2500	1.9537	N/A	1.4198	*1.4198*	*1.4198*	*1.4198*	2.4440	*2.4440*	2.1423
Windsor C	0.2500	2.5715	N/A	2.0037	2.0623	2.0207	1.0903	2.4340	3.1291	1.9149
York Region	0.2500	1.0000	1.0000	1.1172	*1.1172*	*1.1172*	*1.1172*	1.3124	*1.3124*	0.9190
Average	**0.2354**	**2.0285**	**1.1500**	**1.7596**	**1.7620**	**1.7612**	**1.6366**	**2.3670**	**2.3996**	**1.5445**

[3] The Cities of Brampton and Mississauga are lower tiers with delegated ratio setting authority and while they currently maintain matching ratios, they may choose to alter these independently.

In addition to the very general demographic information contained in Table 3, a basic understanding of the role each property class plays within a municipality's assessment and tax base can be very helpful in considering other jurisdictions' ratio and ratio decisions. Table 5 has been populated to summarize the following key assessment base variables:

1) Total 2012 CVA in billions of dollars;
2) The proportionate share of full (non-phased) CVA carried by each class[4]; and
3) The proportionate share of weighted and discounted CVA carried by each class.

Weighted and discounted CVA is calculated by multiplying Full CVA values by the applicable tax ratio and sub-class discount, which allows for an "apples to apples" comparison on assessment among classes or properties subject to differential tax treatment. Simply put, the Full CVA percentages tell us approximately how much of the total assessment base is made up by each class; the weighted and discounted (Wtd.) percentages tell us approximately how much of the total municipal tax burden each class carried.

Table 5
Assessment Distribution Survey by Ratios Setting Authority
(2012 Taxation Year)

Municipality	Total CVA	Residential		Multi-Residential		Commercial		Industrial		Farm	
	Billions	Full	Wtd.	Full	Wtd.	Full	Wtd.	Full	Wtd.	Full	Wtd.
Guelph C	13.8	79%	64%	4%	8%	12%	18%	5%	10%	0%	0%
Barrie C	14.8	78%	73%	3%	3%	16%	21%	2%	3%	0%	0%
Brantford C	8.1	77%	62%	5%	8%	14%	21%	5%	9%	0%	0%
Chatham-Kent M	9.2	61%	63%	2%	5%	10%	21%	2%	5%	24%	6%
Durham R	69.5	82%	76%	2%	3%	11%	15%	2%	5%	2%	0%
Greater Sudbury	13.1	80%	64%	4%	7%	12%	21%	3%	8%	0%	0%
Halton R	85.7	82%	74%	2%	4%	12%	16%	3%	6%	1%	0%
Hamilton C	51.2	81%	66%	5%	10%	10%	17%	2%	6%	2%	0%
Kingston C	12.7	77%	62%	6%	11%	15%	24%	1%	2%	0%	0%
London C	33.4	80%	68%	5%	8%	12%	21%	1%	3%	1%	0%
Niagara R	44.8	79%	70%	3%	5%	14%	21%	2%	4%	3%	1%
Ottawa C	115.9	74%	61%	5%	8%	18%	29%	1%	2%	1%	0%
Peel R	174.4	74%	67%	3%	4%	18%	22%	5%	6%	0%	0%
Thunder Bay C	6.9	77%	61%	4%	8%	16%	24%	3%	6%	0%	0%
Waterloo R	54.8	77%	66%	5%	8%	12%	20%	4%	6%	2%	0%
Wellington Co	12.0	75%	80%	1%	2%	5%	7%	3%	7%	16%	4%
Windsor C	15.2	72%	56%	4%	8%	19%	27%	4%	8%	0%	0%
York R	176.8	81%	80%	1%	1%	13%	14%	4%	5%	1%	0%

[4] New multi-residential assessment has been included with multi-residential, pipeline and managed forest classes are not shown.

Understanding the relative weighting or burden of a class within a jurisdiction can provide a whole host of information relevant to forming an opinion as to whether a move in one jurisdiction is comparable, or relevant to the ratio in another jurisdiction.

For example, we can see that the County of Wellington's commercial class represents approximately 7% of their weighted and discounted CVA while the City's commercial class represents approximately 18%. As this is an approximation of relative tax burden, it is possible to estimate that a 50% reduction to the County's ratio would shift approximately 3% to 3.5% of the existing tax burden onto other classes, while the same change in the City would result in a shift in the magnitude of 9%. Hence without even measuring actual tax dollars, this type of summary information can indicate if a ratio or ratio change in one jurisdiction is a relevant comparison. In this example, it would seem clear that a 50% reduction to the commercial ratio in the City would be a whole different exercise than for the County.

Class by Class Comparisons

In order to provide a more robust comparison and commentary, each of the multi-residential, commercial, industrial and farm classes will be considered independently. For each of these we have not only considered the current ratios, but have also layered on important details regarding ratio change trends. In addition to understanding where ratios might be moving to, this also allows for the measurement of "relative" ranking, which can change even when ratios do not move. That is, if the ratios among the group of comparators are moving in one direction, and the City's ratio is being held constant, it is possible for the City's ratio to be seen as being in relative incline, or decline vis-à-vis the sample group.

Multi-Residential Ratios

The multi-residential class ratio is one that has received a significant amount of attention in jurisdictions across the province for several years now. The property owners have been very successful in keeping the treatment of multi-residential ratios on many municipal agendas and these efforts have paid off in a general trend that sees the average ratio for the class being driven down.

The City of Guelph is one of the jurisdictions that have been reducing its multi-residential tax ratio systematically over a number of taxation years. The City has decreased the ratio for this class by almost 20% since it began incremental decreases in 2009.

As can be seen in reviewing Table 6 below, many other jurisdictions have been reducing ratios over time as well, with Southern municipalities above the comparator group average more prone to reductions than Northern municipalities, or those with ratios that are already lower than the group average.

Based on 2013 ratios, the City remains slightly above the comparator group average, however, it is important to note that the City's reductions have in fact been outpacing the reduction trends. This is evidenced by the fact that the magnitude of annual change to the City's ratio far outstrips the reduction to the group average, but also by the fact that the City's ranking among the group has changed as well. In 2009 Guelph's multi-residential ratio was ranked 15 out of 17 on a scale of lowest to highest, which means that this was the third highest ratio among these comparators. The City's 2012 ratio holds the 12th ranked position and it dropped to be 11 out of 17 in 2013.

Table 6
Multi-Residential Class Ratio and Ratio Change Comparison

Municipality	Multi-Residential Ratios 2009		2012		2013
Guelph C	**2.5965**	↓	**2.1659**	↓	**2.1239**
Barrie C	1.0787	↓	1.0197	↓	1.0000
Brantford C	2.1355	↓	2.0649	↓	2.0472
Chatham-Kent M	2.1488	→	2.1488	→	2.1488
Durham R	1.8665	→	1.8665	→	1.8665
Greater Sudbury C	2.1405	↑	2.3165	↓	2.2775
Halton R	2.2619	→	2.2619	→	2.2619
Hamilton C	2.7400	→	2.7400	→	2.7400
Kingston C	2.6112	↓	2.4195	↓	2.3556
London C	2.1240	↓	2.0700	↓	2.0475
Niagara R	2.0600	↓	2.0440	→	2.0440
Ottawa C	1.7500	↓	1.7000	↓	1.6068
Peel R	1.7050	→	1.7050	↑	1.7788
Thunder Bay C	2.7400	→	2.7400	→	2.7400
Waterloo R	2.0500	↓	1.9500	→	1.9500
Wellington Co	2.0000	→	2.0000	↓	1.9537
Windsor C	2.5500	↓	2.4589	↑	2.5715
York R	1.0000	→	1.0000	→	1.0000
Average	**2.0866**	↓	**2.0373**	↓	**2.0285**

As noted earlier on, the City also maintains the new multi-residential class ratio, which applies only to newly built or converted multi-residential properties. The City's ratio for the new multi-residential class is set at 1.00, a level from which there is no option for movement.

Commercial Ratios and Class Structure

In reviewing Table 7, which considers the ratios and class structure for the commercial classes, it is evident that there is, in general, less ratio movement within this class. The other observation that can be made is that there appears to be less of a systematic reduction effort, than a rebalancing that may involve an increase, or a decrease depending on the circumstances.

For example, the City of Ottawa moved its commercial ratio down in one year, and up in another and jumping ahead to industrial, they did the same thing with that class. This would only have been made possible by taking advantage of the Province's Class Neutral Transition Ratio program outlined in Part 2. What we don't see within this group, with the exception of Brantford, which has a long-term ratio reduction plan in place for all classes, is the stronger, more consistent downward trend of the multi-residential ratios.

The City's commercial class ratio, which applies to the entire broad class, is well below the Provincial threshold of 1.98 and is currently ranked 8th out of 17, which puts it in the lower half of the group. Guelph's commercial ratio is just above the current average for the commercial residual, shopping centre and office building classes (see also Table 4).

Without a complete detailed tax and assessment analysis, it is difficult to consider the relevance of the parking lot ratios because of the fact that commercial vacant land is treated differently when this class has been officially adopted. In the City of Guelph all commercial vacant land (CX and equivalent) is taxed at the CT rate discounted by 30%; in jurisdictions that maintain the parking lot class, these properties are taxed at the full parking lot (GT) rate. Coincidentally, the average parking lot ratio is approximately 31% lower than the average CT ratio. In all, the low parking lot ratios should not be given too much weight when considering the City's ratio in comparison to those of the group.

From a "*business friendly*" perspective, the City's commercial ratio can be viewed in a particularly favorable light when considered in comparison to many of its closest regional neighbours such as Waterloo, London, Hamilton, etc.... While the County of Wellington's ratio is lower than the City's, it has been increasing over time and also, when we consider the fact that the City's commercial class contributes approximately 4% of its property tax revenue, while the County's only accounts for around 1%, the relevance of such a comparison is somewhat tempered.

Table 7
Commercial Class Ratio and Ratio Change Comparison

Municipality	Commercial Residual Ratios					2013 Optional Class Ratios where Adopted		
	2009		2012		2013	Shopping Centre	Office Building	Parking Lot
Guelph C	**1.8400**	→	**1.8400**	→	**1.8400**	**-**	**-**	**-**
Barrie C	1.4331	→	1.4331	→	1.4331	-	-	-
Brantford C	1.9360	↓	1.8876	↓	1.8755	-	-	-
Chatham-Kent M	1.9671	↓	1.9605	→	1.9605	2.2629	1.5800	1.3120
Durham R	1.4500	→	1.4500	→	1.4500	1.4500	1.4500	-
Greater Sudbury C	1.8865	↑	2.2116	↑	2.2149	-	-	-
Halton R	1.4565	→	1.4565	→	1.4565	-	-	-
Hamilton C	1.9950	↓	1.9800	→	1.9800	-	-	-
Kingston C	1.9800	→	1.9800	→	1.9800	-	-	-
London C	1.9800	→	1.9800	→	1.9800	-	-	-
Niagara R	1.7586	→	1.7586	→	1.7586	-	-	-
Ottawa C	1.9893	↓	1.8270	↑	1.8903	1.5723	2.2837	1.2385
Peel R	1.2971	→	1.2971	↑	1.4098	-	-	-
Thunder Bay C	1.9527	→	1.9527	→	1.9527	-	-	-
Waterloo R	1.9500	→	1.9500	→	1.9500	-	-	-
Wellington Co	1.3689	↑	1.3712	↑	1.4198	-	-	-
Windsor C	1.9826	↓	1.9173	↑	2.0037	2.0623	2.0207	1.0903
York R	1.2070	↓	1.1172	→	1.1172	-	-	-
Average	**1.7461**	↓	**1.7428**	↑	**1.7596**	**1.8369**	**1.8336**	**1.2136**

Industrial Ratios and Class Structure

The reader will note that very similar observations can be made with respect to the industrial class ratio survey contained in Table 8 as were drawn from the commercial class survey (Table 7). Change patterns are not necessarily linear, and many jurisdictions have maintained consistent ratios over time.

One observation not discussed above, but which does apply equally to the commercial class comparison, is that we can see the impact of the Provincial levy restriction, or hard capping program with these classes. The reader will note that where a ratio is above the Provincial threshold of 1.98 for commercial or 2.63 for industrial, there is a natural downward pressure on that ratio. This is related to the mechanics of the levy restriction, which serves to ratchet ratios above a threshold down[5]. The other observation that can be made with regards to these commercial and industrial ratios and their relationship to hard capping is that many of the comparator municipalities maintain ratios that are at, but do not exceed the threshold, thereby maintaining the maximum allowable class burden, without entering into a hard-capped situation.

Table 8
Industrial Class Ratio and Ratio Change Comparison

Municipality	Industrial Residual Ratios					2013 Large Ind. Ratio where Adopted
	2009		2012		2013	
Guelph C	**2.6300**	→	**2.6300**	↓	**2.5237**	**-**
Barrie C	1.5163	→	1.5163	→	1.5163	-
Brantford C	2.9334	↓	2.5044	↓	2.4730	-
Chatham-Kent M	2.4350	→	2.4350	→	2.4350	2.4350
Durham R	2.2598	→	2.2598	→	2.2598	2.2598
Greater Sudbury C	2.6924	↑	3.1627	↑	3.1801	3.6044
Halton R	2.3599	→	2.3599	→	2.3599	-
Hamilton C	3.3325	↓	3.2465	↓	3.2078	2.7615
Kingston C	2.6300	→	2.6300	→	2.6300	-
London C	2.6300	→	2.6300	→	2.6300	-
Niagara R	2.6300	→	2.6300	→	2.6300	-
Ottawa C	2.7000	↓	2.5745	↑	2.6199	2.4986
Peel R	1.4700	→	1.4700	→	1.5708	-
Thunder Bay C	2.4300	→	2.4300	→	2.4300	2.4650
Waterloo R	2.1000	↓	1.9500	→	1.9500	-
Wellington Co	2.4440	→	2.4440	→	2.4440	-
Windsor C	2.3675	→	2.3601	↑	2.4340	3.1291
York R	1.3737	→	1.3737	→	1.3124	-
Average	**2.3852**	↓	**2.3670**	→	**2.3670**	**2.7362**

[5] Increases can only be made using approved Class Neutral Transition Ratios.

The City's industrial class ratio is further away from the comparator average than are either its commercial or multi-residential ratios. In 2013, the City reduced its ratio from 2.63 to 2.5237, which removed it from the group of comparators riding the maximum, non levy-restricted ratio; however, there are still 11 of the 17 jurisdictions that maintain ratios that are lower than Guelph's.

Farmlands Ratio

Of the comparator jurisdictions, very few maintain farm ratios below the default level of 0.25. If one were to consider this ratio province-wide, the incidence of adjusted ratios would be even lower on a percentage basis.

Table 9
Farm Class Ratio and Ratio Change Comparison

Municipality	Farm Class Ratios				
	2009		2012		2013
Guelph C	0.2500	→	0.2500	→	0.2500
Barrie C	0.2500	→	0.2500	→	0.2500
Brantford C	0.2500	→	0.2500	→	0.2500
Chatham-Kent M	0.2200	→	0.2200	→	0.2200
Durham R	0.2000	→	0.2000	→	0.2000
Greater Sudbury C	0.2500	→	0.2500	→	0.2500
Halton R	0.2000	→	0.2000	→	0.2000
Hamilton C	0.2099	↓	0.1982	↓	0.1927
Kingston C	0.2500	→	0.2500	→	0.2500
London C	0.2500	→	0.2500	↓	0.2249
Niagara R	0.2500	→	0.2500	→	0.2500
Ottawa C	0.2000	→	0.2000	→	0.2000
Peel R	0.2500	→	0.2500	→	0.2500
Thunder Bay C	0.2500	→	0.2500	→	0.2500
Waterloo R	0.2500	→	0.2500	→	0.2500
Wellington Co	0.2500	→	0.2500	→	0.2500
Windsor C	0.2500	→	0.2500	→	0.2500
York R	0.2500	→	0.2500	→	0.2500

Pipeline and Managed Forest

We have not included class specific analysis in respect of either the pipeline or the managed forest class ratios. In general, pipeline class ratios are rarely moved and there is no option to move the managed forest ratio, which is locked at 0.25.

PART THREE: TAX POLICY AND CHANGING MARKET VALUES

Without first making every effort to quantify and understand the impacts of reassessment and phase-in patterns, it is not possible for municipalities to make informed and effective decisions in respect of the tax policies that affect the apportionment of the tax burden within and between tax classes

In theory, when a market update or reassessment occurs, the new values assigned to properties reflect changes in the market value of property that have occurred during the period of time that has elapsed since the previous reassessment. Because real estate market conditions vary for different types of properties, it can be anticipated that each class of property within the municipality will experience a unique rate of assessment change with each reassessment cycle. The nature, scope and magnitude of reassessment change may also be greatly affected by regional and/or industry specific factors, and changes to assessment practices and methodologies that have been refined, challenged, and/or updated since the last reassessment.

Additionally, because the rate of change will be inconsistent from property class to property class, the proportion of total assessment (CVA) held by each class will change and shift with each market update. These reassessment related changes and inter-class shifts in assessment will inevitably result in tax shifts between individual properties and among tax classes.

Whether a change to one ratio or multiple ratios is being considered, it is important to understand how each class contributes to the City’s overall assessment base and how they are changing in relation to one another. Understanding how assessment has and will change over time provides a necessary foundation for understanding how these valuation trends ultimately translate into taxation shifts even in the absence of any changes to municipal tax policy.

Market Value and Market Value Updates

Ideally, the CVA returned on the roll for each of the 2013 through 2016 taxation years should represent the amount for which each property would have sold between a willing buyer to a willing seller on January 1st, 2012. Table 10 provides a class-by-class summary of these values for the City of Guelph as most recently reported for the return of the 2014 roll. This table also includes a year-over-year comparison of 2012 and 2013 in order to demonstrate how the values for each class were impacted by the latest reassessment. This table relies on the full CVA value of all properties, exclusive of any assessment phase-in adjustments. While these values will not actually be used for taxation until the 2016 tax year, it is important to review the magnitude and pattern of pure value changes related directly to the market update.

Table 10
Summary of Latest Market Value Update[6]

Realty Tax Class	2012 Full CVA (1/1/2008)	2016 Full CVA (1/1/2012)	Current Reflection of Market Value Update $	%
Taxable				
Residential	11,310,057,817	13,057,665,899	1,747,608,082	15.45%
Farm	4,485,583	6,199,000	1,713,417	38.20%
Managed Forest	607,900	860,700	252,800	41.59%
New Multi-Residential	39,568,622	52,043,000	12,474,378	31.53%
Multi-Residential	559,921,766	747,155,300	187,233,534	33.44%
Commercial	1,718,172,460	1,875,396,610	157,224,150	9.15%
Industrial	716,752,131	719,921,870	3,169,739	0.44%
Pipeline	26,065,000	27,763,000	1,698,000	6.51%
Sub-Total Taxable	**14,375,631,279**	**16,487,005,379**	**2,111,374,100**	**14.69%**
Payment In Lieu of Tax				
Residential	2,353,800	2,851,100	497,300	21.13%
Commercial	170,358,316	183,151,230	12,792,914	7.51%
Industrial	3,657,000	3,602,000	-55,000	-1.50%
Sub-Total PIL	**176,369,116**	**189,604,330**	**13,235,214**	**7.50%**
Total	**14,552,000,395**	**16,676,609,709**	**2,124,609,314**	**14.60%**

Phased CVA

Where an increase in market value has materialized, the increase is added to the property's "Phased" CVA in twenty-five percent (25%) increments each year over the four-year period. As such, effected taxpayers will not be taxed on their new full market value until 2016, which is the last year of the new assessment cycle. Assessment decreases are not phased-in. Where a property's CVA has been reduced as a result of reassessment, the new, lower CVA has been set as the property's phased or effective CVA for the duration of the four-year assessment cycle. Tables 11 and 12 have been prepared to summarize how the phase-in program is expected to progress over the next four taxation years; upon review, the moderating impact of the assessment phase-in program can be clearly seen.

[6] Values based on Roll as returned for 2014 taxation.

Table 11
Progression of Phased CVA: 2013 to 2016

Realty Tax Class	2012 Full CVA (Jan. 1, 2008 Base Value)	2013 Phased CVA	2014 Phased CVA	2015 Phased CVA	2016 Full CVA (Jan. 1, 2012 Destination Value)
Taxable					
Residential	11,310,057,817	11,739,385,145	12,178,812,348	12,618,239,111	13,057,665,899
Farm	4,485,583	4,913,938	5,342,293	5,770,645	6,199,000
Managed Forest	607,900	669,000	732,900	796,800	860,700
New Multi-Residential	39,568,622	42,687,217	45,805,811	48,924,406	52,043,000
Multi-Residential	559,921,766	606,729,472	653,538,080	700,346,694	747,155,300
Commercial	1,718,172,460	1,739,694,682	1,784,928,648	1,830,162,659	1,875,396,610
Industrial	716,752,131	702,339,736	708,200,449	714,061,166	719,921,870
Pipeline	26,065,000	26,489,500	26,914,000	27,338,500	27,763,000
Sub-Total Taxable	**14,375,631,279**	**14,862,908,690**	**15,404,274,529**	**15,945,639,981**	**16,487,005,379**
Payment In Lieu of Tax					
Residential	2,353,800	2,478,125	2,602,450	2,726,775	2,851,100
Commercial	170,358,316	170,708,795	174,856,273	179,003,752	183,151,230
Industrial	3,657,000	3,503,000	3,536,000	3,569,000	3,602,000
Sub-Total PIL	**176,369,116**	**176,689,920**	**180,994,723**	**185,299,527**	**189,604,330**
Total	**14,552,000,395**	**15,039,598,610**	**15,585,269,252**	**16,130,939,508**	**16,676,609,709**

Table 12
Year-Over-Year Change in Phased CVA

Realty Tax Class	2012 > 2013		2013 > 2014		2014 > 2015		2015 > 2016	
Taxable								
Residential	429,327,328	3.80%	439,427,203	3.74%	439,426,763	3.61%	439,426,788	3.48%
Farm	428,355	9.55%	428,355	8.72%	428,352	8.02%	428,355	7.42%
Managed Forest	61,100	10.05%	63,900	9.55%	63,900	8.72%	63,900	8.02%
New Multi-Residential	3,118,595	7.88%	3,118,594	7.31%	3,118,595	6.81%	3,118,594	6.37%
Multi-Residential	46,807,706	8.36%	46,808,608	7.71%	46,808,614	7.16%	46,808,606	6.68%
Commercial	21,522,222	1.25%	45,233,966	2.60%	45,234,011	2.53%	45,233,951	2.47%
Industrial	-14,412,395	-2.01%	5,860,713	0.83%	5,860,717	0.83%	5,860,704	0.82%
Pipeline	424,500	1.63%	424,500	1.60%	424,500	1.58%	424,500	1.55%
Sub-Total Taxable	**487,277,411**	**3.39%**	**541,365,839**	**3.64%**	**541,365,452**	**3.51%**	**541,365,398**	**3.40%**
Payment In Lieu of Tax								
Residential	124,325	5.28%	124,325	5.02%	124,325	4.78%	124,325	4.56%
Commercial	350,479	0.21%	4,147,478	2.43%	4,147,479	2.37%	4,147,478	2.32%
Industrial	-154,000	-4.21%	33,000	0.94%	33,000	0.93%	33,000	0.92%
Sub-Total PIL	**320,804**	**0.18%**	**4,304,803**	**2.44%**	**4,304,804**	**2.38%**	**4,304,803**	**2.32%**
Total	**487,598,215**	**3.35%**	**545,670,642**	**3.63%**	**545,670,256**	**3.50%**	**545,670,201**	**3.38%**

Tax Implications of Assessment Change

These differentials in market and phase-in related assessment change trigger on-going adjustments to the balance of taxation between condominiums and traditional multiple unit residential properties as market/assessed values of property respond and are updated over time. It is also important to note that the relationship between the rates of change among the classes differs significantly, and also varies from reassessment to reassessment. This is a critical observation when contemplating an "appropriate" tax ratio for a class because it solidifies the fact that the relationship between the classes is not static. A tax ratio that might seem appropriate in one year could exacerbate the impact of reassessment in the next, and/or produce a counter intuitive result.

For example, in the absence of any ratio or municipal levy changes, we can anticipate reassessment related tax shifts onto the multi-residential property class on an annual basis from now until 2016. The opposite assessment change dynamics predict tax shifts off of the commercial and industrial classes during the same period. Understanding and considering such trends and patters helps to clarify why tax relationships among classes change from year-to-year. The assessment and the tax relationship among classes is a moving target; what appears to be the correct ratio to compensate for assessment changes in one year, could serve to compound or offset future trends.

Part Four: Tax Ratio Sensitivity Analysis

Moving Tax Ratios

As discussed throughout this report, tax ratios govern the relationship between the rate of taxation for each affected class and the tax rate for the residential property class, which has a provincially prescribed ratio of 1.0.

When considering any tax ratio change, it is absolutely critical to be cognisant of the fact that a change to the tax ratio for any one class will impact the tax burden for properties in all other classes. For example, if a ratio reduction for the multi-residential class were to be approved, any tax savings passed onto that class will result in higher tax rates and tax shifts to other ratepayers across the remaining classes. These inter-class shifts must be quantified in order to fully understand the scope and magnitude of impacts associated with a ratio change for any property class.

Range of Flexibility

Barring the availability of Class Neutral Transition ratios, an alternate change to Provincial ratio legislation or a more fine-grained ratio adjustment scheme utilizing optional property classes, the City of Guelph's tax ratio flexibility for the 2014 taxation year may be summarized as follows.

Table 13
Range of Flexibility for 2014

Realty Tax Class	Current Ratio	Minimum	Maximum Change (%)
Residential	1.0000	1.0000	0.00%
Farm	0.2500	0.0000	-100.00%
Managed Forest	0.2500	0.2500	0.00%
New Multi-Residential	1.0000	1.0000	0.00%
Multi-Residential	2.1239	1.0000	-52.92%
Commercial	1.8400	0.6000	-67.39%
Industrial	2.5237	0.6000	-76.23%
Pipeline	1.9175	0.6000	-68.71%

The actual impact that a tax ratio adjustment for any one class will have on the apportionment of taxes to other classes is dependent on both the quantum of the actual change and the proportion of the overall tax levy carried by the subject class. A ratio change for a class that shoulders a large share of the overall tax burden is going to have a greater impact than the same change made in respect of a class that only carries a modest share of the total burden. These proportions are shown in Table 14.

Table 14
Distribution of CVA and 2014 Revenue Neutral/Status Quo Levy

Realty Tax Class	2014 Phased CVA		2014 Revenue Neutral Levy	
	$	**% of Total**	**$**	**% of Total**
Taxable				
Residential	12,178,812,348	78.14%	$123,451,206	64.22%
Farm	5,342,293	0.03%	$13,538	0.01%
Managed Forest	732,900	0.00%	$1,857	0.00%
New Multi-Residential	45,805,811	0.29%	$398,278	0.21%
Multi-Residential	653,538,080	4.19%	$14,033,745	7.30%
Commercial	1,784,928,648	11.45%	$32,901,988	17.12%
Industrial	708,200,449	4.54%	$17,535,818	9.12%
Pipeline	26,914,000	0.17%	$523,129	0.27%
Sub-Total Taxable	**15,404,274,529**	**98.84%**	**$188,859,559**	**98.25%**
Payment In Lieu of Tax				
Residential	2,602,450	0.02%	$26,380	0.01%
Commercial	174,856,273	1.12%	$3,260,299	1.70%
Industrial	3,536,000	0.02%	$80,893	0.04%
Sub-Total PIL	**180,994,723**	**1.16%**	**$3,367,572**	**1.75%**
Total	**15,585,269,252**	**100.00%**	**$192,227,131**	**100.00%**

A ratio change of significant magnitude for the farm class, which carries only a negligible portion of the overall levy is likely to have much less impact than a small change to the Commercial ratio, which is attached to a much larger portion of the City's property tax revenue. The sensitivity analysis that follows does confirm this expectation; however, in order to understand the precise impact of any potential policy change, it is necessary to establish a base-line against which to measure all alternate models. As part of this base-line foundation, we have calculated how the City's general levy will progress as a result of the assessment phase-in program between now and 2016. These results, set out in Table 15, rely on a status quo policy scheme and no change to year-over-year revenue requirements.

Table 15
Progression of General Levy under Status Quo Policy Scheme

Realty Tax Class	2013 CVA Tax As Revised		Revenue Neutral Levy / Status Quo Policy 2014		2015		2016
Taxable							
Residential	$123,189,915	↑	$123,451,206	↑	$123,695,298	↑	$123,923,812
Farm	$12,892	↑	$13,538	↑	$14,142	↑	$14,708
Managed Forest	$1,755	↑	$1,857	↑	$1,953	↑	$2,042
New Multi-Residential	$382,429	↑	$398,278	↑	$413,082	↑	$426,944
Multi-Residential	$13,495,361	↑	$14,033,745	↑	$14,536,684	↑	$15,007,568
Commercial	$33,201,082	↓	$32,901,988	↓	$32,622,589	↓	$32,361,013
Industrial	$18,006,495	↓	$17,535,818	↓	$17,096,123	↓	$16,684,453
Pipeline	$533,020	↓	$523,129	↓	$513,888	↓	$505,237
Sub-Total Taxable	**$188,822,949**	↑	**$188,859,559**	↑	**$188,893,759**	↑	**$188,925,777**
Payment In Lieu of Tax							
Residential	$26,005	↑	$26,380	↑	$26,731	↑	$27,059
Commercial	$3,295,181	↓	$3,260,299	↓	$3,227,714	↓	$3,197,208
Industrial	$82,996	↓	$80,893	↓	$78,927	↓	$77,087
Sub-Total PIL	**$3,404,182**	↓	**$3,367,572**	↓	**$3,333,372**	↓	**$3,301,354**
Total	**$192,227,131**	→	**$192,227,131**	→	**$192,227,131**	→	**$192,227,131**

Sensitivity Analysis
To assist in evaluating the impact of any change to the multi-residential tax ratio, MTE has prepared a series of sensitivity models to highlight the potential impacts of altering the current tax ratio scheme. For the purposes of this analysis, MTE has utilized 2014 starting levy amounts and assessment values for 2014 through 2016 as contained on the roll as originally return for 2014. The tax ratios utilized for each model can be summarized as follows:

	Scenario		Multi-Residential	Commercial	Industrial	Pipeline
	Status Quo	All Years	2.123900	1.840000	2.523700	1.917500
1	Move to Provincial Ranges of Fairness	All Years	1.000000	1.100000	1.100000	0.700000
2	Move to Comparator Averages	All Years	2.000000	1.750000	2.400000	1.917500
3	Incremental Move to Comparator Averages over 3 Years	2014	2.082600	1.810000	2.482467	1.917500
		2015	2.041300	1.780000	2.441233	1.917500
		2016	2.000000	1.750000	2.400000	1.917500
4	Continue Moving Multi-Residential and Industrial Ratios at the Same Magnitude as 2013	2014	2.081900	1.840000	2.417400	1.917500
		2015	2.039900	1.840000	2.311100	1.917500
		2016	1.997900	1.840000	2.204800	1.917500

For each scenario the City's general levies have been calculated under a revised set of ratios and the results of that exercise are compared against the taxes and tax distribution calculated using 2014 status quo ratios and rates. This method of comparison provides a solid basis for analysis as it eliminates the influence of any other variables, such as assessment changes, growth, or levy differences from impacting the results.

Summary result tables have been prepared and are included for each scenario to demonstrate both the potential inter-class and year-over-year shifts that could result from the tax ratio changes being contemplated by the model. The core results of each model are set out in tables labeled with the suffix A through D.

A Tables demonstrate the difference between the City's status quo tax ratios and those associated with each scenario. Also included in these tables, are the general levy tax rates associated with the application of each ratio set, and the rate of change between them.

B Tables provide an estimate of the inter-class tax shifts of the general levy if the policy approach were to be adopted for taxation in 2014.

C Tables consider the cumulative year-over-year tax change stemming from phase-in and the ratio change being modeled. This cumulative change is displayed for both the status quo and the alternate ratio strategy for each scenario.

D Tables display the difference between the class level taxes under the alternate policy being modeled compared to what those taxes would be if the City held its ratios constant at their 2013 tax level. The reader should note, these change amounts are not year over year changes, they are the difference between the annual taxes as calculated under each respective scenario and the status quo taxes summarized in Table 15 above.

In considering the results of each scenario set out in this report, it is important for the reader to note that the model does not represent a suggested or recommended policy approach. MTE has prepared these sensitivity models to demonstrate the nature and magnitude of tax change that might occur under various possible policy scenarios.

Scenario 1: Immediate Equalization of Residential, Multi-Residential and New Multi-Residential Ratios and Movement of all other Ratios to the Top of the "Ranges of Fairness"

This is the most dramatic scenario and is intended to illustrate the impact of moving the multi-residential to 1.00 and moving all others to the Provincial "ranges of fairness". In considering the results of this scenario, it is important to note that these ranges were set by the Province in 2001, they have never been revisited, and no explanation exists as to what is meant by "fairness" within this context. As can be seen, such a move would fundamentally alter the balance of taxation within the City and would result in a tax shift of almost $25 million dollars onto the residential class for 2014 alone. As such, this is not a viable policy approach but it is of value to consider how extreme a move to these ranges would be.

Table 16-A
Scenario 1: 2014 Rate and Ratio Change

Realty Tax Class	2014 Tax Ratios			2014 Revenue Neutral Rates		
	Status Quo	Alternate Model	Change %	Status Quo	Alternate Model	Change %
Residential	1.000000	1.000000	0.00%	0.01013666	0.01217784	20.14%
Farm	0.250000	0.250000	0.00%	0.00253417	0.00304446	20.14%
Managed Forest	0.250000	0.250000	0.00%	0.00253417	0.00304446	20.14%
New Multi-Residential	1.000000	1.000000	0.00%	0.01013666	0.01217784	20.14%
Multi-Residential	2.123900	1.000000	-52.92%	0.02152925	0.01217784	-43.44%
Commercial	1.840000	1.100000	-40.22%	0.01865145	0.01339562	-28.18%
Industrial	2.523700	1.100000	-56.41%	0.02558189	0.01339562	-47.64%
Pipeline	1.917500	0.700000	-63.49%	0.01943705	0.00852449	-56.14%

Table 16-B
Scenario 1: 2014 Inter-Class Tax Shifts
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	2014 Revenue Neutral Levy		Difference	
	Status Quo	Alternate Model	$	%
Taxable				
Residential	$123,451,206	$148,310,065	$24,858,859	20.14%
Farm	$13,538	$16,264	$2,726	20.14%
Managed Forest	$1,857	$2,231	$374	20.14%
New Multi-Residential	$398,278	$478,477	$80,199	20.14%
Multi-Residential	$14,033,745	$7,950,716	-$6,083,029	-43.35%
Commercial	$32,901,988	$23,641,927	-$9,260,061	-28.14%
Industrial	$17,535,818	$9,182,400	-$8,353,418	-47.64%
Pipeline	$523,129	$229,428	-$293,701	-56.14%
Sub-Total Taxable	**$188,859,559**	**$189,811,508**	**$951,949**	**0.50%**
Payment In Lieu of Tax				
Residential	$26,380	$31,692	$5,312	20.14%
Commercial	$3,260,299	$2,341,573	-$918,726	-28.18%
Industrial	$80,893	$42,358	-$38,535	-47.64%
Sub-Total PIL	**$3,367,572**	**$2,415,623**	**-$951,949**	**-28.27%**
Total	**$192,227,131**	**$192,227,131**	**$0**	**0.00%**

Table 16-C
Scenario 1: Year-Over-Year Levy and Cumulative Tax Shift Comparison
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	2013 CVA Tax As Revised	Status Quo		Alternate Model	
		2014 Levy	Change vs. 2013	2014 Levy	Change vs. 2013
Taxable					
Residential	$123,189,915	$123,451,206	0.21%	$148,310,065	20.39%
Farm	$12,892	$13,538	5.01%	$16,264	26.16%
Managed Forest	$1,755	$1,857	5.81%	$2,231	27.12%
New Multi-Residential	$382,429	$398,278	4.14%	$478,477	25.12%
Multi-Residential	$13,495,361	$14,033,745	3.99%	$7,950,716	-41.09%
Commercial	$33,201,082	$32,901,988	-0.90%	$23,641,927	-28.79%
Industrial	$18,006,495	$17,535,818	-2.61%	$9,182,400	-49.01%
Pipeline	$533,020	$523,129	-1.86%	$229,428	-56.96%
Sub-Total Taxable	**$188,822,949**	**$188,859,559**	**0.02%**	**$189,811,508**	**0.52%**
Payment In Lieu of Tax					
Residential	$26,005	$26,380	1.44%	$31,692	21.87%
Commercial	$3,295,181	$3,260,299	-1.06%	$2,341,573	-28.94%
Industrial	$82,996	$80,893	-2.53%	$42,358	-48.96%
Sub-Total PIL	**$3,404,182**	**$3,367,572**	**-1.08%**	**$2,415,623**	**-29.04%**
Total	**$192,227,131**	**$192,227,131**	**0.00%**	**$192,227,131**	**0.00%**

Table 16-D
Scenario 1: Annual and Three Year Cumulative Tax Impacts
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	**3 Year Difference Projection Alternate Model vs. Status Quo** 2014	2015	2016	Cumulative (2014-2016)
Taxable				
Residential	$24,858,859	$24,799,165	$24,743,060	$74,401,084
Farm	$2,726	$2,836	2,937	$8,499
Managed Forest	$374	$391	408	$1,173
New Multi-Residential	$80,199	$82,818	85,245	$248,262
Multi-Residential	-$6,083,029	-$6,304,568	-6,512,354	-$18,899,951
Commercial	-$9,260,061	-$9,197,944	-9,139,523	-$27,597,528
Industrial	-$8,353,418	-$8,150,511	-7,960,227	-$24,464,156
Pipeline	-$293,701	-$288,678	-283,969	-$866,348
Sub-Total Taxable	**$951,949**	**$943,509**	**$935,577**	**$2,831,035**
Payment In Lieu of Tax				
Residential	$5,312	$5,359	5,402	$16,073
Commercial	-$918,726	-$911,240	-904,200	-$2,734,166
Industrial	-$38,535	-$37,628	-36,779	-$112,942
Sub-Total PIL	**-$951,949**	**-$943,509**	**-$935,577**	**-$2,831,035**
Total	**$0**	**$0**	**$0**	**$0**

Scenario 2: Immediate Move to Comparator Averages for Commercial, Industrial and Multi-Residential Classes

Scenario two is based on a more modest set of ratio changes, which we have drawn from the comparative exercise summarized within Part Two of this report. This scenario models the impact of moving the multi-residential, commercial, and industrial class ratios to the rough, rounded average ratios of the comparative group, which are 2.00, 1.75 and 2.40 respectively. The farm and pipeline ratios have not been adjusted.

Table 17-A
Scenario 2: 2014 Rate and Ratio Change

Realty Tax Class	2014 Tax Ratios			2014 Revenue Neutral Rates		
	Status Quo	Alternate Model	Change %	Status Quo	Alternate Model	Change %
Residential	1.000000	1.000000	0.00%	0.01013666	0.01032184	1.83%
Farm	0.250000	0.250000	0.00%	0.00253417	0.00258046	1.83%
Managed Forest	0.250000	0.250000	0.00%	0.00253417	0.00258046	1.83%
New Multi-Residential	1.000000	1.000000	0.00%	0.01013666	0.01032184	1.83%
Multi-Residential	2.123900	2.000000	-5.83%	0.02152925	0.02064368	-4.11%
Commercial	1.840000	1.750000	-4.89%	0.01865145	0.01806322	-3.15%
Industrial	2.523700	2.400000	-4.90%	0.02558189	0.02477242	-3.16%
Pipeline	1.917500	1.917500	0.00%	0.01943705	0.01979213	1.83%

Table 17-B
Scenario 2: 2014 Inter-Class Tax Shifts
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	**2014 Revenue Neutral Levy**		**Difference**	
	Status Quo	Alternate Model	$	%
Taxable				
Residential	$123,451,206	$125,706,425	$2,255,219	1.83%
Farm	$13,538	$13,786	$248	1.83%
Managed Forest	$1,857	$1,891	$34	1.83%
New Multi-Residential	$398,278	$405,553	$7,275	1.83%
Multi-Residential	$14,033,745	$13,457,672	-$576,073	-4.10%
Commercial	$32,901,988	$31,865,504	-$1,036,484	-3.15%
Industrial	$17,535,818	$16,980,944	-$554,874	-3.16%
Pipeline	$523,129	$532,685	$9,556	1.83%
Sub-Total Taxable	**$188,859,559**	**$188,964,460**	**$104,901**	**0.06%**
Payment In Lieu of Tax				
Residential	$26,380	$26,862	$482	1.83%
Commercial	$3,260,299	$3,157,476	-$102,823	-3.15%
Industrial	$80,893	$78,333	-$2,560	-3.16%
Sub-Total PIL	**$3,367,572**	**$3,262,671**	**-$104,901**	**-3.12%**
Total	**$192,227,131**	**$192,227,131**	**$0**	**0.00%**

Table 17-C
Scenario 2: Year-Over-Year Levy and Cumulative Tax Shift Comparison
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	2013 CVA Tax As Revised	Status Quo		Alternate Model	
		2014 Levy	Change vs. 2013	2014 Levy	Change vs. 2013
Taxable					
Residential	$123,189,915	$123,451,206	0.21%	$125,706,425	2.04%
Farm	$12,892	$13,538	5.01%	$13,786	6.93%
Managed Forest	$1,755	$1,857	5.81%	$1,891	7.75%
New Multi-Residential	$382,429	$398,278	4.14%	$405,553	6.05%
Multi-Residential	$13,495,361	$14,033,745	3.99%	$13,457,672	-0.28%
Commercial	$33,201,082	$32,901,988	-0.90%	$31,865,504	-4.02%
Industrial	$18,006,495	$17,535,818	-2.61%	$16,980,944	-5.70%
Pipeline	$533,020	$523,129	-1.86%	$532,685	-0.06%
Sub-Total Taxable	**$188,822,949**	**$188,859,559**	**0.02%**	**$188,964,460**	**0.07%**
Payment In Lieu of Tax					
Residential	$26,005	$26,380	1.44%	$26,862	3.30%
Commercial	$3,295,181	$3,260,299	-1.06%	$3,157,476	-4.18%
Industrial	$82,996	$80,893	-2.53%	$78,333	-5.62%
Sub-Total PIL	**$3,404,182**	**$3,367,572**	**-1.08%**	**$3,262,671**	**-4.16%**
Total	**$192,227,131**	**$192,227,131**	**0.00%**	**$192,227,131**	**0.00%**

Table 17-D
Scenario 2: Annual and Three Year Cumulative Tax Impacts
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	**3 Year Difference Projection Alternate Model vs. Status Quo**			
	2014	2015	2016	Cumulative (2014-2016)
Taxable				
Residential	$2,255,219	$2,254,395	$2,253,621	$6,763,235
Farm	$248	$258	268	$774
Managed Forest	$34	$35	37	$106
New Multi-Residential	$7,275	$7,529	7,764	$22,568
Multi-Residential	-$576,073	-$597,065	-616,753	-$1,789,891
Commercial	-$1,036,484	-$1,028,924	-1,021,855	-$3,087,263
Industrial	-$554,874	-$541,655	-529,232	-$1,625,761
Pipeline	$9,556	$9,366	9,188	$28,110
Sub-Total Taxable	**$104,901**	**$103,939**	**$103,038**	**$311,878**
Payment In Lieu of Tax				
Residential	$482	$487	492	$1,461
Commercial	-$102,823	-$101,925	-101,085	-$305,833
Industrial	-$2,560	-$2,501	-2,445	-$7,506
Sub-Total PIL	**-$104,901**	**-$103,939**	**-$103,038**	**-$311,878**
Total	**$0**	**$0**	**$0**	**$0**

Scenario 3: Incremental Three Year Move to Comparator Averages for Commercial, Industrial and Multi-Residential Classes

Scenario three is based on the same target ratios as Scenario 2, which were derived from the comparator group, however, under this model, the move is incremental over the 2014, 2015 and 2016 taxation years. The ratios being changed under this scenario can be summarized as follows:

Year	Multi-Residential	Commercial	Industrial
2014	2.082600	1.810000	2.482467
2015	2.041300	1.780000	2.441233
2016	2.000000	1.750000	2.400000

Table 18-A
Scenario 3: 2014 Rate and Ratio Change

Realty Tax Class	2014 Tax Ratios			2014 Revenue Neutral Rates		
	Status Quo	Alternate Model	Change %	Status Quo	Alternate Model	Change %
Residential	1.000000	1.000000	0.00%	0.01013666	0.01019765	0.60%
Farm	0.250000	0.250000	0.00%	0.00253417	0.00254941	0.60%
Managed Forest	0.250000	0.250000	0.00%	0.00253417	0.00254941	0.60%
New Multi-Residential	1.000000	1.000000	0.00%	0.01013666	0.01019765	0.60%
Multi-Residential	2.123900	2.082600	-1.94%	0.02152925	0.02123763	-1.35%
Commercial	1.840000	1.810000	-1.63%	0.01865145	0.01845775	-1.04%
Industrial	2.523700	2.482467	-1.63%	0.02558189	0.02531533	-1.04%
Pipeline	1.917500	1.917500	0.00%	0.01943705	0.01955399	0.60%

Table 18-B
Scenario 3: 2014 Inter-Class Tax Shifts
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	2014 Revenue Neutral Levy		Difference	
	Status Quo	Alternate Model	$	%
Taxable				
Residential	$123,451,206	$124,193,844	$742,638	0.60%
Farm	$13,538	$13,620	$82	0.60%
Managed Forest	$1,857	$1,868	$11	0.60%
New Multi-Residential	$398,278	$400,674	$2,396	0.60%
Multi-Residential	$14,033,745	$13,844,043	-$189,702	-1.35%
Commercial	$32,901,988	$32,560,681	-$341,307	-1.04%
Industrial	$17,535,818	$17,353,096	-$182,722	-1.04%
Pipeline	$523,129	$526,276	$3,147	0.60%
Sub-Total Taxable	**$188,859,559**	**$188,894,102**	**$34,543**	**0.02%**
Payment In Lieu of Tax				
Residential	$26,380	$26,539	$159	0.60%
Commercial	$3,260,299	$3,226,440	-$33,859	-1.04%
Industrial	$80,893	$80,050	-$843	-1.04%
Sub-Total PIL	**$3,367,572**	**$3,333,029**	**-$34,543**	**-1.03%**
Total	**$192,227,131**	**$192,227,131**	**$0**	**0.00%**

Table 18-C
Scenario 3: Year-Over-Year Levy and Cumulative Tax Shift Comparison
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	2013 CVA Tax As Revised	Status Quo		Alternate Model	
		2014 Levy	Change vs. 2013	2014 Levy	Change vs. 2013
Taxable					
Residential	$123,189,915	$123,451,206	0.21%	$124,193,844	0.81%
Farm	$12,892	$13,538	5.01%	$13,620	5.65%
Managed Forest	$1,755	$1,857	5.81%	$1,868	6.44%
New Multi-Residential	$382,429	$398,278	4.14%	$400,674	4.77%
Multi-Residential	$13,495,361	$14,033,745	3.99%	$13,844,043	2.58%
Commercial	$33,201,082	$32,901,988	-0.90%	$32,560,681	-1.93%
Industrial	$18,006,495	$17,535,818	-2.61%	$17,353,096	-3.63%
Pipeline	$533,020	$523,129	-1.86%	$526,276	-1.27%
Sub-Total Taxable	**$188,822,949**	**$188,859,559**	**0.02%**	**$188,894,102**	**0.04%**
Payment In Lieu of Tax					
Residential	$26,005	$26,380	1.44%	$26,539	2.05%
Commercial	$3,295,181	$3,260,299	-1.06%	$3,226,440	-2.09%
Industrial	$82,996	$80,893	-2.53%	$80,050	-3.55%
Sub-Total PIL	**$3,404,182**	**$3,367,572**	**-1.08%**	**$3,333,029**	**-2.09%**
Total	**$192,227,131**	**$192,227,131**	**0.00%**	**$192,227,131**	**0.00%**

Table 18-D
Scenario 3: Annual and Three Year Cumulative Tax Impacts
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	3 Year Difference Projection Alternate Model vs. Status Quo			
	2014	2015	2016	Cumulative (2014-2016)
Taxable				
Residential	$742,638	$1,493,835	$2,253,621	$4,490,094
Farm	$82	$171	268	$521
Managed Forest	$11	$23	37	$71
New Multi-Residential	$2,396	$4,990	7,764	$15,150
Multi-Residential	-$189,702	-$395,634	-616,753	-$1,202,089
Commercial	-$341,307	-$681,801	-1,021,855	-$2,044,963
Industrial	-$182,722	-$358,917	-529,232	-$1,070,871
Pipeline	$3,147	$6,207	9,188	$18,542
Sub-Total Taxable	**$34,543**	**$68,874**	**$103,038**	**$206,455**
Payment In Lieu of Tax				
Residential	$159	$322	492	$973
Commercial	-$33,859	-$67,539	-101,085	-$202,483
Industrial	-$843	-$1,657	-2,445	-$4,945
Sub-Total PIL	**-$34,543**	**-$68,874**	**-$103,038**	**-$206,455**
Total	**$0**	**$0**	**$0**	**$0**

Ratio Scenario 4: Reduction of the Multi-Residential and Industrial Ratios based on a Continuation of the Reduction Plan Adopted for 2013

Scenario four represents a continuation and extension of the City's 2013 reductions for the multi-residential and industrial ratios whereby the former is reduced by 0.04200 each year and the latter by 0.10630. The multi-residential and industrial ratios for this scenario may be summarized as follows; all other ratios are held constant.

Realty Tax Class	2014	2015	2016
Multi-Residential	2.081900	2.039900	1.997900
Industrial	2.417400	2.311100	2.204800

Table 19-A
Scenario 4: 2014 Rate and Ratio Change

Realty Tax Class	2014 Tax Ratios			2014 Revenue Neutral Rates		
	Status Quo	Alternate Model	Change %	Status Quo	Alternate Model	Change %
Residential	1.000000	1.000000	0.00%	0.01013666	0.01019069	0.53%
Farm	0.250000	0.250000	0.00%	0.00253417	0.00254767	0.53%
Managed Forest	0.250000	0.250000	0.00%	0.00253417	0.00254767	0.53%
New Multi-Residential	1.000000	1.000000	0.00%	0.01013666	0.01019069	0.53%
Multi-Residential	2.123900	2.081900	-1.98%	0.02152925	0.02121600	-1.45%
Commercial	1.840000	1.840000	0.00%	0.01865145	0.01875087	0.53%
Industrial	2.523700	2.417400	-4.21%	0.02558189	0.02463497	-3.70%
Pipeline	1.917500	1.917500	0.00%	0.01943705	0.01954065	0.53%

Table 19-B
Scenario 4: 2014 Inter-Class Tax Shifts
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	2014 Revenue Neutral Levy		Difference	
	Status Quo	Alternate Model	$	%
Taxable				
Residential	$123,451,206	$124,109,196	$657,990	0.53%
Farm	$13,538	$13,610	$72	0.53%
Managed Forest	$1,857	$1,867	$10	0.53%
New Multi-Residential	$398,278	$400,400	$2,122	0.53%
Multi-Residential	$14,033,745	$13,829,950	-$203,795	-1.45%
Commercial	$32,901,988	$33,077,369	$175,381	0.53%
Industrial	$17,535,818	$16,886,725	-$649,093	-3.70%
Pipeline	$523,129	$525,917	$2,788	0.53%
Sub-Total Taxable	**$188,859,559**	**$188,845,034**	**-$14,525**	**-0.01%**
Payment In Lieu of Tax				
Residential	$26,380	$26,521	$141	0.53%
Commercial	$3,260,299	$3,277,678	$17,379	0.53%
Industrial	$80,893	$77,898	-$2,995	-3.70%
Sub-Total PIL	**$3,367,572**	**$3,382,097**	**$14,525**	**0.43%**
Total	**$192,227,131**	**$192,227,131**	**$0**	**0.00%**

Municipal Tax Equity Consultants Inc.

Table 19-C
Scenario 4: Year-Over-Year Levy and Cumulative Tax Shift Comparison
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	2013 CVA Tax As Revised	Status Quo		Alternate Model	
		2014 Levy	Change vs. 2013	2014 Levy	Change vs. 2013
Taxable					
Residential	$123,189,915	$123,451,206	0.21%	$124,109,196	0.75%
Farm	$12,892	$13,538	5.01%	$13,610	5.57%
Managed Forest	$1,755	$1,857	5.81%	$1,867	6.38%
New Multi-Residential	$382,429	$398,278	4.14%	$400,400	4.70%
Multi-Residential	$13,495,361	$14,033,745	3.99%	$13,829,950	2.48%
Commercial	$33,201,082	$32,901,988	-0.90%	$33,077,369	-0.37%
Industrial	$18,006,495	$17,535,818	-2.61%	$16,886,725	-6.22%
Pipeline	$533,020	$523,129	-1.86%	$525,917	-1.33%
Sub-Total Taxable	**$188,822,949**	**$188,859,559**	**0.02%**	**$188,845,034**	**0.01%**
Payment In Lieu of Tax					
Residential	$26,005	$26,380	1.44%	$26,521	1.98%
Commercial	$3,295,181	$3,260,299	-1.06%	$3,277,678	-0.53%
Industrial	$82,996	$80,893	-2.53%	$77,898	-6.14%
Sub-Total PIL	**$3,404,182**	**$3,367,572**	**-1.08%**	**$3,382,097**	**-0.65%**
Total	**$192,227,131**	**$192,227,131**	**0.00%**	**$192,227,131**	**0.00%**

Table 19-D
Scenario 4: Annual and Three Year Cumulative Tax Impacts
Status Quo Ratios vs. Alternate Ratios

Realty Tax Class	**3 Year Difference Projection Alternate Model vs. Status Quo**			
	2014	2015	2016	Cumulative (2014-2016)
Taxable				
Residential	$657,990	$1,314,092	$1,969,035	$3,941,117
Farm	$72	$151	234	$457
Managed Forest	$10	$21	33	$64
New Multi-Residential	$2,122	$4,390	6,784	$13,296
Multi-Residential	-$203,795	-$425,592	-664,251	-$1,293,638
Commercial	$175,381	$346,635	514,231	$1,036,247
Industrial	-$649,093	-$1,273,857	-1,876,658	-$3,799,608
Pipeline	$2,788	$5,460	8,028	$16,276
Sub-Total Taxable	**-$14,525**	**-$28,700**	**-$42,564**	**-$85,789**
Payment In Lieu of Tax				
Residential	$141	$284	430	$855
Commercial	$17,379	$34,297	50,805	$102,481
Industrial	-$2,995	-$5,881	-8,671	-$17,547
Sub-Total PIL	**$14,525**	**$28,700**	**$42,564**	**$85,789**
Total	**$0**	**$0**	**$0**	**$0**

CONCLUSION

As noted in Part 1 of this report, tax ratios represent a critical and fundamental element of Ontario's property tax system with the ratio for each class dictating the rate at which a property will be taxed[7] in relation to the tax rate applied to residential properties for municipal purposes within any given jurisdiction. For this reason, and due to their outwardly simple function, it is often a municipality's choice of tax ratios that attract the most attention from stakeholders, particularly those attempting to critique or influence a municipality's tax landscape.

Making a change to a tax ratio is not, however, simply an exercise in conveying a benefit upon, or satisfying the interests of one segment of the property tax landscape. When making tax ratio decisions, it is absolutely critical to be cognisant of the fact that a change to the tax ratio for any one class will impact the tax burden for properties in all other classes. For example, if a ratio reduction for the multi-residential class were to be approved, any tax savings passed onto that class would result in higher tax rates and tax shifts to other ratepayers within the City.

This in mind, decision makers must not only consider whether or not a ratio change favorable to one class is desirable, but also whether or not the reasons for that change are compelling enough, or important enough to impose the cost of that change on other segments of the tax base. The goal of this report has been to provide a more robust foundation on which such decisions can be made.

The primary and overriding priority of this report has been to ensure that the concepts and implications of tax ratio movement, or non-movement, have been well communicated and documented. We have also striven to provide a significant amount of detail and analysis with respect to a range of quantitative outcomes that might result from various policy choices, including adherence to status quo options. Having this theoretical and quantitative background is critical to those charged with an advisory or decision making role in respect of such tax policies. Regardless of where one feels a ratio should be set, or whether ratio changes are even being considered, it is absolutely critical to understand how ratios work and how the balance of taxation reacts to changes.

What this report has not done, and was not intended to do, was to identify or recommend specific tax ratios as ones which the City should adopt. Decisions regarding the balance of taxation have been assigned to the political realm under the *Municipal Act*, and it would be inappropriate for a removed, third party to suggest specific policy decisions. Instead, what we endeavored to accomplish was to add additional layers of information to the discussion surrounding the City's tax ratios. The goal being to provide a host of information to support, enrich and inform that decision making process.

As a general observation, our review of the City's historic ratio movement decisions, current ratio levels, and the City's position among the comparator group all indicate that Guelph has managed its tax ratios in an active and thoughtful manner. Decisions to

[7] Final tax rates may also be impacted by levy restriction rules and/or a property's inclusion in a discounted sub-class.

change, freeze and watch ratios have been made deliberately, on the basis of specific policy goals and in light of solid quantitative analysis.

In terms of 2014 and future taxation years, there is no one, overt indicator that suggests the City must reduce its business class tax ratios. No ratio is currently above, or even at the provincial threshold and they all seem reasonably positioned within those of the comparator group. While they are not the lowest, they are not altogether dissimilar to what are being applied among the other jurisdictions.

While none of the tax ratio change scenarios presented in Part Four are set out as recommended, we would go as far as to suggest that either Scenario 3, which represents as staged approach to the approximate average of the comparator group, and Scenario 4, which is a continuation of the approach set in motion for 2013, would be reasonable choices **if** there is an interest in moving one or more of the business class ratio downward.

If further ratio changes (reductions) are going to be considered, it is recommended that a specific goal or purpose for such change is identified. By doing this, it is possible to know when that goal/purpose has been met. For example, if the decision is that ratios are to be lowered but no goal, destination, or specific outcome is identified, how is one to know when the decreases should cease. In contrast, if the City sets a goal to target the comparator average at the onset of each four-year reassessment cycle, specific ratio changes could be identified, quantified and progress tracked.

STAFF REPORT

TO	Corporate Services Committee
SERVICE AREA	Corporate Services, Finance
DATE	November 9, 2015
SUBJECT	**Review of Zero Based Budgeting and Other Options**
REPORT NUMBER	CS-2015-71

EXECUTIVE SUMMARY

PURPOSE OF REPORT

To provide Council with an overview of the application of zero based budgeting (ZBB), and to highlight other approaches to budgeting currently in use in the municipal sector.

KEY FINDINGS

- The popularity of Incremental Budgeting has declined in recent years because it does not provide a rational and strategic approach to cutting the budget or controlling annual budget increases.
- ZBB rationalizes budget cuts and can effectively re-allocate resources within a department, however, ZBB does not provide a structured method for addressing the community's or elected officials' views and long term priorities, and it is a very involved and time consuming process.
- Many municipalities are using selected components of ZBB only because they require a more manageable level of effort and paperwork from staff.
- The key to improving a budget process is having clear and focused community goals and a solid understanding of the relationship between inputs and performance.
- Full ZBB and other alternative budgeting methods require seed money to develop and implement effective information technology systems, staff capacity, and a willingness to dedicate significant time and resources to the budget process.
- Existing Financial Information Systems at the City of Guelph are legacy systems that do not have the capacity to provide all the information required to implement a ZBB program. The City's IT Strategic Plan is addressing this legacy system issue through a review of the Work Asset Management functionality and a possible reimplementation of JD Edwards that will allow the City to be better positioned to consider alternative budgeting strategies in the future.

STAFF REPORT

FINANCIAL IMPLICATIONS
There are no financial implications to this report.

ACTION REQUIRED
That Corporate Services Committee receive the report, that staff be directed in the interim to continue to implement zero line item based budgeting on selected line items in the budget, as feasible.

RECOMMENDATION

THAT CS-2015-71 Review of Zero Based Budgeting and Other Options Report be received;

THAT staff be directed to continue to implement zero line item based budgeting on selected line items in the budget, as feasible.

BACKGROUND

At the December 5, 2013 Council meeting the following motion was made:

"That the Chief Administrative Officer report back to the CAFE Committee with a review of the value of introducing additional zero-based budgeting processes."

The City currently uses an incremental approach to calculating the annual budget. Each year, most line items are increased by an economic adjustment factor (e.g. 1%) to account for inflationary increases in expenditures. The current budget process does not require a review of each program or service to determine if it a) still meets community needs and priorities, b) is the appropriate level of service and c) is being offered as efficiently as possible. Instead, City departments try to meet corporate budget guidelines by trimming line items within their department, and the result is that service areas end up providing the same services, at the same levels, with less money. ZBB and other budget alternatives offer a more rational and strategic means of meeting budget targets.

Staff have researched best practices with respect to ZBB and performed an environmental scan to determine its applicability to the municipal sector. As a result of this scan, six other budgeting options have been identified and reviewed as possible alternative approaches to the current incremental budgeting process used by the City. The six alternatives are:

1. Zero Line Item Budgeting
2. Service Level Budgeting
3. Priority Budgeting (results based budgeting)
4. Program Review (also known as a Service Delivery Review or Service Rationalization)
5. Target Based Budgeting
6. Multi-year budgeting

REPORT

There have been significant fiscal challenges facing local governments in recent years that have resulted in a growing interest in ZBB and other alternative budgeting processes. Many governments are seeking budgeting options that control annual increases and improve resource allocation decisions.

This report provides a detailed description of ZBB and summarizes the key highlights of alternative budget approaches that have been used by local governments to improve financial planning and budgeting decisions in times of financial constraint.

Table 1 Summarizes the Alternative Budgeting Models (to a zero based approach) and identifies which key budgeting questions each method is best for answering.

This report will evaluate each alternative.

Table 1

		Questions		
Type	Selected Users	What services should the City provide?	What level of service should be provided?	Are we providing services efficiently?
Incremental Budgeting	Most municipalities including the City of Guelph			
Zero Based Budgeting – Full Implementation	No one in Ontario	X	X	X
Zero Line Item Budgeting – Selected Line Items	City of Guelph (OT, consulting and training)			X
Service Level Budgeting	City of Windsor	X	X	
Priority-Driven Budgeting	No one in Ontario	X		
Program Review	Region of Peel City of Toronto City of London	X	X	X
Target Based Budgeting	City of Edmonton	X	X	
Multi-Year Budgeting	City of London 2015			X

Zero Based Budgeting (ZBB)

The term ZBB is often used to refer to a budget that has a zero percent increase (when compared to the prior year).

In reality, *ZBB is a process and not a result*. It builds a budget from the ground up, starting at zero. It moves an organization away from the practice of "incremental budgeting" where the previous year's budget is used as the starting point. Historical patterns of spending are no longer accepted as a given.

An organization is divided up into "decision units". Decision units represent the lowest level at which budget decisions can be made. Each manager of a decision unit prepares an evaluation of all activities performed including alternative ways to deliver the service along with the spending plans necessary. This information is then used to create "decision-packages". In most cases there are three decision packages for each decision unit (but there can be as many as ten or more). The most common category of decision packages are as follows:

- Base package – representing basic services at a minimum level and an estimate of the funding needed to remain viable.
- Current service package – what is needed to continue the level of service currently being provided.
- Enhanced package – providing information on what is needed to expand services beyond current levels.

In addition to a detailed estimate of the resource requirements (inputs), decision packages include performance measures to express the impact on service levels; therefore a strong understanding of the relationship between costs and performance is required.

Because numerous decision packages are being created, a frequent criticism of ZBB relates to the volume of documentation required. In addition, as the packages are created at the lowest level of the organization, there is greater involvement from line managers. Hence, there is significant debate as to whether the value derived from the analysis justifies the costs.

After the packages are created, they are ranked within each organizational unit the decision unit resides in. In the case of the City, this would be at a departmental level. Finally, each department's rankings would be used to formulate a recommended budget submission.

The advantages of ZBB are that cuts can be made by evaluating different services based on their value to the organization; it also provides management with detailed information on the operations of each decision unit. (Note selected material courtesy of "Zero Based Budgeting and Local Government: White Paper". Questica)

The Government Finance Officers Association has produced research in this area and came to a number of conclusions:

- ZBB results in budget discussions that focus on more than just incremental changes in spending.
- It enables the identification of more optimal uses of available resources within a department's budget.
- Managers become more engaged in the budget process.
- It is better suited to smaller governments.
- There is a lot of paperwork for front line managers and senior leadership.
- ZBB has no means of ensuring managers provide honest decision packages.
- ZBB does not provide a structured method for taking account of the community's or elected officials' views, and long term strategic priorities.
- ZBB reallocates resources within a department, but it does not facilitate reallocations between service areas.

ZBB is not recommended at this juncture due to the time consuming nature of the approach, requiring significant staff processes and capacity as well as a review of the capability of our information technology systems to handle this change.

Some of the outcomes related to a revaluation of service levels associated with this approach could be realized through the Service Delivery Review/Service Rationalization implementation that was considered by Council on September 28, 2015 in Report CS-2015-74 entitled Service Rationalization Options. Through this review, current services and their value to the organization and the community would be evaluated.

It is prudent at this time to review other methods of creating a budget that have built on the advantages of ZBB.

Alternative Budget Process

1. **Zero Line Item Budgeting**

This approach to budgeting is also a derived from ZBB and requires departments to build each budget line item from zero and justify each line item. Where possible, departments must identify cost drivers and service goals to give a central budgeting team a better sense of what the output received for the input will be.

Major conclusions about zero line item budgeting:

- Focused on providing services efficiently
- This process is not directly tied to strategic goals and objectives
- Best suited for small governments
- Increases transparency and improves variance reporting
- Unlike ZBB, zero line-item budgeting does not consider different service level options (decision options)

Case Study
The City of Guelph currently applies zero line item based budgeting for particular expenses (overtime, training, consulting) and has found that it improves the quality of information and enhances our understanding of how inputs relate to performance. Lines are "zeroed out" and managers are asked to rebuild the budget estimate and provide detailed justification for their request. It is recommended that this practice continue and where applicable, be expanded to include but not be limited to other discretionary line items such as office supplies, printing and corporate memberships.

The City of Guelph also uses zero line based budgeting for compensation costs in each budget as annually both the salaries and benefit budgets are built from zero based on actual staff complements, wage rates and current benefit costs.

2. **Service Level Budgeting**

This approach to budgeting is a derivative of ZBB and emphasizes the creation of decision packages, but with less emphasis on the estimate of inputs. Each package contains supporting documentation including: positions; estimated costs by major category of expenditure (salaries, capital, etc.); performance measures; and a narrative describing the impact of the package and changes to revenue, if any. Once completed the departments rank the packages top to bottom and management uses the information to create a recommended budget.

Major conclusions about service level budgeting:

- The decision packages result in service level choices
- A detailed and quantified understanding of service levels and the relationship between service levels and cost are required
- Translating service levels from what is currently offered can be a challenge
- It is paperwork intensive
- Efficiency is not directly addressed
- Unlike ZBB, it doesn't have strong connections to an organization-wide strategy (bottom up rather than top down approach), but this approach can be tied to the strategic plan

Case Study
The City of Windsor used a modified version of this approach for three years. The City prepared "loosely derived scenarios that gave a fair understanding of the spending, without dedicating an extreme amount of time that would otherwise be required with ZBB"; however they did not find it useful in terms of determining what services the City should be in the business of providing.

3. Priority-Driven Budgeting (PDB)

Under this method, the organization must first determine how much revenue it will have available and the key corporate/community priorities for that year. All programs and services are then ranked according to how well they align with the corporate/community priorities and resources are allocated in accordance with the ranking.

Major conclusions about service level budgeting:
- Understanding community need and having a clear and focused set of priorities is critical to the success of PDB
- PDB provides a flexible and transparent approach to allocating funding between departments and programs to fund programs within the organization's means
- GFOA has recognized priority-focused budgeting as a public finance "best practice"
- A detailed and quantified understanding of service levels and the relationship between service levels and cost is required
- The philosophy is to do the important things well and cut back on the rest

Staff was unable to locate a municipality in Canada that has successfully implemented PDB.

4. Program Review (also known as a Service Delivery Review or Service Rationalization)

A program review is a method of examining, outside of the budget process, how a program is being provided. It is often used to identify alternative service delivery or efficiency opportunities.

Major conclusions about program review budgeting:
- Offers an in-depth look at community need, service levels and efficiency
- Because the review is done outside the budget process, there is no mechanism to integrate results to the annual budget
- Results in additional work for management

Case Study
Program Reviews are common among local governments. The Region of Peel, City of Toronto and the City of London have used Program Reviews to improve service delivery and manage annual budget increases. The City of Toronto successfully used program reviews to evaluate: the degree of discretion for each service (is it legislated? Is the level of service consistent with the legislation?); how efficiently is the service being delivered; and how are program costs recovered (user fees, grants, tax supported sources) that resulted in savings through outsourcing, consolidating similar services and divestment in programs.

Please see Report CS-2015-74 entitled Service Rationalization Options for more information.

5. Target Based Budgeting (TBB)

In a TBB process, each decision unit (department) is given a target spending amount (e.g. 90% of last year's spending) and is asked to submit a budget for that amount. The total target for the organization is necessarily less than what is affordable because the difference between the target and what is affordable is used to fund additional activities through decision-packages.

Major conclusions about target based budgeting:

- Budget decisions are based on corporate priorities and service levels
- Like ZBB, departments prioritize their decision packages, but unlike ZBB, the prioritization is based on a set of organization-wide goals distributed by central management
- There is less work involved as fewer decision packages are produced and spending is not scrutinized
- Unlike ZBB, there is no emphasis on discovering and examining the minimum feasible funding

Case Study
City of Edmonton used TBB to find efficiencies and control the annual budget increase. Edmonton selected 80% as their target because their forecast showed that the City would have to make a 20% cut to balance their budget without increasing taxes. Each department was asked to develop four decision-packages of 5% net impact to the budget (either revenue enhancements or spending cuts), thereby equaling 20%. Departments prioritized their decision-packages and the City's central management then reviewed them and made the decision on which packages to accept. Ultimately, just under half of the packages were selected and new taxes were used to cover the rest.

6. Multi-year budget

A multi-year budget is the development and formal adoption of an expenditure and revenue document that spans two or more years.

Major conclusions about multi-year budgeting:

- There is alignment of longer-term goals and objectives with longer term funding plans
- Provides greater certainty to tax payers and residents about the future direction of the city and taxes
- Presents better links between capital and operating
- Improves program monitoring and evaluation
- Improves accountability and transparency over spending plan changes

Case Study

The City of London will be implementing a multi-year budget in 2016 that will cover a span of four years (2016-2019). Council will approve a four year spending envelope in 2016, and only significant adjustments will be brought back for Council's consideration annually.

Conclusion

At this time, given the current legacy information systems in place, implementation of a new full scale budgeting option is not feasible.

As the City of Guelph continues to grow in size and complexity, financial and operational staff is being hindered in their ability to meet demands for increased transparency, data and analysis due to the fragmented nature of the systems in place. It is apparent that the City has outgrown its existing IT infrastructure and additional requests for information to support informed decision making are not being met.

Existing Financial Information Systems at the City of Guelph are legacy systems that do not have the capacity to provide all the information required to implement a ZBB program. The City's IT Strategic Plan is addressing this legacy system issue through a review of the Work Asset Management functionality and a possible reimplementation of JD Edwards that will allow the City to be better positioned to consider alternative budgeting strategies in the future.

In the interim staff will recommend continuation of the implementation of zero line item based budgeting on selected line items in the budget, as feasible.

CORPORATE STRATEGIC PLAN

Innovation in Local Government

2.2 Deliver public services better.

2.3 Ensure accountability, transparency and engagement.

DEPARTMENTAL CONSULTATION

The executive team have been consulted in the development of this report.

FINANCIAL IMPLICATIONS

There are no financial implications associated with this report.

COMMUNICATIONS

none

ATTACHMENTS

none

STAFF REPORT

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