



FORMAL REPORT

To: Chair Stratthdee and Members of Strategic Priorities Committee

Prepared by: André Morin, Director of Finance / Treasurer

Date of Meeting: 15 October 2019

Subject: **FIN 17-2019 2020 Pre-Budget Report**

PURPOSE

This report is to:

- Re-familiarize Council with the budget process
- Summarize what was passed in the 2019 Budget
- Recap property tax policies
- Highlight some of the 2020 risks and challenges
- Provide an opportunity for Council to provide any direction to senior staff as the final draft budget preparations are completed

RECOMMENDATION

THAT FIN 17-2019 2020 Pre-Budget report be received; and

THAT the Strategic Priorities Committee provide staff with the following direction for preparation of the 2020 Draft Budget:

REPORT

The staff have prepared preliminary 2020 operating and capital budgets. Senior management is in the midst of reviewing and refining these preliminary budgets to present a draft 2020 budget to Council beginning in December 2020, with the formal passing of the 2020 budget scheduled for March 24, 2020.

2020 Budget Timeline		Finance	SMT	CAO	Council	Public
2020 Budget Timeline approved	July 2019	X	X	X		
Operating and Capital Budget instructions and template to SMT	July 2019	X				
Operating Budgets due from Departments	August 31, 2019		X			
Capital Budget (Summary Only) due from Departments	August 31, 2019		X			
Capital Budget guidelines and revised Capital Budget Sheets	August 2019	X		X		
Capital Budget Review (SMT)	September 16, 2019	X	X	X		
Capital Budget Sheets due	September 30, 2019	X	X	X		
Operating Budget Review (by department)	September/October	X	X	X		
Pre-Budget Meeting/Workshop	October 15, 2019	X	X	X	X	X
Finalize Capital Pre-Budget project recommendations	October 2019	X	X	X		
Consolidated Budget review/refinement	November 2019	X	X	X		
Staff and/or SLT Budget presentation	tbd					
2020 Capital Pre-Budget Approvals	November 19, 2019	X	X	X	X	
Council Budget Meeting #1	December 3, 2019	X	X	X	X	X
Council Budget Meeting #2	January 7, 2020	X	X	X	X	X
Council Budget Meeting #3	January 21, 2020	X	X	X	X	X
Council Budget Meeting #4	February 4, 2020	X	X	X	X	X
Council Budget Meeting #5	February 18, 2020	X	X	X	X	X
Public Presentation	March 10, 2020	X	X	X	X	X
Budget Passed	March 24, 2020	X	X	X	X	X

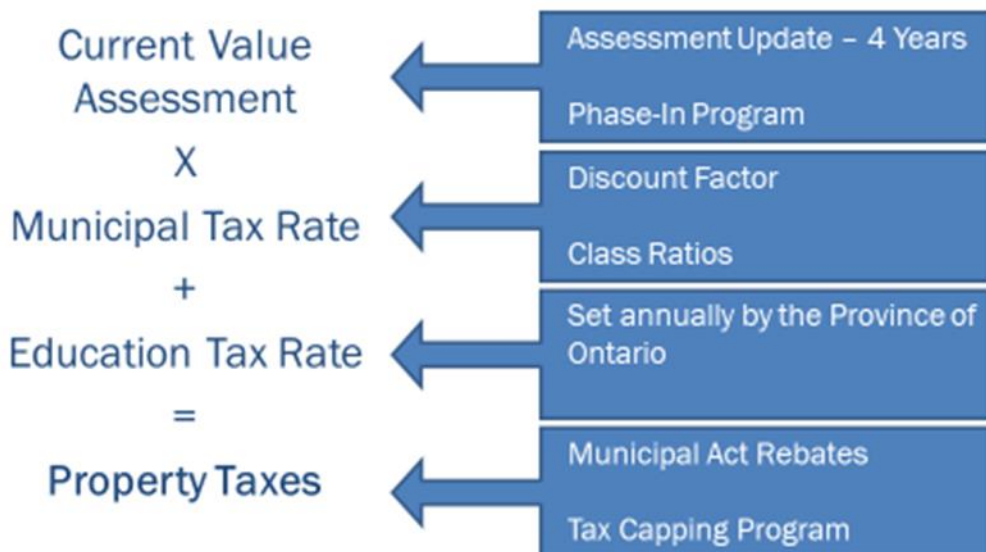
2019 Budget Summary

	2019	2018	Difference
Total Property Tax Levy	\$12,191,573	\$11,812,540	3.21%
Net Property Tax Levy	\$12,191,573	\$11,928,791 (Adjusted for Growth)	2.20%
Average Property Taxes on Single Family Home	\$3,539	\$3,475	1.84%
Total Capital Budget	\$4,262,000	\$6,805,000	-\$2,543,000
Net Transfer to (from) Reserves	\$3,405,405	\$2,688,726	\$716,679

	2018 Total Year End Taxation	2019 Estimated Total Taxation (\$)	Difference Between 2018 and 2019 Taxation	
Class	Municipal	Municipal		
			\$	%
Taxable				
Residential	8,703,768	8,901,428	197,661	2.27%
Res FAD I	127	127	0	-0.03%
Multi-residential	179,569	181,403	1,834	1.02%
Com. Occupied	1,216,851	1,247,200	30,349	2.49%
Com. Exc. Land	9,075	10,728	1,653	18.22%
Com. Vac. Land	13,668	15,502	1,834	13.42%
Ind. Occupied	1,664,562	1,686,800	22,238	1.34%
Ind. Exc. Land	8,830	10,157	1,327	15.03%
Ind. Vac. Land	12,750	14,367	1,618	12.69%
Landfills	0	0	0	0.00%
Pipelines	53,708	54,847	1,139	2.12%
Farm	24,772	27,835	3,063	12.36%
Managed Forests	0	0	0	0.00%
Total Taxable	11,887,680	12,150,395	262,715	2.21%
Payment in Lieu				
Com. Occupied	39,051	39,083	32	0.08%
Com. Vac. Land	578	650	72	12.46%
Landfills	1,483	1,448	-35	-2.39%
Total PIL	41,112	41,180	68	0.17%
Com Grand Total	1,279,223	1,313,163	33,940	2.65%
Ind Grand Total	1,686,142	1,711,324	25,183	1.49%
Grand Total	11,928,791	12,191,575	262,784	2.20%

Property Tax Policy

There are a number of components and variables in calculating the property tax for a certain property. In simple terms, the calculation is depicted below. However, each component has many variables within it – some examples are listed:



Current Value Assessment (CVA)

- The market value and classification is determined by MPAC (Municipal Property Assessment Corporation) for all municipalities in Ontario
- Based on a specific valuation date – currently we are in the 2016 assessment cycle – meaning properties are valued as of January 1, 2016 for the property tax years 2017 – 2020
- Increases in the market value from one assessment cycle to the next are phased in over the 4 years. Decreases are implemented in the first year
- Taxpayers have the opportunity to request for reconsideration of their assessment or appeal the assessment to the Assessment Review Board (ARB)

Municipal Tax Rate

- The general tax rate is set by the Municipality each year as part of the budget process
- There are different classes of property (Residential, Multi-Residential, Commercial, Industrial, Farm, Pipeline, Landfill, Managed Forest)
- Each property class has a Tax Ratio which is used to determine the effective tax rate for that specific class of property

Education Tax Rate

- The Province of Ontario sets the education rates each year

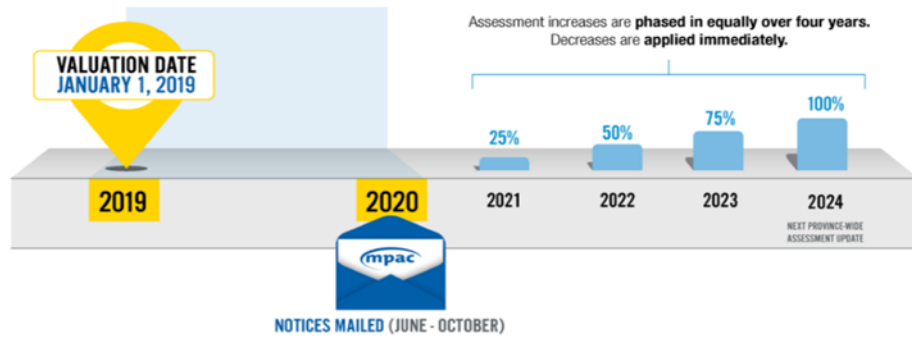
Other Property Tax impacts

- The municipal act allows for various discounts or rebates
- Business capping is no longer being used in St. Marys, but allows for business property taxes to be capped each year

Equity Changes vs. Assessment Growth

Every four years, MPAC performs an assessment update to reflect the new market value of properties based on a new valuation date. MPAC is currently preparing values for the next assessment cycle which has a valuation date of January 1, 2019 and will be used to prepare property taxes for the years 2021 – 2024:

Earlier Valuation Date



These adjustments in market value do not create new property tax revenue for the municipality, but rather cause property tax shifts – both among properties within a tax class and between property tax classes.

This example shows how a tax shift occurs among properties within a class. Assuming the Town only had 3 residential properties, and the market values changed due to an assessment update as follows:

	Property A	Property B	Property C	Total
2018 CVA	100,000	100,000	100,000	300,000
2019 CVA	100,000	105,000	80,000	285,000
2018 Tax Rate				2.00%
2019 Notional Tax Rate				2.11%
2018 Property Taxes	\$2,000	\$2,000	\$2,000	\$6,000
2019 Property Taxes	\$2,105	\$2,211	\$1,684	\$6,000

The Town's total property tax revenue remains the same, however the distribution of the property taxes is adjusted among each property based on the revised CVA.

Furthermore, each municipality is made up of many properties within different property tax classes. Tax shifts also occur between each tax class. Below is an example of the tax shifts that occurred in St. Marys for the 2019 taxation year:

	2018 Total Year End Taxation	2019 Estimated Total Taxation (\$)	2019 Municipal Property Tax Shift	
Class	Municipal	Municipal	Municipal	
			\$	%
Residential	8,848,739	8,854,690	5,951	0.07%
Res FAD I	127	125	-3	-2.18%
Multi-residential	179,569	177,501	-2,068	-1.15%
Pipelines	54,638	54,597	-41	-0.08%
Farm	24,772	27,236	2,464	9.95%
Landfills	1,483	1,485	1	0.10%
Com Grand Total	1,276,534	1,281,860	5,326	0.42%
Ind Grand Total	1,686,142	1,674,515	-11,627	-0.69%
Grand Total	12,072,004	12,072,008	4	0.00%

As 2019 was not a re-assessment year, the tax shifts are not drastic. However, in the first year of an assessment cycle (2021), these shifts can be more severe and must be carefully analyzed.

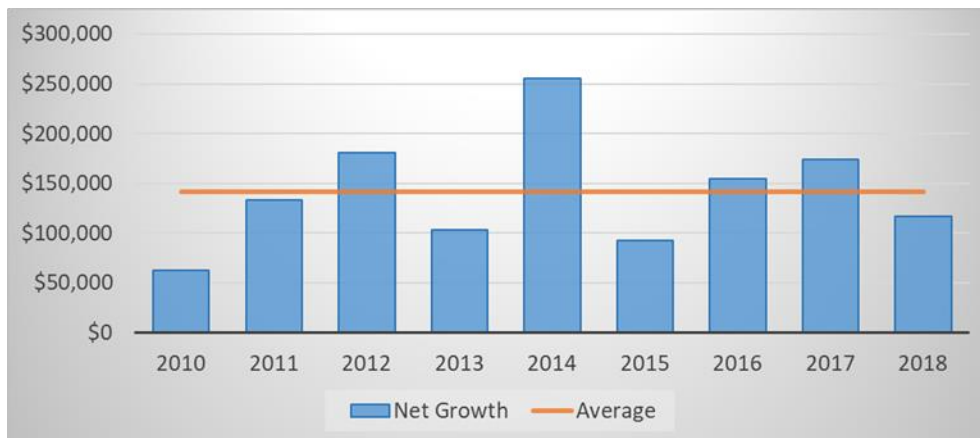
Assessment Growth

This is often referred to as “in-year” growth. Assessment growth can be positive or negative and takes into account physical changes to properties (new building, additions, demolitions, etc.), changes of use (exempt, residential to commercial, etc.) and changes to the original assessment due to ARB appeals and minutes of settlement. Below is a simple example demonstrating assessment growth:

	Property A	Property B	Property C	Total
2018 CVA	100,000	100,000	0	200,000
2019 CVA	100,000	100,000	100,000	300,000
2018 Tax Rate				2.00%
2019 Notional Tax Rate				2.00%
2018 Property Taxes	\$2,000	\$2,000	\$0	\$4,000
2019 Property Taxes	\$2,000	\$2,000	\$2,000	\$6,000

In this example, the addition of a new property creates a net tax benefit to the Town’s total property tax revenue.

This creates positive or negative revenue for the Town, the net result is what we refer to as “Net Growth”. Below is a chart summarizing the Town’s net growth over the past several years:

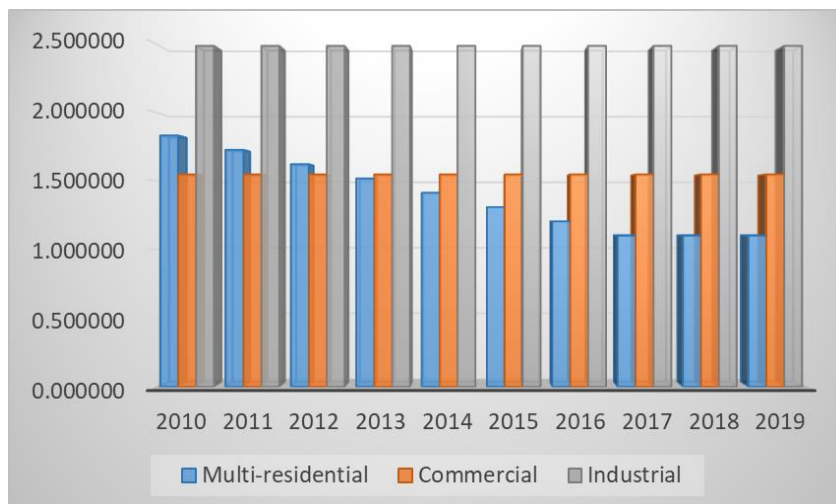


Tax Class Ratios

The residential class ratio is always set at 1.0. Other class ratios are set by the local municipality but can only be changed within the rules set out by the Municipal Act. In simple terms, let’s assume the commercial tax class ratio is 2.0 - if a commercial property has an assessed value of \$100,000 and a residential property also has an assessed value of \$100,000, the commercial property will pay 2.0 times the property taxes. This is the general concept, however, actual property taxes may vary from this based on several of the other factors discussed. The chart below displays a historical view of the Tax Class Ratios for the 3 main non-residential classes in St. Marys:

The Town has kept both the Commercial and Industrial tax ratios constant; however, has decreased the Multi-Residential tax ratio to its goal of 1.1.

Changing tax ratios creates a shift of the municipal tax burden.



2020 Budget Risks and Challenges

Cuts to Government Transfers – As expected, many government transfers are changing or being cut in 2020 and future years. Some may be directly to the municipality, while others are funding changes that impact our shared services partners that will inherently impact our external transfers.

Legislation changes – There are several regulations under review currently that will impact municipal operations in the future. As details become available, staff will be reporting on the potential impacts.

WSIB changes – In 2020, WSIB will be moving to a new rate model. This model use a 2-step process in setting WSIB rates – first, each organization will be placed in an industry class based on their risk profile, secondly, the claim history of your organization will be used. The changes will be phased in over a 3 year period.

Infrastructure Deficit – The work in assessing our state of the infrastructure and the development of a financial strategy to manage the current infrastructure deficit will continue in 2020.

Non-Residential Property Tax – As identified in the Fiscal Health report, the non-residential tax base has been in decline. Furthermore, a small number of properties make up a 17% of the entire tax base.

SUMMARY

Senior staff are preparing the 2020 Draft Budget taking into account established levels of service, operating efficiencies recommended, and strategic priorities identified. In order to ensure Council and staff resources are used as efficiently as possible, if the Strategic Priorities Committee has any initiatives, projects or budget targets that have not already been identified, it would be valuable to bring them forward for staff to analyze and address in the 2020 Draft Budget discussions.

STRATEGIC PLAN

- Not applicable to this report.
- This initiative is supported by the following priorities, outcomes, and tactics in the Plan.
 - Pillar #X _____:
 - Outcome: XYZ
 - Tactic(s): ABC
 - Pillar #X _____:
 - Outcome: XYZ
 - Tactic(s): ABC

OTHERS CONSULTED

Senior Management Team

ATTACHMENTS

n/a

REVIEWED BY

Recommended by the Department

Name
Title (ensure proper title is used)

Name
Title (ensure proper title is used)

Recommended by the CAO

Brent Kittmer

CAO / Clerk