Report of the Standing Committee on Fiscal Issues dated February 2, 1998

REPORT OF THE

STANDING COMMITTEE ON FISCAL ISSUES

DATED FEBRUARY 2, 1998

On motion of Councillor Angus, the Report of the Standing Committee on Fiscal Issues, dated February 2, 1998, was considered.

Moved by Councillor Angus,
That the Consent Agenda, Clause 1, be adopted.

Councillor Murray requested that Clause 1 be pulled from the Consent Agenda.

Phase-in of 1998 Reassessment
File AA-3 (Vol. 7)

365 - 1. The Standing Committee on Fiscal Issues has been advised that, by provincial legislation, a reassessment of all realty property has been conducted for 1998 which changes the reference year for market valuation from 1991 to 1995. Due to the reassessment, individual property owners may experience varying levels of change in their taxes, with increases or decreases being experienced depending on the market variables. The effect of reassessment is to redistribute the property tax in a fair and equitable manner based on market value. There are many factors used to calculate a property owner's taxes, such as the municipal revenue requirements, school division requirements, provincial education support requirements, provincial portioning and various tax credit programs.

The City of Winnipeg has on three occasions in the past introduced phase-in programs as a method of dampening the effects of the reassessment programs.

In 1987, the City implemented a phase-in of tax increases only for Residential 1 class property which were owner occupied. The phase-in subsidization was 75% in the first year for increases over 10%. The subsidization was reduced to 50%, 25% and 0% in the following 3 years.

In 1990, a second phase-in program provided assistance to owner occupied Residential 1 and Residential 3 class properties. The phase-in subsidization was 75% in the first year for increases over 10%. The subsidization was reduced to 50%, 25% and 0% in the following 3 years. Both of these programs (1987 and 1990) had substantial costs associated with them.

In 1994, all increases and decreases for all properties were phased in over 3 years (66%, 33%, 0%). This program was designed to be self-balancing and therefore provided no cost or benefit to the City.

Since 1987, as a result of reassessment and portioning changes, there has been a gradual shift of the tax burden to Residential 1 and 3 (single-family and condo) properties and a reduction to the Residential 2 (apartment) and commercial properties. Appendices I and II outline the tax shift and the schedule of portioning changes.

Based on the preliminary 1998 assessment roll as of May 16, 1997, the following % of classes of property will experience a municipal tax increase/decrease greater than 5%. In addition, the number of properties within each class which will experience a municipal tax change greater than + or - 5% are indicated. Municipal taxes have been calculated using a mill rate of 33.088 mills which produced the same level of revenue as in 1997, given the May 16, 1997 assessment roll.

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PERCENTAGE OF PROPERTIES WHICH WILL EXPERIENCE A 1998 MUNICIPAL TAX CHANGE OF GREATER THAN + OR - 5%, AS A RESULT OF REASSESSMENT AND PORTIONING CHANGES BEFORE PHASE-IN			
Class	*Number of Properties In Class*	*Properties Experiencing Tax Changes Greater Than + or - 5%*	
		%	*No.*
Class 10 - Residential 1	165,951	28%	45,970
Class 20 - Residential 2	3,893	76%	2,921
Class 30 - Farm	1,288	43%	550
Class 40 - Institutional	419	53%	220
Class 51 - Pipeline	15	27%	4
Class 52 - Railway	50	48%	24
Class 60 - Commercial	7,841	55%	4,293
Class 70 - Golf Courses	19	95%	18
Class 80 - Residential 3	9,543	83%	7,986
	189,019		61,986

OPTION 1

If the City does not introduce a phase-in program, the above referenced number and percentage of properties will experience tax changes (increase or decrease) greater than 5%. Some of the above changes are generated due to portioning changes which are not subject to phase-in, in particular most of the Class 20 - Residential 2 (apartment blocks) which are decreasing and Class 80 - Residential 3 (condos) which are increasing.

Appendices III and IV outline the impact by electoral ward on Class 10 - Residential 1 and Class 60 - Commercial.

There will be no financial impact on the City if it chooses not to have a phase-in program.

OPTION 2

If a phase-in program was introduced whereby in the first year 75% of all tax increases/decreases caused for reasons other than portioning changes were subsidized/clawed back, then the result would be as outlined in the following table. The % of properties and number of properties within each class which will experience a municipal tax change greater than + or - 5% after phase-in are as follows:

PERCENTAGE OF PROPERTIES WHICH WILL EXPERIENCE A 1998 MUNICIPAL TAX CHANGE OF GREATER THAN + OR - 5%, AS A RESULT OF REASSESSMENT AND PORTIONING CHANGES AFTER PHASE-IN			
Class	*Number of Properties In Class*	*Properties Experiencing Tax Changes Greater Than + or - 5%*	
		%	*No.*
Class 10 - Residential 1	165,951	2%	4,090
Class 20 - Residential 2	3,893	79%	3,055
Class 30 - Farm	1,288	25%	280
Class 40 - Institutional	419	23%	93
Class 51 - Pipeline	15	0%	0
Class 52 - Railway	50	25%	12
Class 60 - Commercial	7,841	21%	1,570
Class 70 - Golf Courses	19	32%	6
Class 80 - Residential 3	9,543	79%	7,567
	189,019		16,673

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The phase-in program, if adopted, would be reduced to 50%, 25% and 0% in years two, three and four.

Class 10 - Residential 1 has 28% or almost 46,000 properties which will experience tax changes greater than + or - 5%. Phase-in would reduce this to 2% or 4,000 properties.

Class 60 - Commercial has 55% or almost 4,300 properties which will experience tax changes greater than + or - 5%. Phase-in would reduce this to 21% or 1,570 properties.

Appendices V A to V O outline the range of percentage increases/decreases for Class 10 - Residential 1 properties by electoral ward. The actual data used to prepare the graphs are presented in Appendix III.

Appendices VI A to VI O outline the range of percentage increases/decreases for Class 60 - Commercial properties by electoral ward. The actual data used to prepare the graphs are presented in Appendix IV.

Appendices VII and VIII outline the impact after 75% phase-in of increases and decreases.

There will be no financial impact provided Council chooses to implement a program in which both the increases and decreases are phased-in, as in theory they offset each other. In practice, there may be minor costs or benefits when the formula is applied against individual properties.

OPTION 3

The City could choose to phase-in tax increases over 5% only, and this would apply to all classes of property. However, as it applies only to that portion which is greater than 5% of the increases and not to any of the decreases, there will be a cost to the City. The impact of the phase-in for Class 10 - Residential 1 and Class 60 - Commercial are outlined in Appendices IX and X.

The cost to the City will be in the range of $6 to $8 million in 1998 and $4 to $5.3 million in 1999 and $2 to $2.6 million in 2000.

OPTION 4

The City could choose to phase-in tax increases over 10% only, and this would also apply to all classes of property. Only that portion of the increase in excess of 10% would be phased-in. The impact of the phase-in can be seen in Appendices XI and XII.

The cost to the City will be in the range of $4 to $6 million in 1998, and $2.6 to $4 million in 1999 and $1.3 to $2 million in 2000.

TAX IMPACT ON AVERAGE PROPERTIES

Appendix XIII illustrates the tax impact of reassessment and portioning changes on every $100,000 of assessment for four classes of property. These impacts reflect a “revenue freeze” scenario.

OTHER CITIES

British Columbia updates its values annually and Alberta will be facing a major reassessment (moving to market values) in 1999. As a result, neither Province has had a phase-in of realty taxes in recent years.

Saskatchewan moved to market values in 1997 and both Regina and Saskatoon implemented complicated phase-in programs. The complexity of these programs was prompted by the significant shifts in value. The last reassessment was done in 1981 which reflected 1965 values. The 1997 reassessment moved to 1994 market values.

SASKATOON

Residential	-	Phased in increase/decrease over 3 years 66%, 33% and 0% - slight cost - mostly neutral
Commercial	-	Eliminated Business Tax - revenue neutral
	-	Tax increases capped at 14.7%
	-	Tax decreases allowed to the extent revenue from 14.7% could fund decrease

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REGINA

Residential	-	Increases phased-in over 5 years - maximum annual increase capped at $480
	-	Decreases phased-in over 3 years - maximum annual decrease allowed $480
Multi-Family	-	Increases/decreases phased-in over 3 years - maximum annual increase or decrease capped at 20% of 1996 taxes
Commercial	-	Increases (greater than $3,000 or 50% of prior years taxes) phased-in over 4 years - capped at 26% in first year and 22% thereafter
	-	Decreases phased-in over 3 years - capped at 20% each year, plus a portion of decreases greater than 50%

The Tax Branch of the Corporate Finance Department has embarked on a new electronic tax billing and collection system as of January 1998. This system is required to correct the “year 2000" problem. A phase-in program will create a significant problem for the Tax Branch in that knowledgeable staff who are assigned to the computer system will be the same staff required to prepare a phase-in program. A decision to implement a phase-in program will mean delaying implementation of the computer system. There will still be time to implement the new system before the year 2000, however, the time-frame will be extremely tight. This is a very high risk situation.

The Standing Committee on Fiscal Issues recommends:

I. That the City of Winnipeg freeze the amount of 1998 revenue raised by property tax at the same level as that raised in 1997. (Note: Any changes in a 1998 property owner’s tax bill will be the result of the 1998 reassessment, provincial portioning, and provincial and school division education revenues - all outside the control of City Council.)

II. That the City of Winnipeg not implement a phase-in program for the 1998 reassessment.

Copy of Appendices referred to in the above clause are on file in the office of the City Clerk.

Moved by Councillor Angus,
Adoption of the clause.

Carried.