MEMORANDUM

TO: Council

FROM: Alain Muise, CPA, CA, CAO

SUBJECT: Taxation Revenue – a closer look

DATE: January 24, 2024

Our tax system is a rate-based system, which simply means the taxes are calculated on the assessed value x the rate. For commercial, this is simply assessment x 2.29/$100 of assessment. The assessment is calculated by an independent organization called the PVSC. They use statistical and other processes to establish assessment increases. While the assessed tax value is supposed to represent increases in market values generally, they do not necessarily represent the actual market value of your home or business.

There's a difference between residential, resource and commercial properties.

Most resource properties and all commercial properties are not entitled to a CAP on assessment (explained below). The primary benefit goes to a resident that owns a home.

<u>Residential – rate $1.11 /$100 of assessment.</u>

Residents get protection from sharp increases in assessment values. This protection is called a CAP on assessment. All residents will see both the market increase and the taxable assessment. This number is used to calculate tax increases. Many residents have had a negative response to what could be a 30-65% increase in their assessment value from last year to this year. But the important number isn't <u>that</u> increase, it is the taxable assessment, aka CAPPED assessment. This year, the CAP on assessment amounts to 3.2%. This means that it doesn't matter how high the assessment rose, those with a CAP were limited to 3.2%.

Not everyone has a CAP on assessment. Typical properties with a CAP are homes that have been owned by the same person for years. Those homes recently bought (in 2022) would not have a CAP on them. In other words, the new resident would be subject to taxes near the negotiated value of the home. They would only benefit from the CAP the year after a purchase.

Non-residents do not have a CAP on their assessment, which means that some could see dramatic increases in their taxes. For example, if a property owner with no CAP had a $50,000 increase in their assessment, using current residential tax rates, that would amount to a $555 increase in their tax bill.

Residents who have major property improvements may not have access to a CAP in the year after this improvement. This depends on what kind of improvement the homeowner made. Repairs would not impact the CAP, but adding square footage to a home may.

This year, the increase in taxed assessment amounts to 7.6%. Last year's percentage was 10.9%. This represents in total a 2-year increase of 18.5%. Prior years were 2-3 %. The rate was not changed last year. The increase in residential rate, you will note, is higher than the CAP at 3.2%. This is due to the fact that some taxpayers do not have the CAP, as well as new residential growth.

<u>Resource – rate $1.11 /$100 of assessment</u>

This property is taxed at the same rate as residential but does not have a home or dwelling on it. An example would be a vacant lot of land owned by a taxpayer. Typical assessments on these properties is much lower than Residential properties, and some would benefit from the CAP on assessment as explained above. In short, while the increase in taxes is a nuisance, it is no where near as impactful as the residential or commercial increases.

<u>Commercial – rate $2.29/$100 of assessment.</u>

Commercial property has no CAP protection. So their increase in Market values x the rate = their tax bill. Commercial had 1-2% increase at best prior to last year. Last year the increase was 12.2% and this year 12.04% for a total increase of $24.24% over two years. No rate decrease last year.

<u>Another curveball</u>

The rates above do not include the fire area rates that all property owners must pay. The two rates of biggest concern are the Eel Brook rate of 13.5 cents (this is for the new building), and 9 cents for West Pubnico (due this year), with no set commitment to fund a capital purchase . We recommend a discussion early with the West Pubnico Fire Department to determine the potential for a reduction of rate over a longer period (as opposed to one year renewable). Argyle shall provide financial advisory services to support this discussion. The Eel Brook Rate could be overridden by Council, but to do so would require Council to consider how it would contribute more towards the building to replace the lost area rate revenue.

We hope that this detailed memo provides you and your residents with additional detail around how the taxation works. The discussion on potential change in the rate are outside the scope of this request. Staff will prepare alternatives for Council's consideration in the coming days.