

Report

City of Merritt
REGULAR Council Meeting
April 21, 2020

File Number: 1700

To: Scott Hildebrand, Chief Administrative Officer
From: Sheila Thiessen, Director of Finance & IT
Date: April 16, 2020
Subject: Request for Direction on Tax Rates

RECOMMENDATION:

THAT Council direct Staff to prepare the 2020 – 2024 Financial Plan Bylaw and the 2020 Tax Rate Bylaw using the following tax rate guidelines:

- **General Municipal Tax Rates – 5.74% decrease from 2019**
- **Transit Tax Rates – 5.74% decrease from 2019**

Background:

The City of Merritt must adopt a 2020 – 2024 Financial Plan Bylaw and a 2020 Tax Rate Bylaw by May 14, 2020.

Council and staff have worked diligently on this process, including a public open house and an online platform for the public to provide input. The COVID 19 pandemic has added some challenges for the City regarding its financial planning and reporting.

Council is faced with the unprecedented task of leading the City's response in a manner that supports its citizens through the provision of essential services and ensuring that the City is sustainable in the long run.

Overall assessment values in the City have gone up by 9.26%, of which 1.87% is related to new construction. This increase in assessed values requires consideration of our tax rates.

Generally, municipalities with higher assessments have lower tax rates. As the assessment values and base within the City of Merritt increase with time, the Council must consider the actual amount of taxes paid by the property owners and the services provided.

Table 1 below shows the tax rates over the past several years.

Table 1 Tax Rates 2013 – 2020 (proposed)

Year	Residential	Heavy Industry	Light Industry	Business	Recreation	Farm
2013	4.7752	60.1402	30.3912	15.7407	6.7541	23.0669
2014	4.9595	64.6173	29.9752	16.0539	6.8888	23.5279
2015	5.1555	65.4955	30.4123	15.6109	6.2278	23.9989
2016	5.2457	66.6416	30.9445	15.8840	6.3368	24.4188
2017	5.3244	67.6412	31.4086	16.1223	6.4319	24.7851
2018	5.3244	67.6412	31.4086	16.1223	6.4319	24.7851
2019	5.1790	65.7941	30.5509	15.6820	6.2562	24.1083
2020 Proposed	4.8815	62.0143	28.7958	14.7811	5.8968	22.7233

You can see that tax rates increased gradually and then peaked in 2017 and 2018, and then started coming down in 2019. This is largely because Merritt has seen increased growth and increased demand resulting in higher property values over the past few years.

Many municipalities are looking at reducing property taxes due to decreasing revenues due to COVID. Some of these municipalities have different revenue sources, including airports, parking and gaming revenues. The City of Merritt will face some loss of revenue due primarily to the closure of recreation facilities, which will be offset partially by lower operating costs, as only the fixed costs remain during the closure.

Council is tasked with balancing the requests to lower taxes, with the demands to provide support and economic stimulus. For the City of Merritt, deleting capital projects will not impact tax requirements as all proposed projects are funded with grants, reserves and surplus, and no current tax funding. It appears that this may be a beneficial time to do capital projects (physical distancing permitting) as there may be less competition for the contractors' time resulting in lower costs to the City.

Options / discussion:

Staff has prepared a few options in relation to property taxes and rates, using the revised property tax assessment roll.

1. **Maintain 2019 tax rates**, which would result in increased taxes for any property that saw an increase in assessment. Table 2 below shows the impact:

Table 2 Tax Rates Remain the Same

Property Class and 2019 Assessment Value	2020 Assessment values with average % increase per class	Increase (Decrease) municipal property taxes levied
Residential Average \$266,000 (2019)	Increase of 8% to \$289,000 (2020)	\$119
Residential \$450,000 (2019)	Increase of 8% to \$486,000 (2020)	\$186
Residential \$300,000 (2019)	No Change to Assessment \$300,000 (2020)	\$0
Major Industrial \$750,000 (2019)	No Change to Assessment \$750,000 (2020)	\$0
Business \$325,000 (2019)	Increase of 5% \$341,250 (2020)	\$255

2. **Reduce tax rates by 5.74%**, which will result in an increase for those properties that saw the average change in assessment value, but a decrease for those properties that didn't increase in value. A residential property that increased by 6.1% or lower will not see an increase in property taxes. Table 3 below shows the impact.

Table 3 Tax Rates are reduced by 5.74%

Property Class and 2019 Assessment Value	2020 Assessment values with average % increase per class	Increase (Decrease) municipal property taxes levied
Residential Average \$266,000 (2019)	Increase of 8% to \$289,000 (2020)	\$33
Residential \$450,000 (2019)	Increase of 8% to \$486,000 (2020)	\$42
Residential \$300,000 (2019)	No Change to Assessment \$300,000 (2020)	(\$89)
Major Industrial \$750,000 (2019)	No Change to Assessment \$750,000 (2020)	(\$2,835)
Business \$325,000 (2019)	Increase of 5% \$341,250 (2020)	(\$53)

3. **No increase for an average house** (results in \$187,000 less taxes collected), is shown in Table 4 below.

Table 4 Tax Rates are reduced to allow for no increase for an average house

Property Class and 2019 Assessment Value	2020 Assessment values with average % increase per class	Increase (Decrease) municipal property taxes levied
Residential Average \$266,000 (2019)	Increase of 8% to \$289,000 (2020)	\$0
Residential \$450,000 (2019)	Increase of 8% to \$486,000 (2020)	(\$14)
Residential \$300,000 (2019)	No Change to Assessment \$300,000 (2020)	(\$124)
Major Industrial \$750,000 (2019)	No Change to Assessment \$750,000 (2020)	(\$3,935)
Business \$325,000 (2019)	Increase of 5% \$341,250 (2020)	(\$172)

4. Council may direct staff to use a different tax rate than the options presented.

Financial / Risk Implications:

Maintaining the same tax rate as 2019 would result in more tax revenue collected, but the impact on the property owners may be more significant than Council wishes now.

Reducing the tax rate by 5.74% will still provide enough tax revenue for the City's operations, and the increases to the individual property tax bills would be more manageable.

There have been no changes to utility fees or property taxes made for 2020.

Reducing taxes collected is not recommended as the City's costs of operations have increased year over year and it necessary to have adequate funding for current and future needs. Reducing taxes in any year, will inevitably lead to the requirement for larger increases in later years.

The City is unable to have a deficit budget, so it must budget to cover every projected cost. If there is a surplus at the end of the year, it will be allocated to future capital projects and a small surplus fund to cover unexpected circumstances, like what we are experiencing in 2020.

Respectfully submitted,

Sheila Thiessen, CPA, CMA
Director of Finance & IT