



STAFF REPORT

Meeting Date: June 13, 2022

Title: Large Industrial Property Tax Rate

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Department: Administration

Report Number: Administration-2022-024

Recommendation:

It is recommended that:

1. Council accepts the Domtar Property Tax Memorandum of Agreement and the Domtar Land Lease thereby meeting all targets outlined in the June 20, 2016 Memorandum of Agreement between the City of Dryden and Domtar Inc. as well as the supporting Council resolution passed on December 19, 2016.
2. Council authorizes the Mayor and City Clerk to enter into both agreements with Domtar Inc.
3. Council resolves to authorize the City's Treasurer to utilize the one-time payment received from Domtar Inc. in years 2022 thru 2026 so as to lessen the financial impact to the other municipal tax classes resulting from the shift of tax burden from the large industrial class and that Council directs staff to bring such a resolution forward to the June 27, 2022 regular meeting of Council.

Background:

In 2014, because of a substantially lowered Dryden Domtar mill property assessment, City Council voted to increase the large industrial tax rate by approximately 134% to address a crippling loss of taxation revenue. Since 2014, that increase resulted in a Large Industrial Tax Ratio well above the "Range of Fairness" guideline set by the Provincial government. The current large industrial tax ratio is set at 7.884337, resulting in a municipal tax rate of 12.19% (attached).

On June 20, 2016, the City of Dryden and Domtar Inc. signed a Memorandum of Agreement (attached) which was passed via by-law 4419-2016 (attached). On December 19, 2016, City Council passed a supporting resolution to this agreement (attached). The Agreement and supporting resolution addressed the following key elements:

- That Domtar seeks predictable and equitable tax obligations relative to its competitors.
- That the City of Dryden seeks to have a predictable revenue stream and recognition of the need to deal with the then heavy debt load issues.
- The Agreement settled all outstanding tax appeals.
- The intent of the Agreement was to avoid further assessment appeals or "requests for reconsideration" during the term of the Agreement.

Since the signing of the Agreement with Domtar, local Domtar and municipal leadership have been meeting periodically to discuss sustainability and competitiveness matters.

In late 2020, City Council directed the City's Finance Committee to work with Domtar's local leadership, in the spirit of the former agreement, to develop a large industrial property tax reduction proposal for Council's consideration. Since receiving that direction, the Finance Committee has been meeting continuously with Domtar in an attempt to develop a mutually beneficial proposal.

Discussion:

Municipal leadership recognizes that Domtar is a major employer in our city and region. Municipal leadership also appreciates the need for Domtar's Dryden mill to remain competitive and their ongoing requirement for a cost effective local operation. At the same time, municipal leadership's goal of financial sustainability, while keeping property tax rates affordable, is of significant importance to the community.

Keeping these key areas of importance in mind, Domtar and City officials agreed to seek a mutually beneficial agreement, with any proposed agreement focusing on the following elements:

1. A sustainable municipality and a sustainable local Domtar mill
2. Provide a competitive level of property taxation
3. Provide an affordable level of property taxation across all municipal tax classes
4. Provide for a phased approach
5. Seek collaborative and innovative opportunities

The Memorandum of Agreement being proposed to City Council and recommended by the City's Finance Committee, contains the following items:

- An estimated 24.36% decrease to Domtar's levied property tax amount, based on 2021 tax values. Analysis has shown that this reduction provides the Dryden Domtar operations with a competitive municipal tax rate however, it still leaves the large industrial tax ratio (approximately 5.73) well above the Provincial "Range of Fairness" guideline and still subject to provincially legislated conditions.
- A special one-time payment in the amount of \$2.5MM, paid by Domtar to the City of Dryden over a 5-year period.
- A collaborative land lease to enable further waterfront and downtown core enhancement by providing a public event space development opportunity.

The Finance Committee is proposing that the special one-time payment from Domtar is utilized in years 2022 thru 2026 to lessen the financial impact to the other municipal tax classes resulting from the shift of tax burden from the large industrial class. Commencing in 2027, the shift of the tax burden would be fully borne by the other municipal tax classes.

The proposed Agreement being brought forward is supported by local Domtar leadership and the City's Finance Committee. It has been created through both parties building an understanding of each other's financial positions, operating and capital investment needs and challenges and each other's longer-term goals. The parties have maintained a focus on the abovementioned areas of importance, while striving to reflect the spirit that the 2016 Agreement was made in.

Should Council accept the proposed Agreement, Council should consider such acceptance as closure to the 2016 Agreement with Domtar Inc along with any of the supporting resolutions that were made in that period.

Financial Implications:

There will be no impact to the approved 2022 budgeted taxation revenue for the City as Domtar's special one-time payment would be used in 2022 to fully offset the shifted tax burden resulting from the reduced large industrial tax ratio.

It is also being proposed that this one-time payment be used in years 2023 thru 2026 to partially reduce the financial impact seen by the other tax classes resulting from this shift of tax burden, with the full burden being seen in the 2027 tax year.

City staff's analysis shows an estimated 4.05% overall tax rate increase to the other municipal tax classes resulting from the shift of tax burden away from the large industrial class.

Current Budget Allocation:

Account #:

Attachments (Reference Material):

- Memorandum of Understanding between Domtar and the City, June 20, 2016
- City of Dryden By-law 4419-2016
- City of Dryden Council Resolution, December 19, 2016
- City of Dryden 2021 Tax Ratios and Rates