REGIONAL MUNICIPALITY OF OTTAWA-CARLETON — REPORT
MUNICIPALITÉ RÉGIONALE D'OTTAWA-CARLETON — RAPPORT

Our File/N/Réf.
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DATE 23 March 1997

TO/DEST. Co-ordinator
Corporate Services and Economic Development Committee

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **PUBLIC HEARING APPEARANCE**
BILL 106 - FAIR MUNICIPAL FINANCE ACT, 1997

DEPARTMENTAL RECOMMENDATION

That the Corporate Services and Economic Development Committee recommend Council approve of the appearance of the Finance Commissioner at the Public Hearing on Bill 106, scheduled for the weeks of April 7th and 14th , to provide the comments listed in this report as Council's response to the proposed legislation.

BACKGROUND

On January 16, 1997 the provincial government introduced the *Fair Municipal Finance Act, 1997* (the Bill), which amends both the *Assessment Act* and the *Municipal Act.* The Bill received second reading in February and was referred to the Standing Committee on Finance and Economic Affairs to hear presentations on the Bill during the weeks of April 7th and 14th.

The Bill will make fundamental changes to the current system of property taxation in Ontario. **Importantly, the changes proposed by the Bill will dramatically increase the policy role of Regional Council with regard to municipal property taxation.**

The Bill proposes the following significant changes effective for the 1998 taxation year:

Basis of Assessment

Properties will be assessed under a common province-wide methodology. The assessment of properties will be based on their "current value" which is defined as the amount of money the land would realize if sold. All properties in the province will have their current value assessed as of the same date as follows:

Taxation Year	Current Value Date
1998, 1999 and 2000	as of June 30, 1996
2001 and 2002	as of June 30, 1999
2003	as of June 30, 2001
2004 and onwards	as of June 30 of the preceding year

Effective for the 2005 taxation year, the assessed value of a property will be the average of its 2004 and 2005 current value. For taxation years after 2005, the assessed value of a property will be a three year average of the current value for the taxation year and the two preceding years.

Business Assessment

Under the current assessment system, properties from which a business is conducted are assessed as business assessment in addition to their property assessment. The business assessment is a fixed percentage of the property assessment, and ranges from twenty-five to seventy percent depending on the nature of the business conducted. The commercial mill rates are applied to both the property assessment, resulting in the realty tax against the property owner, and the business assessment, resulting in the business occupancy tax against the business owner. The Bill eliminates the business occupancy tax and provides municipalities with the ability to decide whether or not to recover these taxation revenues from any or all property classes.

Municipal Property Taxes

Under the current system, municipalities levy one or more basic mill rates against commercial assessment and corresponding mill rates equal to eighty-five percent of the basic mill rates against residential and farm assessment.

The Bill discontinues this system. Instead, municipalities will levy different tax rates against different classes of property. The regulations will provide for six standard property classes: residential/farm, multi-residential, commercial, industrial, linear properties (pipelines) and farmland and managed forests. In addition to these standard property classes it is expected that other classes will be developed over time by the province based on requests from municipalities. Municipalities will also be able to employ one or more of these provincially determined property classes in addition to the standard classes to meet community priorities.

While municipalities will set the aggregate funding to be raised from property taxation, the tax rates will be subject to the municipalities “tax ratios”. A municipality’s tax ratios represent the ratios that the tax rate for each property class must be in relation to the residential property class. For municipalities in a tier-structure, the tax ratios are to be set by the upper-tier municipality through the passing of a bylaw on or before March 15 in each year.

The Bill does provide for the upper-tier municipality to delegate the setting of tax ratios to each of its lower-tier municipalities by bylaw. The bylaw does not come into force, however, unless it is approved through resolution by each of the lower-tier municipalities.

While the Bill empowers the upper-tier municipality to set the tax ratios for each property class, the tax ratios must fall within ranges for each class that will be provided by the province through regulation. The province will also provide to each upper-tier municipality "transitionary" tax ratios that will represent the tax burden currently borne by each property class within the municipality. The Bill will not require Council to set tax ratios that are different from the transitionary ratios, even if the transitionary ratios are outside of the ranges set by regulation. The legislation is permissive in that the upper-tier Council can choose not to effect changes to the ratios, but if they do, the changes must be within or toward the ranges provided by regulation.

Phasing of Assessment Impacts

The Bill provides the upper-tier municipality with the ability to decide whether or not to phase-in increases or decreases to property taxes caused by the new assessment system. The phase-in period cannot be longer than eight years. If a phase-in policy is to be implemented, the bylaw providing for a phase-in policy must be enacted in 1998.

Deferral of Taxes

The Bill provides the upper-tier municipality with the ability to decide whether or not to enact bylaws to defer assessment related tax increases for individual properties in the residential/farm property class if the owners are low-income seniors or low-income persons with disabilities.

Other Changes

The Bill contains a number of other amendments to the Assessment Act and the Municipal Act that are less consequential.

DISCUSSION

It would appear that Bill 106 has been designed to accomplish several objectives:

1. Eliminate the current assessment system which is confusing, out of date, inconsistent across the Province and, most importantly, hides disparate tax burdens between classes of properties within their assessments for taxation purposes.

2. Replace it with an assessment system that is "pure" in that every property in the province is assessed under the same basis at the same time under a measurement scheme that everyone can understand, that being the property's current realizable value.

3. Eliminate the out of date and difficult to administer Business Occupancy Tax.

4. Highlight the disparate and higher tax burdens currently borne by multi-residential, commercial and industrial properties as compared to the burden of residential and farm properties By instituting a system of different tax rates for each property class that people can directly understand.

5. Provide municipalities with the ability to reduce the disparities noted in (3) above, by allowing municipalities the ability to set tax ratios for each property class within provincially-set ranges that are designed to shift tax burden to the residential property class.

6. Provide municipalities with the ability to mitigate the impact of increases or decreases in property taxes resulting from the new system by implementing a phase-in model for all property taxpayers and a deferral model for handicapped and low-income taxpayers.

COMMENTS

Based on the above, staff would recommend the following comments:

1. That Council is generally supportive of the proposed legislation as:

   - it is recognized that the current assessment system, on a province-wide basis, is dysfunctional;
   - the legislation is generally permissive in nature and provides municipalities with regulated autonomy to make property tax policy decisions that are reflective of regional circumstances and priorities;
   - the legislation proposes the elimination of the Business Occupancy Tax, a tax that the municipal sector in Ontario has long maintained should be eliminated due to the costs and problems involved in its administration; and
   - the legislation allows for mitigation of resulting changes in property taxes from the new system over an extended time period.

2. That Council believes that the proposed legislation is such a fundamental shift in property taxation policy that there is a need for the Province to design a comprehensive communication strategy, including an impact analysis, to educate and inform taxpayers and municipal councils regarding the proposed changes to the property tax and assessment system.

3. That Council believes that for Ottawa-Carleton the issue of payments of lieu of taxation is uniquely critical and that Bill 106 is incomplete in that it does not deal with exempted properties. As a consequence, Ottawa-Carleton municipalities should be consulted by the province prior to the development of this policy expected to take place this spring.

4. That Council is concerned that the policy research and analysis required to support Council deliberations on this issue will be extremely complex. Of concern is the short amount of time that will be available between the enactment of the Bill in its final form and March 15, 1998, when Council will be required to enact its first tax ratio bylaw. Given that much of the modelling that will be required to support Council's policy decisions cannot be done until reasonable assessment data is made available, it is critical that the Province provide municipalities with this data as soon as possible. In the case where the timeline is deemed to not provide enough time for proper consideration, that the effective date of the legislation be postponed until 1999.

5. That Council acknowledges that the Province has as an objective, the delegation and consolidation of tax policy setting and related matters to the upper tier level of municipal government. Council feels that it is unfortunate that the Province did not go the further step of transferring tax billing administration to the upper tier as well, given the link between the policy and administration issues.

Approved by
J.C. LeBelle
Finance Commissioner