

7. UPDATE ON PROPERTY TAX POLICY ISSUES

COMMITTEE RECOMMENDATION

**That Council receive this report for information.**

DOCUMENTATION:

1. Finance Commissioner's report dated 15 May 98 is immediately attached.
2. Extract of Draft Minute, Corporate Services and Economic Development Committee, 19 May 98, immediately follows the report and contains a record of all votes.

Our File/N/Réf.  
 Your File/V/Réf.

DATE 15 May 1998

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

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **UPDATE ON PROPERTY TAX POLICY ISSUES**

### **DEPARTMENTAL RECOMMENDATION**

**That the Corporate Services and Economic Development Committee and Council receive this report for information.**

### **PURPOSE**

The purpose of this report is to provide members of Council with an update on the issues surrounding the tax policy decisions that Regional Council will need to address and to also provide a tentative time frame for these to be considered.

### **BACKGROUND**

On 26 February 98 and 11 March 98, staff from the Finance Department provided members of Council with a presentation and report that highlighted the then current issues and some of the background on the options available to Council. Since that time, some new announcements were made by the Province concerning some of these property tax policy issues.

On 27 March 98 the Minister of Finance announced that additional measures would be forthcoming concerning protection for small business. Specifically the Minister indicated that provisions would include:

- an optional provision to limit tax increases to 2.5% annually for the next 3 years on commercial, industrial, and multi-residential properties;
- allowing the use of new commercial property classes that would consist of office buildings, shopping centres, parking lots and vacant land, and new industrial property classes for large industrial properties and vacant properties;
- extending tiered or graduated tax rates to industrial properties;

- allowing for phase-in of up to 8 years for all property tax changes related to the Ontario Fair Assessment System;
- providing an optional tax rebate program for assessment-related increases to businesses in the commercial and industrial property class;
- delaying the return of the final tax roll until June;
- extending the assessment appeal deadline until the end of July; and,
- introducing new legislation to allow landlords to pass on tax increases to tenants covered under gross leases.

As a follow-up, on 1 April 98, the Province released revised figures for the estimated costs of transferring funding responsibilities for programs to municipalities. This announcement corrected the discrepancies that had existed in the previous estimates. Specifically, the cost of ambulance services was changed to reflect more accurate costs, the calculation and allocation of the residential education tax room calculation was adjusted, the cost of property assessment and the RMOC's loss of revenue from gross receipts tax was changed to reflect the upper tier portion of costs. Because of these changes, each municipality's "savings target", as determined by the Province, was revised. This resulted in the RMOC's savings target increasing to \$42 million from the previously stated target of \$27 million. On 8 April 98, the Finance Commissioner provided members of Council with an overview of the announced changes and their impact on Ottawa-Carleton.

Staff had originally expected to table two reports at the Corporate Services and Economic Development Committee meeting on 5 May 98 concerning rebates for charitable and similar organizations and tax relief for low-income seniors and low-income disabled. In the meantime staff learned, however, that new legislation was being prepared that would impact these programs. For this reason, it was felt that any recommendations concerning property tax rebates and property tax relief programs should wait until the release of this new legislation.

On 8 May 98, the Province introduced Bill 16, the Small Business and Charities Protection Act, 1998, into the Legislature through first reading. In addition to the issues indicated in the Ministers' 27 March 98 announcement, the bill in its current form includes:

- a provision containing the requirement for a **mandatory** tax rebate program of at least 40% for registered charities, with the option of increasing this rebate to up to 100% of the total taxes levied - not required if the 2.5% tax increase limit is not adopted;
- a provision that legislates that rebates will be provided to charities in 1998 by October 31, and in subsequent years the first instalment of at least 50% of the rebate must be provided by January 15, with the final instalment of the rebate being provided by June 30 of the year in which the taxes are levied;
- allowing municipalities to provide a rebate on property taxes "for organizations that are similar to eligible charities or a class of such organizations defined by the municipality";
- the ability for municipalities to provide tax rebates to small businesses in the commercial and industrial class - provided the 2.5% limit is not used;
- the ability to phase-in all Provincial tax changes (ie: changes from use of graduated tax rates); and,
- a provision that would allow the Province to pay the school boards the amount of the second tax instalment. Municipalities would reimburse the province at a later date.

At the same time, the Province also announced that, in addition to the changes contained in the Small Business and Charities Protection Act, 1998, it intends to reduce business education taxes in Ottawa-Carleton by \$2.6 million over the next 8 years. The announcement indicates that, in 1998, the industrial property class in Ottawa-Carleton is expected to see an estimated reduction in education taxes of \$323,150.

#### Tax Policy Decision Points and Key Milestones

Based on the existing legislation the tentative schedule of events and timing concerning tax policy issues is presented in Annex A. As indicated, this schedule is based on the current legislation and may change depending on the type and content of any regulations released by the Finance Department and the Ministry of Municipal Affairs.

*Approved by  
J.C. LeBelle*

Attach. ( 1 )

### 1998 Property Taxation/Assessment Decision Points and Key Milestones

Decision Point	Projected Timing	Mandatory Dates ('98)	Status
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Ongoing Events			
Consultation with Area Municipalities regarding tax policy issues	Aug - Sept 98		Work group established with area municipalities
Updates for Members of Council on assessment/taxation changes	Nov - Sept 98		

Completed Tasks			
Co-ordination of initial briefing to Regional Council by the Regional Assessment Commissioner	Sept 97		Complete
Release of preliminary transition ratios by the Province	Feb 98		Received
Overview and report on the tax policy issues	Feb - Mar 98		Completed
Release of the preliminary re-assessment data	Feb 98		Received
Determining which level of municipal government will be responsible for setting tax ratios for 1998	Mar 98	Mar 15/98	Complete
Approval to proceed with public communications strategy	Mar 98		Complete
Establishing notional tax rates for 1997	Mar 98		Complete
Approval of the <i>Terms of Reference</i> for the Property Tax Policy Committee	Mar 98		Complete
Provincial open houses ratepayers	Feb - Apr 98		Complete

In-Progress			
Determining membership on Property Tax Policy Committee	May 98		

	Projected	Mandatory	
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<b>Decision Point</b>	<b>Timing</b>	<b>Dates ('98)</b>	<b>Status</b>
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<b>Final Roll Issues</b>			
Delivery of the final tax roll (paper form)	June 98		
Identification of property assessment classes by the Province	June 98		Classification by new property classes (shopping centres, office buildings, etc.)
Release of the final transition ratios	June 98		
Delivery of the final tax roll (electronic version)	June - July 98		Required in order to model the possible alternatives

<b>After Receipt of Final Roll</b>			
Determine use of provision capping tax increases at 2.5% for commercial, industrial, and multi-residential property classes and passing of appropriate by-law if adopted	July 98	July 98	Optional by-law that must be passed within 30 days of the return of the final roll if it is to be used (unless extended by regulation)
Decide on establishment of graduated tax bands for commercial/industrial properties	Aug 98		
Recommend policy concerning assessment-related deferrals for low-income seniors and low-income disabled	Aug 98		After determining applicability of 2.5% limit
Approval of by-law to set final tax ratios	Aug 98	May 31/98	
Recommend policy concerning rebates to charitable organizations and any similar charitable organization	Aug 98	Oct 98	After 1998, the first half of the rebate is to be provided by Jan 15, with the second instalment on or before June 30 (After determining applicability of 2.5% limit)
Determine use of optional commercial property classes	Aug 98		Before final tax bill
Determine use of optional rebate program for commercial and industrial properties and passing of necessary by-law	Aug 98		Before final tax bill

	<b>Projected</b>	<b>Mandatory</b>	
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Decision Point	Timing	Dates ('98)	Issues/Status
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<b>After Receipt of Final Roll (cont'd)</b>			
Determine assessment-related increases	Aug 98		Before any phase-in decisions
Set 1998 tax ratios	Aug 98	May 31/98	Before final tax bill
Determine use of phase-in period for assessment-related changes	Aug98		

<b>Final Steps for 1998</b>			
Set tax rates	Aug 98	May 31/98	
Issue final tax bill	Sept 98		Final step for 1998 tax bill

Extract of Draft Minute  
Corporate Services and  
Economic Development Committee  
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-Finance Commissioner's report dated 15 May 98

The Deputy Treasurer, Mr. Kent Kirkpatrick, drew the Committee's attention to a number of changes made by the provincial Minister of Finance subsequent to presentations by regional staff to Council in February and March 1998. These include:

- \* a provision to limit tax increases to 2.5% annually for the next three years on commercial, industrial and multi-residential properties;
- \* allowing sub-classes in the commercial property class, including office buildings, shopping centres, parking lots and vacant land and new industrial sub-classes for large industrial and vacant properties;
- \* extending graduated tax rates to industrial properties;
- \* allowing a phase-in of up to 8 years for all property tax changes related to the Ontario Fair Assessment System;
- \* providing an optional tax rebate program assessment-related increases to businesses in the commercial and industrial property class;
- \* delaying the return of the final tax roll until June;
- \* extending the assessment appeal deadline until end of July;
- \* introducing new legislation to allow landlords to pass-on tax increases to tenants in situations of gross leases.

Mr. Kirkpatrick went on to describe Bill 16, the Small Business and Charities Protection Act, which includes:

- \* a provision for a mandatory tax rebate program of at least 40% for registered charities. This rebate can be increased to 100% of total tax levies, unless Council elects to cap tax increases to 2.5%, as described earlier;
- \* a provision that rebates must be provided to charities before Oct 31<sup>st</sup> and in the following years, half the rebate must be provided before January 15<sup>th</sup> of the taxation year, with the final installment to follow the establishment of tax rates by June 30<sup>th</sup>;



Extract of Draft Minute  
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- \* allowing municipalities to provide a rebate of property taxes for organizations such as not-for-profits and like organizations;
- \* a provision allowing the Province to pay the second installment to school boards and be reimbursed by municipalities at a later date. This will assist municipalities with the cash-flow situation they face because of their inability to issue a second interim bill. In addition, the Province has extended the due date on invoices for social housing and land ambulance services to upper-tier municipalities to the end of September to assist with cash-flow difficulties in 1998.

Mr. Kirkpatrick drew Committee's attention to Annex A which describes Taxation/Assessment Decision Points and Key Milestones. He spoke about the receipt of the final tax roll anticipated in late June, early July 1998, calling this an important milestone since as staff cannot begin the modeling required to bring recommendations to Committee and Council. He indicated recommendations on the optional use of the 2.5% cap will be made in July; recommendations on graduated tax rates, tax relief/rebate programs and final tax ratios will be made in August. Mr. Kirkpatrick noted that area municipalities will not likely issue final tax bills before September 1998.

Councillor M. Meilleur asked whether there would be community representatives on the Property Tax Policy Committee. Mr. Kirkpatrick reiterated that the Terms of Reference call for that ad hoc committee of Council to examine the setting of tax ratios for the 1999 taxation year; public consultation will take place through the Corporate Services and Economic Development Committee and Council.

Councillor R. Cantin asked for clarifications regarding the mandatory tax rebate. Mr. Pete Larocque, Manager, Policy Research, Financial Services Division, said the rebate has to be provided if the 2.5% cap is not adopted. Mr. Kirkpatrick added that the cap can be applied to all taxation classes, however the cost of capping comes at the expense of those receiving greater decreases within their class. He pointed out that the rebate program to help charities recover from the loss of the Business Occupancy Tax (BOT) exemption will not be required if increases to charities are capped at 2.5%. He said an important distinction to be made is that the cost of this program would be funded from all taxation classes.

Responding to a question from Councillor G. Hunter, Mr. Kirkpatrick confirmed that partner municipalities are "in-step" on this issue. A working committee has been struck to keep municipalities informed and to receive their feedback, as assessment and property tax matters are new grounds for regional staff. In addition, a number of Council's policy decisions will have an enormous effect on property tax administration and logistics, and communications must be kept as open as possible.