REGIONAL MUNICIPALITY OF OTTAWA-CARLETON
MUNICIPALITÉ RÉGIONALE D'OTTAWA-CARLETON

REPORT
RAPPORT

Our File/N/Réf.
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DATE	3 March 1998
TO/DEST.	Co-ordinator, Corporate Services and Economic Development Committee
FROM/EXP.	Finance Commissioner
SUBJECT/OBJET	**1998 PROPERTY TAXATION ISSUES**

DEPARTMENTAL RECOMMENDATIONS

That the Corporate Services and Economic Development Committee and Council approve:

1. **The retention of tax ratio setting responsibility at the upper tier;**
2. **The adoption of prescribed transition tax ratios for 1998 taxation purposes;**
3. **The establishment of an ad hoc Committee of Council to be known as the Property Tax Policy Committee;**
4. **The development of a public information program to provide residents of Ottawa-Carleton with information concerning changes in the property tax system effective in 1998.**

PURPOSE

The purpose of this report is to provide the following:

1. Information regarding the new property tax system enacted by the Province for 1998;
2. An illustration of the impacts to Ottawa-Carleton property taxpayers of provincial education tax rates and the link to downloaded funding requirements;
3. A description of property tax policy decisions that Regional Council must make in 1998;
4. Discussion and recommendations regarding tax ratio setting for 1998.

DISCUSSION

The New Property Tax System

The provincial government has dramatically altered the property taxation and assessment system in Ontario, effective in 1998. The framework of this new system is described in the provincial document, attached as Annex A, entitled “A Bulletin on the New Property Assessment and Taxation System in Ontario”.

Provincial Education Tax Rates and Downloading

Beginning in 1998, the province is taking over the funding of the education system in Ontario. All residential properties and commercial properties in the province will pay a respective common residential and commercial property tax rate for this purpose. These rates have not yet been announced, but provincial estimates made in January place the residential rate between .45% and .47% of property value. This is significantly lower than the effective residential tax rates that school boards across the province charged in 1997. The difference relates to the provincial policy framework changes, the most significant component of which involves increased municipal property taxation requirements with decreased education property tax requirements for residential and multi-residential property taxpayers.

According to provincial estimates released on 12 December 1997, $264 million of new funding responsibilities will be downloaded to the property tax requirements of the RMOC and area municipalities in Ottawa-Carleton. Offsetting this will be $221 million in “vacated property tax room” created by the reduced residential tax rate for education purposes. This “vacated property tax room” represents the difference between what was generated in total residential education property taxes for all boards in Ottawa-Carleton in 1997 and ***what is estimated by the province*** will be generated in 1998 using the new provincial residential education tax rate.

The provincial contention is that if municipalities can achieve savings sufficient to accommodate the net download of funding responsibility (Region $27 million, Area Municipalities $16 million) the transfers will have been “cost neutral” to property taxpayers. While this might be true for residential and multi-residential taxpayers in total, it will certainly not be true for those taxpayers individually.

The provincial contention would be more accurate if all residential property taxpayers had paid the same effective tax rate for education purposes in 1997. There were in fact, six different effective residential education tax rates in Ottawa-Carleton in 1997, depending on which board an individual property taxpayer supported. The chart below illustrates this issue with the aid of some general assumptions. It is for illustrative purposes only and does not purport to definitively forecast the actual impact of this issue as it does not model the effect of special service area levies and other variables. The chart compares what a single residential property valued at $150,000 paid in 1997 for education purposes, by board, and the amount that the property tax bill for education purposes will change by in 1998 when charged the common provincial rate of approximately .46% of property value. This difference is identified in the third column as the amount of “vacated tax room” that will be available on that tax bill to offset the impact of the downloaded costs on the municipal and regional portions of the bill. The fourth column identifies what the downloaded impact would be if the same $221 million in tax room was taxed back as downloaded costs against residential assessment on a region-wide basis. As mentioned previously, this ignores the intricacies of how the download will impact special service levies such as transit which will exacerbate the impact on urban taxpayers and the fact that certain services have actually been downloaded to area municipalities. The final column "net impact on taxes" shows the amount that the total property tax bill would change.

Board	1997 Tax	1998 Tax @ .46%	Vacated Tax Room	Downloaded Tax Impact	Net Impact On Taxes
CBE Public	$1,688	$690	$998	$850	($148)
CBE Separate	$1,676	$690	$986	$850	($146)
French Separate	$1,486	$690	$796	$850	$54
French Public	$1,475	$690	$785	$850	$65
OBE Public	$1,398	$690	$708	$850	$142
OBE Separate	$1,381	$690	$691	$850	$159

CBE supporters will have more "property tax room" vacated on their bill as a result of the common provincial education tax rate because they have in the past paid higher taxes for this purpose. The converse is true for OBE supporters because they have always benefited from a higher commercial assessment base. (This same relative effect will hold true for commercial property taxpayers as well).

Even if the megaweek download was completely offset by vacated education property tax room and municipalities were able to freeze their total property taxation requirements, actual total property taxes for individual property taxpayers will change differently as a result of the provincial policy decision to move to one tax rate for education purposes.

While the education tax rate has been identified for residential and multi-residential properties, the rates have not yet been determined for properties in the commercial, industrial, and pipeline classes. On February 5, the Province announced that the rates for these properties will be set on a region-wide basis. It is expected that the Province will be releasing regulations identifying the rates to allow municipalities to calculate the impact within the next two weeks.

Policy Decisions Delegated to RMOC

Under the provisions contained in the Fair Municipal Finance Act (Parts I and II), Regional Council has been delegated the authority to establish property tax policy in several areas for Ottawa-Carleton. There are five major areas in which Regional Council will need to establish property taxation polices. They are as follows:

(i) Setting of Tax Ratios (Mandatory for 1998)

This is dealt with in detail, including recommendations, in the last section of this report.

(ii) Tax Relief for Low-Income Seniors and Low-Income Disabled (Mandatory for 1998)

Under the provisions contained in the Fair Municipal Finance Act (Part 1) Regional Council is required to establish a policy, in the form of a by-law, providing for the deferral or cancellation or other relief from all or any of any **assessment-related increases** for low-income seniors and low-income persons with disabilities who own or whose spouses own property in the farm or residential class. Council must also determine the eligibility criteria for these categories. Any deferrals, cancellations or other relief that Regional Council provides, will be shared proportionately by the area municipalities and the province. Regional Council may, by by-law, determine interest to be charged on deferred taxes in this category, provided that the rate does not exceed the current market rate.

Any cancellation of assessment-related increases would result in the burden being shifted to the rest of the property taxpayers in Ottawa-Carleton. Without knowing how many taxpayers would fall into this category or what the assessment-related increases may be for those taxpayers, it is difficult to model the impact this might have for Ottawa-Carleton. The Province will be providing municipalities with access to software that will allow the modelling of various options, however, this has not yet been made available.

(iii) Phase-In of Assessment-Related Changes (Optional, but can only be established in 1998)

Under the Fair Municipal Finance Act, Regional Council is provided with the authority to phase-in any **assessment-related increases or decreases** over a maximum of eight years. Only the changes brought on by reassessment can be phased-in and not any additional costs that may have been brought on by the transfer of funding responsibility or other additional taxation requirements. Any decision to phase-in would have to be made for the 1998 taxation year and would apply to both the RMOC and the area municipalities. Phase-in amounts can be different for each property class or can be deemed to be not applicable to one or more property classes. Phase-in amounts must be equal to or less than the previous year’s amount starting in year two of the phase-in period. The preliminary data necessary for Council to make any determination concerning phase-in has just been released and staff are in the process of modelling the changes. While the legislation does not speak to any deadline for determining the phase-in of these changes, the decision would have to be made prior to the area municipalities sending out the final property tax bill.

(iv) Rebates to Charitable and Similar Organizations (Optional for 1998)

Regional Council through the approval of a by-law is provided with permissive authority to allocate property tax rebates of up to 40% to registered charities (as defined in the *Income Tax Act*) and to 'any similar organizations'. While registered charities has been defined in the Act, the definition of 'similar organizations' has been left up to Regional Council to determine the criteria for this group. In the past, organizations that were located in commercial buildings and that were not operating a business were required to pay only realty taxes and not business occupancy taxes (BOT), while businesses were required to pay both. Organizations that were considered to be exempt from BOT included charities, non-profits, community-based associations, organized labour associations, lobby organizations, and so on.

The total combined taxation that this property class paid in 1997 (both realty and BOT) will form the basis for calculating the tax ratio for this class for 1998. When this total amount is redistributed and averaged across this property class, every property class will share the load of realty taxes and BOT. This will result in some businesses paying a lower taxation amount, with others paying a higher amount because of averaging within the commercial class. This rebate program is intended to provide the non-business properties with a way of reducing their total property taxes amount by a figure that reflects the additional burden on these properties.

Any rebate program would, increase the burden on all property classes, since the RMOC will need to increase its total taxation requirement for the rebate amount.

Initial estimates indicate that approximately 1,500 properties in Ottawa-Carleton are currently exempt from BOT. Of this amount, there are 300 charitable organizations, 300 non-profit and 900 special interest associations. Based on a 35% tax rebate program, $1.5 million would be returned to charitable and non-profit organizations and $4 million would be returned to special interest groups. Of this amount, RMOC's share has been estimated to be $1.8 million.

It is unclear at this point whether the rebate would go to the owner or the tenant.

(v) Graduated Tax Rates for Commercial Properties (Optional for 1998)

The Fair Municipal Finance Act (Part 2) provides Regional Council with permissive authority to establish two or three bands for commercial property, in order to facilitate graduated tax rates. Under the old system, businesses were charged realty taxes along with BOT. Because commercial properties will not be paying BOT in 1998, the total envelope of taxes (BOT and realty) that commercial properties will be paying in 1998 when averaged out across the property class will

> result in a higher total tax requirement for smaller businesses, with a lower tax requirement for larger ones. In an attempt to minimize the shifting that would take place as a result of this, the Province has provided the RMOC with the authority to establish either two or three bands of assessed commercial value in order to allow commercial properties that are assessed at a lower amount to be taxed at lower rates. For an individual commercial property, a different tax rate would apply to each band, with the lowest rate applying to the lowest band, a higher rate applying to the assessment in the next band, and the highest rate being applied to assessment rate in the last band. The bands must be applied to all commercial property in the municipality. This would mean that smaller strip malls, as an example, would not be taxed at the same marginal rate as larger commercial buildings.

TAX RATIO SETTING

The first decision that Council must make with regard to 1998 property taxation, is whether or not to retain the authority for the setting of tax ratios or to delegate this power to the lower tier municipalities. The deadline for the delegation bylaw necessary to effect delegation for the 1998 taxation year is March 15, 1998. In order to establish delegation, all lower tier councils would need to pass resolutions by March 15 accepting the delegation plan. Staff are recommending that Council retain the authority for tax ratio setting at the upper tier.

Tax ratios express the relationship that the tax rate for each property class in the municipality bears to the tax rate for the residential/farm property class. The tax ratios will determine the relative tax burdens of each property class.

Prior to 1998, the effective rates of taxation of properties were hidden in the calculation of taxable assessment. The old system established taxable assessment by factoring the market values of properties by different percentages depending on the property class and, in the case of commercial and industrial properties, on the use of the property. These factors were regulated by the Province. Finally, the actual mill rates for residential properties were discounted to 85% of commercial mill rates. Following the move to region-wide assessment in 1993, the relative tax burden between properties in the same class with the same market value has been constant across Ottawa-Carleton for upper tier purposes.

Under the new system, municipalities will have the ability to adjust tax ratios, and consequently the relative burdens of property taxation between classes for municipal purposes only. Municipally-determined tax ratios must adhere to tax ratio ranges established by the province. This authority resides with Regional Council but can be delegated to the lower tier if all twelve councils agree.

In this, the first year of the new system, the province will prescribe “transition” tax ratios for Ottawa-Carleton.

These “transition” tax ratios indicate the relative tax burdens that exist among property classes region-wide, based on 1996 current value assessments.

Preliminary transition tax ratios for upper tier municipalities were recently released by the province along with the province-wide tax ratio "ranges of fairness". Combining these two announcements gives the effective range that tax ratios can be set in Ottawa-Carleton as follows:

Property Class	Transition Ratio	Lower End of Fairness Range
Residential	1.0000	-
Multi-Residential	2.3300	1.0000
Commercial	1.9542	0.6000
Industrial	2.3591	0.6000
Pipeline	1.6213	0.6000

Moving off of the transition ratios towards the fairness range results in increasing the tax burden on the residential property class.

It is important to note that the above ranges also apply if tax ratio setting authority was delegated to the lower tier.

As mentioned previously, the relative tax burden between the properties in the same class with the same market value is constant across Ottawa-Carleton for upper tier purpose taxation. Regional taxpayers pay the same tax rate for regional services regardless of which area municipality in which the property is located. ***In a delegation scenario this principle would be discarded***.

To the extent that lower tier councils would set different tax ratios, regional taxpayers would pay different rates of taxation for the same services. Given that taxation for regional purposes will represent about 52% of total taxation (76% of total taxation for municipal purposes), the principle that property taxpayers should pay the same rate of tax for the same set of regional services regardless of where in the region their property is located is even more paramount.

Delegating tax ratio setting authority to the lower tier would, in effect, return Ottawa-Carleton to pre-region wide assessment where the regional taxation requirement was apportioned to area municipalities through dollar requisitions that the area municipalities raised from their own respective assessment bases.

Finally, delegation severely complicates the implementation of any assessment related phase-in or relief program, as well as the setting of graduated tax rates for commercial properties, each of which are policy decisions that cannot be delegated by Regional Council to the lower tier.

Following a decision to retain tax ratio setting authority, Regional Council will next have to decide whether to use the prescribed transition tax ratios for 1998 taxation purposes or to set different tax ratios within the ranges described above. This decision must be made prior to the end of May. Given that extensive public consultation should be carried out prior to setting tax ratios other than prescribed transition ratios, it is recommended that the transition tax ratios be used for 1998, and that, during 1998, this consultation be carried out for tax ratio setting in 1999. The following section relates to this recommendation.

ESTABLISHMENT OF PROPERTY TAX POLICY COMMITTEE

At the 21 Oct 97 meeting of the Corporate Services and Economic Development Committee Councillor Holmes tabled a proposal for the establishment of an Ottawa-Carleton Fair Tax Committee. After some debate, the following motion was tabled and carried:

> ***That the Corporate Services and Economic Development Committee approve representatives of Regional Council (D. Holmes, A Munter, G. Hunter, and B. Hill) and the Finance Department prepare a Terms of Reference for the establishment of a Public Communications and Consultation Committee with respect to the taxation of property within the Regional Municipality of Ottawa-Carleton, and report back to the Corporate Services and Economic Development Committee.***

As directed, staff from the Finance Department subsequently met with Councillors Holmes, Munter, Hunter, and Hill to establish Terms of Reference for the Committee. The Terms of Reference as established by the Committee are set out below. It was the opinion of the Committee that there would be insufficient time to deal effectively with a policy to establish tax ratios other than the provincially prescribed transition ratios for the 1998 tax year prior to the deadline imposed on municipalities by the Province. This time constraint severely restricts the level and amount of public consultation that this Committee would be able to perform in preparation for the 1998 tax year. For this reason, it was determined that an effective and meaningful public consultation process would require more time and that the Committee would focus on completing this in time to recommend tax ratios for 1999.

Property Tax Policy Committee (Terms of Reference)

The purpose of the Property Tax Policy Committee is to provide residents, landlords, homeowners, tenants, and businesses in Ottawa-Carleton with a forum to provide input with respect to the setting of tax ratios for 1999. Given the importance tax ratios will have in determining tax policy, it will be essential for all affected parties to be given the opportunity to voice their concerns and opinions.

As a Committee of Council, the Property Tax Policy Committee shall be established to start early in 1998. The term of the committee shall end at the point when Regional Council approves the 1999 tax ratios for property classes.

The Property Tax Policy Committee shall:

- Organize the necessary public forum sessions to ensure property taxpayers and other stakeholders are given the opportunity to provide valuable input into the process of setting tax ratios for 1999;
- Report back to Regional Council with recommended tax ratios for 1999.

PUBLIC CONSULTATION

Public consultation is recommended as part of the mandate of the Property Tax Policy Committee for the setting of tax ratios for 1999.

Approved by
J.C. LeBelle

Attach. (1)