

MFOA

MUNICIPAL FINANCE
OFFICERS' ASSOCIATION
OF ONTARIO

February 19, 2004

Honourable Greg Sorbara
Minister of Finance
Frost Building South, 7th Floor,
7 Queen's Park Cres.
Toronto, ON
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Dear Minister Sorbara:

I am forwarding, for your consideration, a paper that conveys the views of the Municipal Finance Officers' Association (MFOA) of Ontario with regard to property taxation, assessment and tax capping.

The attached paper encompasses the collective comments of our membership with respect to an ongoing review of assessment and municipal taxation in this Province. We have also enclosed a summary of a survey of our members with respect to the property tax capping program currently in use in Ontario.

The principle theme of the paper is that the current capping program should be replaced. It is incomprehensible to almost everyone and, as a result, there is little accountability to ratepayers. Our association is committed to working with others to promote the goals of greater simplicity, accountability and equity with regard to property taxation. We would be delighted to work with you and Ministry of Finance staff to promote these goals. We are prepared to roll up our sleeves and get involved in any process the government establishes to deal with these issues.

Please accept my thanks for taking the time to consider our paper. We look forward to the opportunity to work with the Ministry to help restore confidence and understanding in the property tax system in Ontario.

"your municipal finance authority"

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Municipal Finance Officers' Association

Comments to

The Minister of Finance

on Ontario's Municipal Taxation System

February, 2004

Executive Summary

Through 2003, The Municipal Finance Officers' Association surveyed its membership with respect to the mandatory capping of taxation increases for business class properties¹. The numeric responses have been compiled and included in the attached Appendix "A". In addition, Mr. Beaubien's third review began during that time frame and in the interim your government has assumed responsibility for Ontario's taxation legislation.

Many of the issues that were in the Beaubien mandate were and continue to be contentious in the view of the municipal finance and taxation practitioners. Accordingly, while conducting a recent seminar series for the membership, through a structured discussion period at each of five Ontario sites, MFOA has garnered further input with respect to the municipal treasurer's point of view on a variety of these issues.

From this analysis MFOA is making the following three recommendations for the consideration of the ministry:

1. ***For 2005, discontinue the mandatory municipal taxation capping program, originally designed to mitigate assessment related tax increases to commercial, industrial and multi-residential properties.***
 2. ***Develop and implement alternative voluntary and less restrictive tax mitigation tools for 2005, allowing the municipalities to design their mitigation and tax burden allocation strategies in light of their unique objectives and local conditions.***
 3. ***Institute a jointly chaired committee representing the Province and Ontario's municipalities to develop new tax mitigation tools for the Minister's consideration.***
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- 1) The overwhelming suggestion from municipal treasurers and taxation practitioners was to abandon the current capping regime immediately. The current capping system is enormously complex and administratively burdensome in the extreme. The statistics (see schedule "A" attached), prove that the current capping application is not achieving CVA taxation among business class properties (commercial, industrial and multi-residential), in this province as quickly as was envisioned when the system was contemplated. The paper further illustrates that properties in the same municipality with similar assessed values in the same property class continue to have vastly differing annual taxation responsibilities.
 - 2) In conjunction with abandoning the mandatory capping program, allow greater latitude at the municipal level, leaving individual municipalities to tailor their tax

¹ Business class properties are the capped classes that include the broad commercial, industrial and multi-residential classes.

increase protection programs to fit their individual needs and redistribute taxation burdens across property classes mirroring their specific policy goals. Initial analysis suggests that there are a number of issues that require your most prudent consideration and others perhaps of lesser importance, but nonetheless worthy of further discussion.

High priority recommendations:

- a. Allow annualized tax ratio setting for all property classes, such that the upper level can be set at a revenue neutral position for each broad property class.
- b. Facilitate the move to fair taxation of all ratepayers in a property class by introducing the following voluntary tax mitigation tools for municipalities:
 - i. Implement a minimum dollar threshold limited to a maximum of \$1000, in conjunction with the annual 5% cap. Allow the individual municipality the latitude to set the dollar threshold up to the limit in accordance with their own circumstance.
 - ii. Allow the annual capping percentage to fluctuate at the discretion of the municipality.
- c. Amend the assessment and/or tax billing cycle to permit greater review of the annual assessment roll to improve the quality of the data and to allow for greater municipal input and analysis.
- d. Terminate the New Construction program.

Secondary issues:

- e. Delay assessment averaging indefinitely until sufficient modelling and / or cost benefit analysis exists to support the added costs and administrative burden for MPAC and municipalities, associated with assessment averaging.
- f. Expand the capabilities of OPTA to accommodate new municipal policy options.
- g. Phase-out the New to Class program.
- h. Give municipalities the option of funding the capping protection requirements across multiple business property classes (that is the capped property classes; Multi-residential, Commercial and Industrial).

- 3) The committee contemplated in this recommendation would be mandated to develop the tax mitigation tools and strategies as described in recommendation #2, above. The tools designed should be ready for implementation in 2005 and premised on legislative changes that would require enactment late in 2004. This is a rather ambitious timetable and accordingly analytical work by the committee should commence as quickly as possible. A committee jointly chaired and represented by provincial and municipal representation can draw on years of operational experience in the delivery of taxation in this province.

Note:

There are four (4) schedules attached to the document. The short outline below defines the information found in each of those schedules.

Schedule “A” - Is a summary by class and by year, from 1998 through 2002 of the capping and clawback results reported by the municipalities responding to the MFOA survey.

Schedule “B” – Illustrates three properties in an Ontario City in each of the protected property classes, with similar assessed values and having vastly differing taxation liabilities.

Schedule “C” – Shows the effects of applying a \$1,000 minimum increase protection threshold for the commercial and industrial property classes, in two different Ontario municipalities, Mississauga and Lanark County. The percentage of properties paying CVA taxation after the application of the threshold increases substantially.

Schedule “D” – Illustrates the effects of increasing the percentage utilized in defining the protection limit. As the protection percentage increases (that is, properties with assessment related increases are required to absorb more), the amounts to be clawed back from those properties with assessment related decreases falls and more properties pay CVA taxation.

Introduction

MFOA represents the collective view of the majority of municipal treasurers in Ontario. At MFOA we believe our opinions on taxation are based on sound practical and operational knowledge of the taxation system arising out of years of experience in the delivery of municipal taxation and worthy of your most prudent consideration.

The initial move in 1998 to Current Value Assessment and the associated legislation and regulation was based on the inequities that existed in many municipalities. Prior to 1998, the assessment delivery through a system of factored assessment values, the effect of business occupancy tax and the levying of education taxes for which municipalities had no control, drove the differentials between the residential and business property classes. Original transition ratios were calculated by reallocating existing class burdens across properties within the class by their new assessment values. While the previous system tended to hide inequities in assessment methodology, the new system made assessment delivery more uniform and made the municipality appear to be the creator of the disparity between taxation burdens across property classes.

When the Fair Municipal Finance Act was introduced in 1997 the legislation promised more fairness, accountability, greater simplicity, less taxpayer confusion and lower administrative cost for both the municipalities and the province. However, following the introduction of capping protection for business class properties facing large reassessment driven tax increases the goals of the original legislation have yet to be achieved. The calculations for and the administration of today's taxation system in Ontario are decidedly more complex for the municipal practitioner and well beyond the comprehensive ease once enjoyed by the property owner.

Reviews of Assessment & Taxation since 1998

On December 12, 2000, the Minister of Finance, Mr. Ernie Eves, commissioned Mr. Marcel Beaubien (MPP for Lambton-Kent Middlesex) to review the property assessment process. The review was to examine:

- the operational structure of the Ontario Property Assessment Corporation (OPAC);
- the relationship between OPAC and the provincial government; and
- the regulation defining property classifications (Ontario Regulation 282/98).

The review was given a short three month mandate. This initial report was delivered to the Minister of Finance in April of 2001. The government took numerous steps to implement the recommendations of this first report in the 2001 Provincial budget that focused in corporate governance and accountability, including a name change to the Municipal Property Assessment Corporation.

The short timeframe made it impossible to address all the issues raised by stakeholders in the initial review. On July 18, 2001, the Honourable James Flaherty, Minister of Finance, extended the mandate of the review process to include:

- the number, scope and definition of the property classes and sub-classes;
- the assessment methodology applied to unique properties; and
- the linkages between assessment classifications and related public policy objectives of the Government of Ontario.

A second report, dealing with these issues, was delivered on November 29, 2002.

Through the 2003 Ontario Budget introduced in March, Mr. Beaubien was given a renewed mandate to conduct a review, lead public consultation and provide advice to the Minister of Finance concerning the following:

- The degree to which assessment averaging would enhance taxpayer protection;
- The administrative challenges associated with assessment averaging;
- The effectiveness of the existing tax mitigation tools for business properties (including the mandated 5% cap);
- The effectiveness of the existing tax mitigation tools for residential properties; and
- The degree to which additional tax mitigation tools may be desirable.

No report was produced by Mr. Beaubien on these issues prior to the Provincial election of October, 2003. MFOA is taking the opportunity through this report to state its position on these issues to the new provincial government. We are also suggesting that some of the decisions of the previous government with respect to MPAC governance, which were dealt with in the initial review by Mr. Beaubien, should be revisited.

Restating the Principles and Goals of Tax Reform

In the second report submitted by Mr. Beaubien (November 2002), he stated that the government had the following goals with respect to the reform of the assessment and property tax system in 1998. The Province sought to:

- create a property tax system that is fair, understandable and accountable to taxpayers;
- establish an assessment base that is consistent province-wide and that is based on up-to-date property values;
- provide businesses with a level playing field upon which to compete;
- provide municipalities with more autonomy to make tax policy decisions that affect their communities and more flexibility to respond to local priorities;
- facilitate a manageable transition from the old system to the new system.

MFOA shares these goals, but feels that more can be done to achieve them.

Create A Property Tax System That Is Fair, Understandable And Accountable To Taxpayers

- MFOA members strongly support the principle of tax equity. In our view, tax equity means that properties in the same class, with the same CVA, pay the same tax. Prior to 1998, many municipalities voluntarily undertook assessment updates. Generally, they were motivated to update their assessments precisely because similar properties in the same class were paying different levels of taxation. Any tool or program designed to mitigate the tax impacts of reassessment needs to recognize that tax equity is the ultimate goal and must contribute to moving toward tax equity in a predictable manner.

- The enormous complexity of the system of tax capping for the multi-residential, commercial and industrial classes means that there is very little fairness or understandability with regard to property taxation. As a result, there can be no accountability. The system is so complex that many municipalities have been forced to seek consulting services or avail themselves of the Province's OPTA system to issue tax bills for the capped classes. Some degree of simplification is an absolute prerequisite for accountability. It is generally recognized that the application of an assessment averaging would further complicate the already complex system.

Establish An Assessment Base That Is Consistent Province-Wide And That Is Based On Up-To-Date Property Values

- The move to annual assessment updates means that the assessment base will indeed be consistent and up to date. However, most properties in the capped classes will not pay taxes that are the product of the tax rate and the assessment for the property. Properties that are capped will pay less than their CVA tax while properties that are clawed back will pay in excess of 100% of their CVA tax. MFOA believes that fairness dictates that properties with the same CVA in the same property class should pay the same tax.

Provide Businesses With A Level Playing Field Upon Which To Compete

- Businesses in Ontario pay wildly different portions of their CVA tax. Some business pay 100% of their CVA tax while capped properties pay less (at times much less) than their CVA tax. Properties that have historically been over taxed and should see tax decreases often have their decreases clawed back to finance the revenue loss attributable to capping. These properties pay more than 100% of their CVA tax and, at times, much more. It is difficult to see how this situation results in a "level playing field" for business.

Provide Municipalities With More Autonomy To Make Tax Policy Decisions That Affect Their Communities And More Flexibility To Respond To Local Priorities

Many municipalities are of the view that the range of tax tools and options has never allowed them to manage tax shifts among property classes adequately. It is time to consider new tools and amendments that will allow greater flexibility for municipalities to manage tax shifts or to reduce them.

The formulation of sound public policy is dependent on a reconciliation of a variety of viewpoints. MFOA has forwarded a number a policy papers with respect to the transition to full CVA taxation. It is generally accepted among practitioners that a reasonable system of taxation should be based on a few basic principles. Our members believe, Ontario's taxation system should be understandable, predictable and transparent to the property owner. From the municipal viewpoint the system should be easily administered and provide the municipalities with sufficient flexibility to enable them to allocate the local taxation burden based on local priorities and in the best interests of their respective constituents.

Recommendations

1. Eliminate the Current Capping Regime by 2005

It has long been a belief among the majority of the MFOA membership that the current capping regime is inflexible and does not allow a quick and predictable transition to CVA taxation. In an effort to prove that claim, MFOA surveyed its membership with respect to capping statistics from 1998 through the 2002 taxation years. While some data was compiled for 2003 it was deemed to not adequately represent a broad enough cross section of Ontario municipalities and has been excluded from the summary survey results as shown on the attached schedule "A".

It is estimated that the survey results represent some three quarters of the total 2002 business class properties in the province. Of the nearly 131,000 properties combining to make up the 2002 survey, just less than 12% paid CVA taxation in 2002. Slightly less than 10% of the 105,000, 1998 business class properties (multi-residential, commercial and industrial class properties), included in the survey, paid CVA taxes in that year. After five complete years of capping, only 2% more business class properties have attained CVA taxation and some 88% continue to benefit from the cap or contribute to the clawback pool. Over the five-year period the properties paying CVA taxation peaked at 17% in 2000. Similar data compiled for 2003 suggests those properties attracting CVA taxation in 2003 will again be less than 12%.

Summary Capping Statistics (all business class properties, commercial, industrial and multi-residential)

| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Total Properties in Survey | 130,684 | 128,850 | 123,167 | 106,629 | 105,535 |
| # of Properties Clawedback | 63,446 | 58,831 | 44,566 | 33,783 | 31,172 |
| % of Properties Clawedback | 49% | 46% | 36% | 32% | 30% |
| # of Properties Capped | 51,677 | 57,078 | 58,136 | 59,586 | 64,373 |
| % of Properties Capped | 40% | 44% | 47% | 56% | 61% |
| # of Properties at CVA | 15,561 | 12,941 | 20,465 | 13,260 | 9,990 |
| % of Properties at CVA | 12% | 10% | 17% | 12% | 9% |
| Shortfall (if any) | 10,839,226 | 5,589,885 | 7,635,306 | 6,868,739 | 11,903,855 |
| Clawback % | 58% | 59% | 48% | 57% | 74% |
| Total Class Levy | 5,281,952,165 | 5,219,859,239 | 4,909,827,359 | 4,918,824,844 | 4,737,465,490 |

From the statistics shown above, one would note that the percentage of business class properties that are clawedback has risen in each of the survey years from 30% in 1998 to 49% in 2002. Conversely, the number of capped properties has dropped each year from 1998 to 2002, opening at 61% in 1998 and easing to 40% in 2002. The 2003 data would seem to indicate that there is a reversing of the trend with the percentage of clawedback properties decreasing over 2002 and the percentage of capped properties increasing over

2002. The average clawback percentage for 2003 is projected to increase and may approach average levels as high as they had been in 1998. There is a large increase in the percentage of industrial capped properties in 2003 over 2002 levels. These assessment-related tax increases are associated with class wide reassessment value increases caused largely by a change in assessment valuation methodology, in the industrial class.

These statistics would seem to prove what municipal taxation practitioners in the province have suspected for some time – that all properties will not reach CVA taxation in a reasonable timeframe. The capping protection afforded to business class properties is now in its sixth year of operation. It was originally designed to mitigate large assessment related taxation increases through the transition to CVA based taxation. During the transition period additional complexities have been introduced, new construction and new to class adjustments are examples.

The current capping application is not achieving CVA taxation among business class properties in this province as quickly as was envisioned when the new system was contemplated. See the examples in Schedule “B” attached, illustrating the disparity caused by the capping regime. You will note that properties in the same municipality with similar assessed values in the same property classes had vastly differing taxation responsibilities in 2003.

2. New Tax Mitigation Tools

Through consultation with the MFOA membership, it is well understood that municipalities are seeking greater latitude in decision making with respect to municipal taxation. While some practitioners have suggested that continued protection for any or all or their business tax classes will continue to be a requirement of their local taxation policy, we would stress that MFOA is recommending voluntary mitigation tools. Eliminate mandatory capping and allow municipalities to choose what level and type of protection best suits their individual circumstances commencing in 2005.

a) Annualized Tax Ratio Setting at Revenue Neutral Levels

Under existing legislation, with respect to tax ratios, municipalities are not permitted to increase the tax ratios applied to business property classes. One would assume that that the goal of the government had been to narrow the relative tax burden between residential and business class properties in the province. In some cases the restriction on increasing business class ratios in subsequent years actually diminishes municipal willingness to decrease that same ratio in the current year.

A case in point occurred in many municipalities in 2003. The reassessment for 2003 taxation saw industrial property assessments increase on average some 20% province wide. Municipalities could have lowered the industrial tax ratio and equalized the year over year tax burden placed on the industrial class. There was a great deal of reticence among both political representatives and municipal staff to do so. They feared that in

subsequent reassessments, if industrial values were to decline significantly less relative to the other property classes, then the tax burden would by default be passed onto the residential class. Further, the 2003 industrial class assessment driven tax increases were protected through the capping program.

If municipalities were allowed to set business class ratios in a much broader range than currently allowed, there would be an incentive to lower ratios in a particular year if the taxation burden could be reallocated in future years by business class tax ratio increases. Careful consideration should be given to allowing ratios to increase such that neutral tax burden allocations can be maintained annually.

It should also be noted that, with respect to education taxation for the commercial, industrial and pipeline property classes the Province dictates the relative tax ratios applied to those classes to be set in such a way such that a revenue neutral position is achieved annually in each school board jurisdiction. A review of a number of 2003 municipal and education ratios illustrates that municipal tax ratios are far below similar calculations for education taxes. Municipal ratios average 1.8 and 2.3 respectively for the commercial and industrial property classes. Similar relative tax rate ratios comparing commercial and industrial education rates over the residential education rates are approximately three times higher. The previous government fashioned taxation legislation in such a way as to force additional municipal taxation burden onto the residential class, but made no move to address a larger disparity with respect to education taxes in the commercial and industrial property classes.

| | Peel | Durham | Halton | Toronto | York | Windsor | Barrie | Brockville | Average |
|---------------------------|------|--------|--------|---------|------|---------|--------|------------|---------|
| Ratio of Com Ed to Res Ed | 5.45 | 5.29 | 4.85 | 6.86 | 5.25 | 5.87 | 5.21 | 7.01 | 5.7 |
| Ratio of Ind Ed to Res Ed | 6.42 | 6.55 | 6.91 | 7.47 | 6.07 | 8.05 | 6.07 | 7.01 | 6.8 |
| Municipal Tax Ratio Com | 1.30 | 1.48 | 1.46 | 3.52 | 1.10 | 1.97 | 1.32 | 1.98 | 1.8 |
| Municipal Tax Ratio Ind | 1.47 | 2.26 | 2.36 | 4.12 | 1.30 | 2.40 | 1.50 | 2.63 | 2.3 |

b) i. Implement Minimum Dollar Thresholds as Part of Capping Protection

Allow municipalities to augment the current percentage cap increase with a tax increase dollar threshold. That is, any assessment driven tax increase under the dollar threshold would absorb that increase regardless of the percentage that increase represents. Through consultation with the MFOA membership they are suggesting that the increase threshold limit be set at \$1,000. The individual municipality could set their own increase threshold up to that regulated maximum. This concept has been discussed in MFOA’s 2003 Pre-Budget Submission as well as the 2000 Very Green Discussion paper. The Regional and single Tier Treasurers/CFO’s also recommended the dollar threshold.²

² Report to The Ministry of Finance of Ontario, Municipal Input on Municipal Property Tax Administration Changes, Ontario Regional and Single Tier Treasurers/CFO’s, January, 2002.

The City of Mississauga and Lanark County have modeled the potential impact of this approach. The complete findings of that modelling can be found on Schedule "C". Note that in 2002 in Mississauga, if a \$1,000 threshold had been set, an additional 42% of industrial properties and 43% of commercial properties would have moved immediately to full CVA taxation. In Lanark County, the \$1,000 threshold would have moved 83% more commercial properties and an additional 64% of industrial properties to full CVA taxation.

b) ii. Allow municipalities to voluntarily set capping protection percentages at locally defined levels.

Schedule "D", attached, illustrates the outcomes of changing the 5% maximum increase protection limit to 10% and 15% on the commercial and industrial property classes in a 905 upper tier municipality. In the commercial class, changing the protection limit from 5% to 15% decreases the number of properties requiring protection by 553 properties and lowers the dollar value of required protection from \$6.3 to \$3.5 million. Conversely, the percentage of decreases clawed back from the decreasing properties falls from 85% to 47%. On the industrial side, the dollar value of required protection falls from \$4.4 to \$2.8 million and the properties requiring protection drops from 423 to 271. The clawback rate falls from 100% to 60% and an additional 152 of the 1,253 properties in the class pay full CVA taxation.

Some taxation practitioners have suggested a system that would exclude a property from further inclusion in the capping program once they have achieved full CVA taxation. After some consideration, the paper is not recommending this approach. With annual or at least more regular reassessments the potential for assessment driven increases to exceed the capping protection limits will continue to exist. By excluding properties once they reach CVA taxation you are effectively eliminating them from potential contributors (clawedback properties) to the protection pool. Accordingly, the municipality may be left with a protection requirement in excess of the potential contribution pool and additional shortfalls will be borne by the other property classes.

c) Amend the assessment and/or tax billing cycle.

Through discussions with numerous MFOA member taxation practitioners it has become apparent that they believe annualized assessment roll returns are an ambitious undertaking and the shortcomings of the annual cycle far outweigh any advantages. A multi-year cycle would allow MPAC and the municipality more time to deliver a better product. The multi-year cycle has the potential of easing the strain on the MPAC budget. Many practitioners believe a bi-annual reassessment will allow more time for MPAC to fine tune the roll entries and allow for more inspections.

Other practitioners have also suggested that a multi-year cycle would yield additional years between reassessments allowing municipalities to design multi-year taxation policy and utilize mitigation tools with longer life cycles and a transition to full CVA before the next reassessment.

Regardless of the decision with respect to the most efficient and effective assessment cycle of the future, MFOA would suggest that a freezing of the June 30, 2003 assessment values (those used for 2004 taxation), should be maintained through 2005 at a minimum. As the new mitigation tools are adopted and utilized by municipalities, through 2005, the extension of the assessment freeze through 2006 may be considered.

d) Terminate the New Construction Program

As early as April, 2000, it was recognized that, “New properties, beginning in 2001, should be taxed at full CVA and not based on some notionally inequitable tax rate simply because that is the inequitable tax rate of its neighbours.”³ More recently, MFOA suggests, “there is no compelling rationale for this policy. If a business person knows that a newly-constructed property is going to be taxed at CVA, that individual has the option of proceeding – or not proceeding – based on that knowledge.”⁴ In addition to these points, it is a widely held view among municipal taxation practitioners, that the new construction policy is further exacerbating the delay in reaching CVA taxation. Accordingly, it should be reiterated that the program be phased-out as quickly as possible, given a reasonable notification period for those considering new buildings or additions to current business facilities. Furthermore, MPAC’s responsibility for reporting the six comparable properties required by the program, adds to their already oppressive workload.

e) Delay Assessment Averaging Indefinitely

Subsection 19.1(1) of the Assessment Act states that: “Land shall be assessed,

(a) for a taxation year before 2005, at the land's current value for the taxation year;

(b) for the 2005 taxation year, at the average of the land's current value for the taxation year and the land's current value for the previous taxation year;

(c) for a taxation year after 2005, at the average of the land's current value for the taxation year and the land's current value for each of the previous two taxation years. 1997, c. 5, s. 13.

This suggests that it is the responsibility of MPAC to undertake the averaging since MPAC prepares the assessments. The calculation and maintenance of a multi-year assessment averaging system is not the responsibility of the municipality.

- a. MPAC has expressed concerns about assessment averaging. They have suggested that their information systems may not currently have the

³ MFOA, Recommendations for a Post 2000 Tax Mitigation Program: A Municipal Perspective – A Very Green Discussion Paper, April 2000, Page 23.

⁴ MFOA Pre-Budget Submission, January 29, 2003, Page 3.

capacity to run such a program. System updates of this type are extremely costly. Before seriously considering the implementation of the assessment averaging regime, a rigorous cost benefit analysis should be completed. Even with assessment averaging there will be instances when annual increases due to reassessment will exceed the current five percent limit. Will the government of the day accept increases of greater than five percent or will they insist on layering a capping program over the assessment averaging scheme? As indicated previously, the taxation practitioners would object vehemently to the layered approach.

- b. Similarly, municipalities are not in a position to become responsible in whole or in part for the calculation and ongoing maintenance of an assessment averaging system. Grappling with the complexities of the taxation system has already stretched municipal administrative resources to their limits.
- c. Many taxation practitioners believe the move to assessment averaging to be unnecessary. Most believe shifts within the residential classes are generally insignificant and a phase-in program is available in extreme cases, should the municipality choose that option. Further, they believe that business class property owners are currently protected through the capping regime.
- d. Successful assessment appeals and the calculation of associated tax reductions will become decidedly more complicated for the municipality to compute and the average taxpayer to understand. Decisions on prior year assessment appeals will have the effect of changing the average assessment value for each subsequent taxation year. A similar situation arises at present with the capping application since this year's tax liability is dependent on the previous year's liability.

f) Expand the Capabilities of OPTA

The OPTA system and its associated machinery are already in place and funded through the 2004 taxation year. While it is not without its own shortcomings, it provides much needed support to municipalities, especially the smaller jurisdictions that lack the manpower to administer such a labour intensive program in-house. In conjunction with the proposed recommendations allowing greater municipal latitude in taxation policy, it is important to expand the OPTA functionality to support municipalities as they analyse their assessment and taxation data and match local taxation policy to local conditions and goals.

Through the OPTA system and MPAC, the Province has provided support to municipalities as the taxation system has evolved to its current state. At present the most complex of the issues—the matching of property assessment values, for each reassessment, required for capping/clawback calculations, is delivered to municipalities

through OPTA and MPAC. Whether that deliverable continues to come from one or the other or from the amalgam of those entities, it must be stressed that the municipalities do not have the resources or expertise in this area to compile, manipulate and report this information in the required format. It would seem to be most prudent to allow those that have attained a level of expertise in this function to continue to provide it. To divest this function to each municipality certainly would be an inefficient use of both taxpayer funds and municipal staff efforts.

g) Phase-out the New to Class Program

Business owners that have already built a given level of taxation into their business plans should continue to be protected from high levels of taxation if their property class designation changes. However, these properties will also be subject to the recommendation regarding thresholds and the termination of mandatory capping assistance.

3. Institute a Joint Committee to Develop Tax Mitigation Tools

The committee contemplated in this recommendation would be mandated to develop the tax mitigation tools and strategies as described in recommendation #2, above. The tools designed should be ready for implementation in 2005 and premised on legislative changes that would require enactment late in 2004. This is a rather ambitious timetable and accordingly analytical work by the committee should commence as quickly as possible. A committee jointly chaired and represented by provincial and municipal representation can draw on years of operational experience in the delivery of taxation in this province.

Schedule "A"

| Summary of MFOA Capping Survey Results | | | | |
|---|---------------|-------------|-------------------|---------------|
| | Commercial | Industrial | Multi-Residential | Combined |
| 2002 | | | | |
| Total Properties in Survey | 102,109 | 19,728 | 8,847 | 130,684 |
| Clawback % | 61% | 42% | 52% | 57.9% |
| # of Properties Clawedback | 48,648 | 10,448 | 4,350 | 63,446 |
| % of Properties Clawedback | 48% | 53% | 49% | 48.5% |
| # of Properties Capped | 42,313 | 6,659 | 2,705 | 51,677 |
| % of Properties Capped | 41% | 34% | 31% | 39.5% |
| # of Properties at CVA | 11,148 | 2,621 | 1,792 | 15,561 |
| % of Properties at CVA | 11% | 13% | 20% | 11.9% |
| Shortfall (if any) | 9,647,575 | 935,601 | 256,050 | 10,839,226 |
| Total Class Levy | 3,570,168,842 | 884,154,867 | 627,628,656 | 5,281,952,165 |
| Total Properties in Class | 127,000 | 32,500 | 16,000 | 175,500 |
| Percentage of Properties Responding to Si | 80% | 61% | 55% | 74% |
| 2001 | | | | |
| Total Properties in Class | 99,921 | 20,035 | 8,894 | 128,850 |
| Clawback % | 62% | 33% | 74% | 58.6% |
| # of Properties Clawedback | 45,525 | 9,332 | 3,974 | 58,831 |
| % of Properties Clawedback | 46% | 47% | 45% | 45.7% |
| # of Properties Capped | 45,388 | 8,023 | 3,669 | 57,078 |
| % of Properties Capped | 45% | 40% | 41% | 44.3% |
| # of Properties at CVA | 9,010 | 2,680 | 1,251 | 12,941 |
| % of Properties at CVA | 9% | 13% | 14% | 10.0% |
| Shortfall (if any) | 5,410,855 | 179,030 | - | 5,589,885 |
| Total Class Levy | 3,489,578,815 | 907,178,438 | 823,101,986 | 5,219,859,239 |
| 2000 | | | | |
| Total Properties in Class | 94,584 | 20,172 | 8,411 | 123,167 |
| Clawback % | 48% | 42% | 50% | 47.5% |
| # of Properties Clawedback | 34,624 | 6,652 | 3,290 | 44,566 |
| % of Properties Clawedback | 37% | 33% | 37% | 36.2% |
| # of Properties Capped | 46,557 | 8,296 | 3,283 | 58,136 |
| % of Properties Capped | 49% | 41% | 37% | 47.2% |
| # of Properties at CVA | 13,403 | 5,224 | 1,838 | 20,465 |
| % of Properties at CVA | 14% | 26% | 21% | 16.6% |
| Shortfall (if any) | 6,307,658 | 1,327,648 | - | 7,635,306 |
| Total Class Levy | 3,256,297,950 | 890,742,519 | 762,786,890 | 4,909,827,359 |
| 1999 | | | | |
| Total Properties in Class | 80,827 | 17,560 | 8,242 | 106,629 |
| Clawback % | 58% | 59% | 52% | 57.4% |
| # of Properties Clawedback | 25,527 | 5,153 | 3,103 | 33,783 |
| % of Properties Clawedback | 32% | 26% | 35% | 31.7% |
| # of Properties Capped | 48,938 | 9,000 | 3,648 | 59,586 |
| % of Properties Capped | 58% | 45% | 41% | 55.9% |
| # of Properties at CVA | 8,362 | 3,407 | 1,491 | 13,260 |
| % of Properties at CVA | 10% | 17% | 17% | 12.4% |
| Shortfall (if any) | 5,836,931 | 1,029,808 | - | 6,866,739 |
| Total Class Levy | 3,153,036,916 | 969,074,578 | 796,711,350 | 4,918,824,844 |
| 1998 | | | | |
| Total Properties in Class | 79,721 | 17,746 | 8,068 | 105,535 |
| Clawback % | 76% | 68% | 63% | 73.6% |
| # of Properties Clawedback | 23,768 | 4,360 | 3,044 | 31,172 |
| % of Properties Clawedback | 30% | 22% | 34% | 29.5% |
| # of Properties Capped | 49,654 | 10,742 | 3,977 | 64,373 |
| % of Properties Capped | 62% | 54% | 45% | 61.0% |
| # of Properties at CVA | 6,289 | 2,644 | 1,047 | 9,980 |
| % of Properties at CVA | 8% | 13% | 12% | 9.5% |
| Shortfall (if any) | 9,641,018 | 2,262,837 | - | 11,903,855 |
| Total Class Levy | 3,082,158,128 | 884,504,902 | 770,802,460 | 4,737,465,490 |

Schedule "B"

Three Industrial Properties in an Ontario City

| Property # | 2003 \$ CVA | 2003 Full CVA Tax | Actual 2003 Final Tax | % of CVA Tax |
|------------|----------------|----------------------|--------------------------|-----------------|
| 1 | 292,000 | \$ 11,892 | \$ 4,096 | 34% |
| 2 | 286,000 | \$ 11,648 | \$ 11,648 | 100% |
| 3 | 288,000 | \$ 11,729 | \$ 16,398 | 140% |

Three Commercial Properties in an Ontario City

| Property # | 2003 \$ CVA | 2003 Full CVA Tax | Actual 2003 Final Tax | % of CVA Tax |
|------------|----------------|----------------------|--------------------------|-----------------|
| 1 | 319,000 | \$ 9,121 | \$ 7,854 | 86% |
| 2 | 317,000 | \$ 9,064 | \$ 9,064 | 100% |
| 3 | 320,000 | \$ 9,150 | \$ 11,453 | 125% |

Three Multi-residential Properties in an Ontario City

| Property # | 2003 \$ CVA | 2003 Full CVA Tax | Actual 2003 Final Tax | % of CVA Tax |
|------------|----------------|----------------------|--------------------------|-----------------|
| 1 | 6,740,000 | \$ 149,202 | \$ 137,965 | 92% |
| 2 | 6,714,000 | \$ 148,627 | \$ 148,627 | 100% |
| 3 | 7,010,000 | \$ 155,179 | \$ 166,743 | 107% |

Schedule "C"

Examples of \$1,000 Minimum Increase Threshold to Augment Capping / Clawback Application

Mississauga

| Commercial | Before Threshold | After Threshold | Industrial | Before Threshold | After Threshold |
|-------------------|---------------------|--------------------|-------------------|---------------------|--------------------|
| Total Properties | 8,760 | 8,760 | Total Properties | 3,408 | 3,408 |
| Capped/Clawedback | 7,227 | 3,455 | Capped/Clawedback | 3,169 | 1,745 |
| % not at CVA | 82.5% | 39.4% | % not at CVA | 93.0% | 51.2% |
| At CVA Tax | 1,533 | 5,305 | At CVA Tax | 239 | 1,663 |
| % at CVA | 17.5% | 60.6% | % at CVA | 7.0% | 48.8% |

Lanark County

| Commercial | Before Threshold | After Threshold | Industrial | Before Threshold | After Threshold |
|-------------------|---------------------|--------------------|-------------------|---------------------|--------------------|
| Total Properties | 1,143 | 1,143 | Total Properties | 152 | 152 |
| Capped/Clawedback | 1,017 | 68 | Capped/Clawedback | 132 | 34 |
| % not at CVA | 89.0% | 6.0% | % not at CVA | 86.8% | 22.4% |
| At CVA Tax | 126 | 1,075 | At CVA Tax | 20 | 118 |
| % at CVA | 11.0% | 94.0% | % at CVA | 13.2% | 77.6% |

Schedule "D"

| Changing Capping Protection Percentages | | | |
|--|--|---|---|
| 905 Area Upper Tier Municipality | | | |
| Commercial | Protection over 5% Increase | Protection over 10% Increase | Protection over 15% Increase |
| Total Properties | 4,125 | 4,125 | 4,125 |
| Number of Properties Capped | 1,486 | 1,192 | 933 |
| % of Properties Capped | 36.0% | 28.9% | 22.6% |
| \$ Value of Protection | \$ 6,319,346 | \$ 4,748,682 | \$ 3,504,014 |
| Number of Properties Clawedback | 2,087 | 2,087 | 2,087 |
| % of Properties Clawedback | 50.6% | 50.6% | 50.6% |
| Clawback Percentage | 84.8% | 63.7% | 47.0% |
| Number of Properties at CVA | 552 | 846 | 1,105 |
| % of Properties at CVA | 13.4% | 20.5% | 26.8% |
| Industrial | Protection over 5% Increase | Protection over 10% Increase | Protection over 15% Increase |
| Total Properties | 1,253 | 1,253 | 1,253 |
| Number of Properties Capped | 423 | 341 | 271 |
| % of Properties Capped | 33.8% | 27.2% | 21.6% |
| \$ Value of Protection | \$ 4,440,312 | \$ 3,408,376 | \$ 2,675,367 |
| Number of Properties Clawedback | 560 | 560 | 560 |
| % of Properties Clawedback | 44.7% | 44.7% | 44.7% |
| Clawback Percentage | 100.0% | 76.7% | 60.2% |
| Number of Properties at CVA | 270 | 352 | 422 |
| % of Properties at CVA | 21.5% | 28.1% | 33.7% |