Ministry of Finance Update

September 21, 2016

Carolina Torres, Manager
Andrea Chow, Manager
Provincial-Local Finance Division, Ministry of Finance

Ontario

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Ontario's Property Tax and Assessment System

- Importance to Ontario's communities:

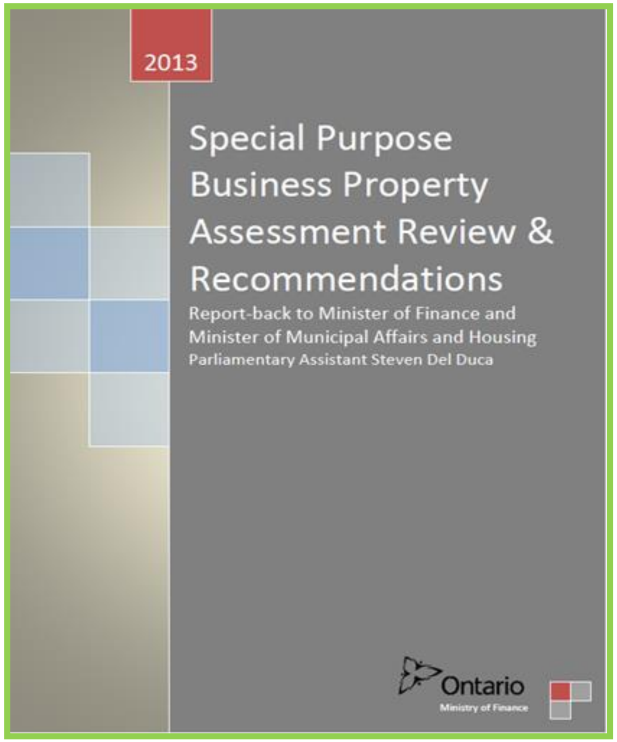
$26 billion in Property Tax Revenues for Municipalities and School Boards

$2.3 trillion in Assessment
5+ million Properties

- The Province has been working to strengthen Ontario's property tax and assessment system, by:
  - Implementing the recommendations of the Assessment Review (Special Purpose Business Property Assessment Review), and
  - Reviewing property tax issues to address municipal and taxpayer feedback
- Building on the success of past work with municipalities, the Province will be engaging in further consultations with the municipal sector on these initiatives.

Assessment Review

- The Province has worked in partnership with the Municipal Property Assessment Corporation (MPAC), municipalities and stakeholders to finalize the implementation of the Assessment Review recommendations in time for the 2016 Reassessment.
  - Overarching recommendations:
    - ❑ advance disclosure and assessment methodology;
    - ❑ accountability roles and responsibilities;
    - ❑ data accuracy and integrity;
    - ❑ appeals
    - ❑ assessment at risk
  - Property-specific recommendations



- Objectives of Assessment Review included enhancing transparency, predictability and accuracy of assessed values.

Advance Disclosure

- One of the key recommendations from the Assessment Review is the introduction of an **advance disclosure** process for special purpose business properties.
  - MPAC is in the final stages of implementing this process for the 2016 reassessment, which enables affected businesses and municipalities to contribute to the determination of assessed values before the assessment roll is finalized.
  - Objective is to reduce the number and impact of appeals for the 2016 province-wide reassessment.
- To further support the objectives of the Assessment Review through early disclosure of information, the Ministry and MPAC have also established an **assessment methodology change protocol** that will ensure a consultative approach is taken when a major change in assessment methodology is proposed.

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Advance Disclosure *cont'd*

- In April 2015, the Minister of Finance issued formal direction to MPAC related to the implementation of the advance disclosure recommendations.

Minister's Directive	Additional Sectors
Pulp and paper mills	Pharmaceutical manufacturing
Sawmills	Chemical manufacturing
Value-added wood products manufacturing plants	Oil refineries
Steel manufacturing plants	Mining
Automotive assembly plants	Food processing
Automotive parts manufacturing plants	Aerospace manufacturing

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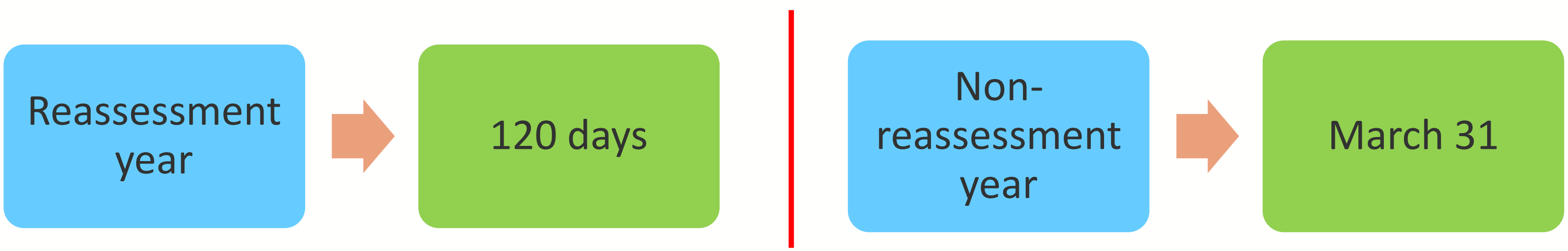
Request for Reconsideration

- The need for earlier resolution of assessment issues was a recurring theme expressed during Assessment Review consultations.

- To support this objective, and to complement MPAC's earlier staggered mailing of assessment notices for the 2016 reassessment, modifications have been made to the Request for Reconsideration (RfR) program.

- As announced in the *2015 Ontario Economic Outlook and Fiscal Review*, amendments have been made to the *Assessment Act* to:
  - standardize the amount of time that property owners have to file an RfR; and
  - encourage the earlier resolution of assessment issues.



Assessment Review – Property Specific Recommendations

Landfills

- The Ministry engaged former Cabinet Minister John Wilkinson to lead a review on the assessment methodology to value landfills.

- The Minister of Finance has accepted the recommendations in Mr. Wilkinson's report and has directed ministry staff to move forward with their implementation.

Industrial Land

- MPAC is finalizing an assessment methodology guide for lands in transition which includes guidelines for the assessment of industrial properties located in designated employment areas.

Assessment Review – Property Specific Recommendations
cont'd

Mills

- MPAC is implementing the advance disclosure process for this sector:
  - Published methodology guides and market valuation reports for pulp, paper and sawmills; and
  - Shared preliminary 2016 values with property owners and municipalities.

Farms

- MPAC has developed enhanced procedures for the 2016 reassessment to ensure that a greater number of farm properties are included in their sales analysis, resulting in more accurate valuations.

- MPAC is also finalizing a methodology guide for the valuation of farms.

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Assessment Review – Property Specific Recommendations
cont'd

Grain Elevators

- Regulation have been made to:
  - Classify licensed commercial grain elevators as commercial;
  - Classify elevators located on farms that store only the farmer's own grain as farm; and
  - Classify On-farm elevators as farm or split farm/commercial classification if the farmer also has a licensed commercial elevator operation.

Wind Turbine Towers

- A regulation was filed prescribing that the assessment of wind towers used in the generation of electricity shall be increased based on the average increase in industrial property values.

- The amount of increase will be updated with every four-year reassessment, beginning in 2017.

Billboards

- A regulation was made to specify that billboards should be assessed based on the replacement cost approach.

Small-Scale Value-Added and Commercial Farm Activities

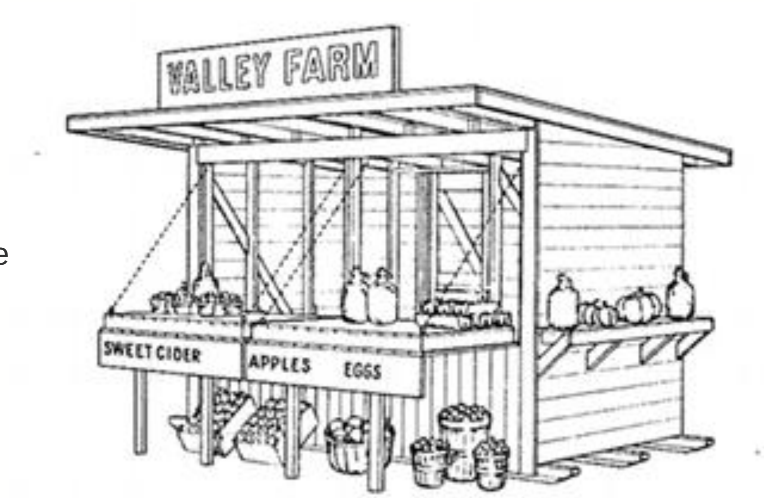
- The government has heard from the agriculture sector that current property tax treatment of small-scale on-farm value-added and commercial activities can be a disincentive for some farmers to expand and diversify their operations.
  - A number of municipalities, particularly in rural Ontario, have also expressed support for encouraging small-scale on-farm agricultural innovations that contribute to local economies.

- The *2016 Ontario Budget* announced that the Ministry of Finance would consult with municipalities and the farming community as part of a review of the property tax treatment of small-scale value-added and commercial activities on farms.

- Preliminary consultations took place earlier this summer with the municipal sector, agriculture sector and partner ministries.

- Discussions have focused on how we can provide sustainable property tax treatment to farmers who engage in small-scale, value-added activities as part of their farming business, while maintaining a level playing field for large agricultural processors located off farms.

- The results of the consultations will help to inform potential options that could be brought forward for the government's consideration.



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Property Tax Updates

Business Property Tax Capping Program

- Since 1998, there have been certain limits on reassessment-related tax increases for individual business properties.
  - The Capping Program was originally implemented as a transition measure to mitigate large tax increases.

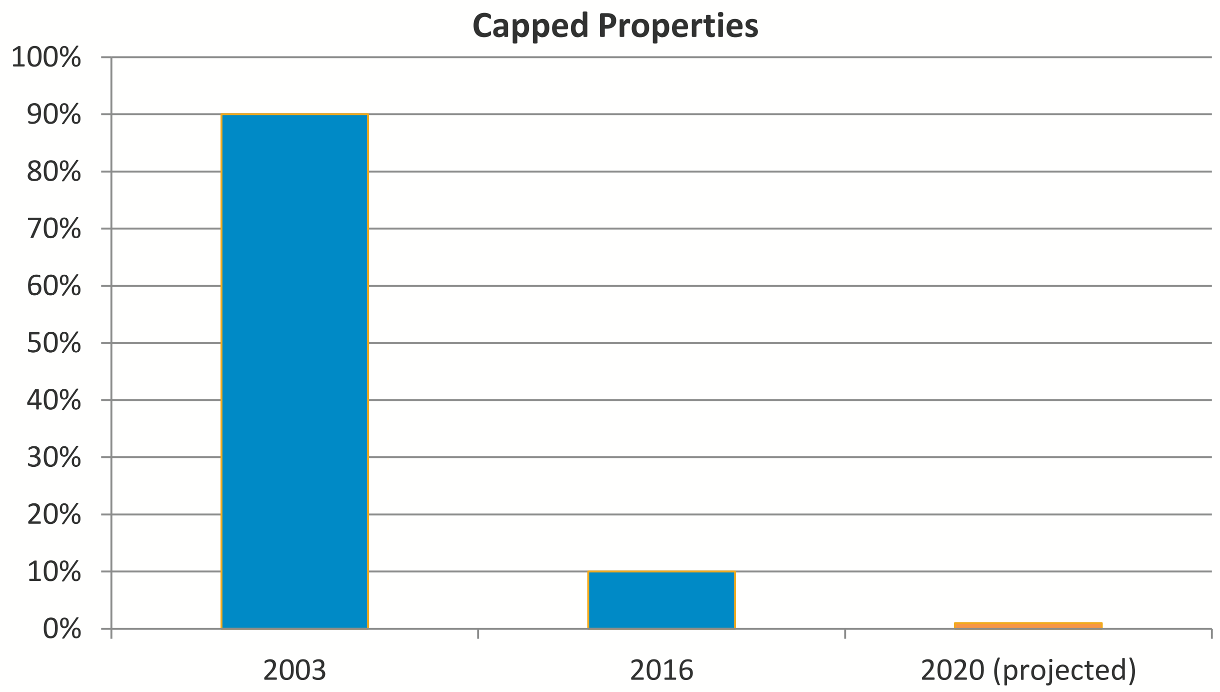
- The Capping Program established parameters for reassessment-related increases on business properties in the commercial, industrial, and multi-residential classes.

- In order to recover forgone revenues from capping tax increases, municipalities can limit or clawback tax decreases of other properties within the business classes.

- In response to stakeholder feedback, enhancements were made to the program in 2001, 2004, 2009 and 2016 providing municipalities with the options to accelerate progress to CVA level taxes.

Capping Program Progress

- Significant progress has been made, increasing the number of properties at CVA levels taxes.



- Based on 2015 municipal capping parameters, it is projected that only 14 municipalities would not be eligible to exit or phase-out entirely from the program by 2020.

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Capping Program Flexibility Options

- Municipalities can accelerate progress to CVA level taxes by adopting any/all of the following options:
  - Options to Accelerate Progress to CVA
    - Increase capped taxes by:
      - 10% of annualized taxes
      - **10% of CVA taxes**
    - **Move to CVA level taxes if within +/- $500 of CVA level taxes**
    - If at CVA level taxes, stay-at CVA level taxes
  - Options to Exit/Phase-Out of Program
    - **Exit capping if no properties currently remaining in the capping program are eligible to exit the program immediately.**
    - **Four-year phase-out if no capped properties beyond 50% of CVA level taxes in a property class**

- Bolded options are ***new for 2016*** and reflect the feedback from municipal and business stakeholder consultations as a part of the on-going capping program review.

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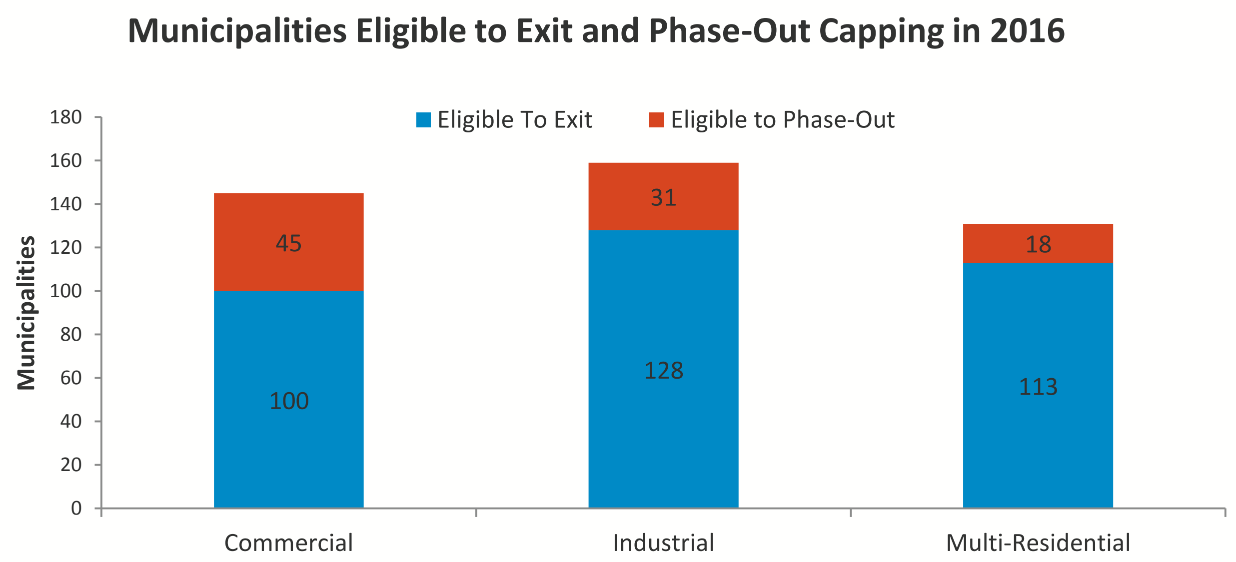
Capping Program Status

- Many municipalities are in a position to exit or phase-out the Capping Program in 2016.
  - Almost 70% of municipalities are able to exit or phase-out the program entirely (in all classes).
  - Over 95% of municipalities are eligible to exit or phase-out the program in at least one class.



Adoption of Capping Program Enhancements

- As of September 1, 2016,
  - Over half eligible municipalities have opted to exit or phase-out of the Capping Program in at least one property class.
  - Slightly more than 30% of municipalities have selected the option to increase capped taxes by 10% of CVA taxes.
  - Just over 20% of municipalities have selected the option to move properties to CVA level taxes if they are within +/- $500 of CVA level taxes.

Vacant Unit Rebate & Vacant/Excess Land Subclasses

- Property tax mitigation programs for vacant business properties were introduced in 1998 to assist property owners experiencing property tax increases due to the elimination of the business occupancy tax (BOT) and the inclusion of former BOT revenues in the business property tax rates.

- The Vacant Unit Rebate provides a property tax rebate to property owners who have vacancies in commercial and industrial buildings for at least 90 days.
  - This is an application-based program administered by municipalities which is governed by legislation and eligibility criteria set out in regulation.
  - The amount of the rebate is 30% of the property tax for vacant commercial space and 35% of the property tax for vacant industrial space.

- Consistent with the vacant unit rebate, business properties falling within the vacant and excess subclasses are discounted at 30% to 35% of the full Commercial and/or Industrial rate.

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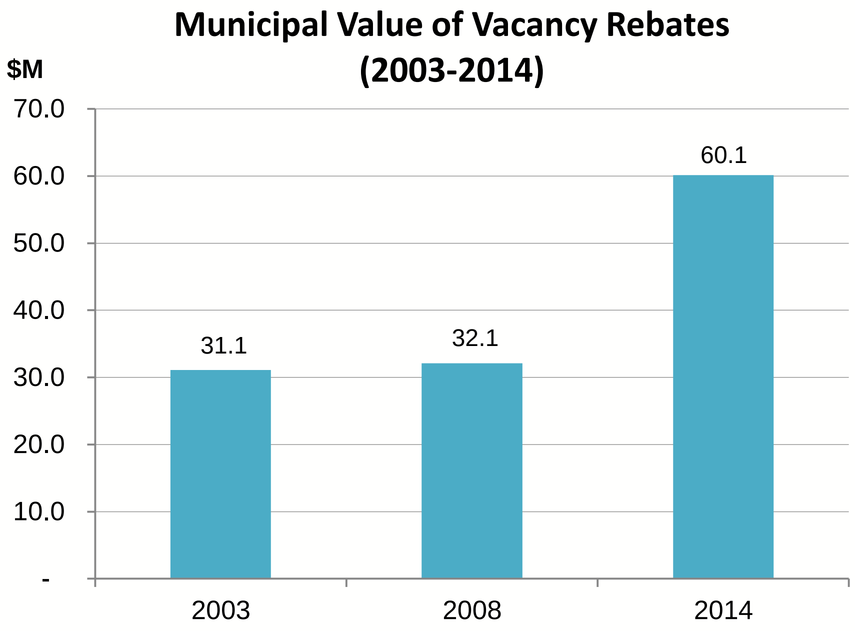
Revenue Snapshot – Vacant Unit Rebate & Vacant/Excess Land Subclasses

Vacant Unit Rebate

- The value of the Vacant Unit Rebate is reported in the Financial Information Returns (FIRs), prepared annually by municipalities.
- The value of the Rebate varies from year to year, but has generally been increasing and has nearly doubled between 2008 to 2014.



Vacant and/or Excess land Subclasses

- Between 2003 and 2015, the number of properties in the Vacant and/or Excess Land Subclasses has stayed stable while the value of the tax discount has increased from $46.4M to $73.3M.

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Vacancy Programs Review

- Several municipal and business stakeholders have raised concerns regarding the Vacant Unit Rebate and Vacant/Excess Land Subclasses programs, including the appropriateness of the tax benefit, its uniqueness within the Canadian property tax systems and its implications for local economies.

- In response, the Ministry initiated a review of the programs in 2015 with municipal and business consultations.

- The Ministry is continuing to consider program enhancements in consultation with stakeholders through the summer/fall of 2016.

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Property Tax Rate Calculation Adjustment

- A number of municipalities, along with the MFOA and the Association of Municipalities of Ontario, approached the Province requesting an adjustment to the annual notional property tax rate calculation.

- Municipal stakeholders were concerned that some in-year assessment changes can result in lower than expected property tax revenues affecting the notional property tax rate calculation.

- In response to requests and developed in consultation with municipalities, a municipal option to adopt a technical adjustment to the provincially prescribed notional property tax rate calculation was announced in the 2016 Ontario Budget.

- This adjustment ensures that when calculating notional tax rates, municipalities and the Province are able to address any unintended effects due to specific in-year property assessment changes, such as assessment appeal losses.

Notional Tax Rate Calculation

$$\text{2016 Notional Tax Rate} = \left.\frac{\text{2015 Notional Revenue}}{\text{2016 Total Assessment}}\right\}$$

Based on 2015 Year End Roll

2015 Notional Revenue = 2015 Total Year End Assessment × 2015 Tax Rate

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Property Tax Rate Calculation Adjustment

- Beginning in 2016, municipalities have the option to adjust the year-end assessment used in the notional property tax rate calculation to offset changes resulting from certain in-year assessment changes, including assessment appeals and requests for reconsideration.

- Eligible in-year assessment changes include reassessment related changes such as:
  - Assessment Review Board decisions;
  - Request for Reconsiderations;
  - Post Roll Amended Notices;
  - Special Advisory Notices.

- Any changes in revenue related to the adjustment will be shown on the property tax bill as part of the reassessment change.

- The Ministry hopes to streamline the implementation process for the Adjustment for 2017 and future years.

- The impact of applying the adjustment can be analyzed through OPTA and municipal staff are encouraged to use the tools and reports available on OPTA.
  - Questions concerning the OPTA system should be directed to the OPTA help desk at 416-591-1110 or 1-800-998-5739, ext 300.

Key Takeaways

- The Province has worked with municipalities to strengthen Ontario's assessment system by implementing the Assessment Review recommendations in time for the 2016 Reassessment.

  - The Ministry will release a final progress update bulletin this fall to summarize the implementation of the Assessment Review recommendations.

- The Province will continue to engage in consultation with the municipal sector on improvements to Ontario's property tax and assessment system.

Contact Information

Property Assessment
Carolina Torres
Manager, Assessment Policy Unit
Ministry of Finance
Carolina.Torres@ontario.ca

- www.fin.gov.on.ca/en/consultations/par/
- Landfillsreview@ontario.ca

Property Tax Policy
Andrea Chow
Manager, Property Tax Policy Unit
Ministry of Finance
Andrea.Chow@ontario.ca