



MUNICIPAL PROPERTY ASSESSMENT AND TAXATION

POSITION PAPER

ISSUE

This report addresses the current policy, resultant tax impacts on property taxpayers from the increase of property assessments and recommends changes to protect owners from tax increases resulting from increased assessment revaluation.

Under the current property tax legislation, assessment revaluations will have a significant impact on the year's municipal property tax revenues. Mandated changes to Current Value Assessment (CVA) taxes means that all properties are liable for assessment increases from 2001 to 2003 for the purpose of establishing a property tax base. If property assessments increase, taxpayers will be paying more in taxes, even if the City tax rates remain at current levels.

MUNICIPAL PROPERTY ASSESSMENT CORPORATION (MPAC)

The Municipal Property Assessment Corporation (MPAC) is responsible for assessing all property in Ontario. It operates under the authority of the Municipal Property Assessment Corporation Act. MPAC does not set assessment policy but it does administer these policies. Its main responsibility is to calculate assessed values, and to classify properties according to their use. These values are provided to municipalities on annual assessment rolls. Municipalities and the Province uses these values when they calculate property taxes and education taxes.

E.g.

Municipal tax rate x Current Value Assessment = municipal portion of tax

Education tax rate x Current Value Assessment = education portion of tax

Municipal portion of tax + education portion of tax = your property tax

Under the Ontario Fair Assessment System, MPAC conducted the first assessment update of all properties in Ontario in 1997. This resulted in new assessed values for all properties, based on a common valuation date of June 30, 1996. This process was repeated in 2000 when assessments were updated to June 30, 1999 values for the 2001 and 2002 taxation years.

This updating process has now become an annual activity. Beginning in 2004, every year will be reassessment year. This means that for 2004, all property in Ontario will be reassessed for taxation purposes based upon its current "market" value as of June 30, 2003.

Because of the importance of the MPAC assessments in determining the overall property tax the Committee has requested the following information for the past 3 years from MPAC to date.

- Average % increase in Current Value Assessment in the municipality of Windsor and Essex County across all property classes and in particular, for industrial and commercial.
- Average % assessment growth in the municipality of Windsor across all property classes.

- Average % of appealed assessments in the municipality of Windsor across all property classes.
- Average success rates of those who appeal their assessments and gross amount of the assessment reduced for all classes.
- Average cost per appeal or gross cost of appeal hearings for all classes.

The committee was informed by MPAC that the information is available in a report published by MPAC for a fee of \$2,000 per year (for each municipality), which is a considerable cost. This information is provided each year to the City of Windsor administration but MPAC prohibits the City from releasing this information to third parties.

ANALYSIS

The Finance & Taxation Committee was able to compile the following statistics for the most recent Budget year 2003, based on publicly available information in the 2003 Operating Budget of the City of Windsor.

In 2003, the City of Windsor's Current Value Assessment increased across all properties by 5.93%. Specifically, in the non-residential classes, Current Value Assessment increased by 7.04% to as high as 29.86%,¹ as follows:

Description	% Increase in CURRENT VALUE ASSESSMENT from 2002 to 2003	
	Tax Class	%
Commercial	CT	7.04%
Commercial – Excess Land	CU	8.13%
Shopping Centre – Full Rate	ST	12.71%
Shopping Centre – Excess Land	SU	29.86%
Industrial	TT	18.87%

While past increases in Current Value Assessments were not available for review, consensus of most business and property owners is that property values have increased significantly over the past few years. Since the enactment of a uniform, province-wide valuation system based on Current Value Assessments, property values continue to escalate year over year, having a tremendous and taxing impact on municipal taxes to property owners.

The impact has had a corresponding increase to the tax revenue base of the City of Windsor. In 2003, the additional revenue generated by the City of Windsor from assessment revaluation across all properties approximated \$12 million. City administration did not recommend the utilization of the assessment revaluation to fund city programs due to the uncertainty in assessment appeals and the imposed Provincial notional tax system.²

¹ Source: City of Windsor 2003 Operating Budget

² Notional tax rate calculates the rate, which a Municipality must apply to the current year's assessment in order to raise the same revenue as the prior year. All else being equal, an increase in assessment across

Changes in assessment values are subject to appeal before the Assessment Review Board by the taxpayer. While we have requested statistics on the % of appeals and success rates, this information was not made available to the public. We are therefore unable to quantify the impact of any assessment appeals on the tax revenue base of the City and verify the “true” tax revenue increase from reassessments.

Based on the 2003 Operating Budget, municipalities’ provisions for appeal decisions, vacancy rebates and other tax adjustments are reflected in the operating budgets. In 2003, the provision for appeals funded from revaluation increased by \$4 million or ¼ of assessment revaluation revenues. This provision was added to the operating budget³ (or 1.6% of total operating budget) for 2003. Information on the actual costs of appeals and their success rates were not publicly available.

The net effect of the above results in actual increases from assessment revaluations or “windfall tax revenues” from changes in Current Value Assessment that are not reflected in the budget tax revenues and therefore, does not offset operating cost increases.

Actual tax revenues generated from property assessment revaluation and growth, net of any assessment appeals, is not publicly available for the City of Windsor. This will require further discussion and analysis with City administration. However, it is common knowledge as demonstrated above, that increases in Current Value Assessment will result in increased tax revenues to the City.

Current Value Assessment reform was not intended for municipalities to take advantage of “windfall” tax revenues from revaluation and therefore, the City must reduce City tax rates to offset these windfalls.

CURRENT MUNICIPAL TAXATION PRACTICES

The money required by a municipality to deliver services is largely provided through property taxes. The taxes are calculated by multiplying the assessed value of a property, provided by MPAC, by a tax rate set by the municipality. The City tax rate (previously mill rate) is expressed as a percentage of the assessed value. A municipality can set different tax rates for different classes of property (e.g. residential, multi-residential, commercial, industrial). **Municipalities determine their revenue requirements and then set municipal tax rates.**

A comparison of the most recent available total tax rates for commercial and industrial classes across municipalities indicates that Windsor is among the highest (exceeding Toronto and Kitchener) in legislated tax levy⁴.

Ranking	Municipality	Total Tax Rate % of Assessed Value	
		Commercial	Industrial

all classes would translate into a tax rate reduction should City Council decide to maintain a status quo approach to the budget.

³ 2003 Operating Budget & Supplementary Documents prepared by City of Windsor.

⁴ Information on city tax rates was obtained from the various City websites on their current and past rates

1	City of Hamilton (2002)	5.97%	8.05%
2	City of London (2002)	5.30%	6.92%
3	City of Windsor (2002)	4.82%	6.41%
4	City of Toronto (2003)	4.61%	5.21%
5	City of Kitchener (2003)	4.48%	6.03%

The City of Windsor has one of the highest tax rates for businesses in Southwestern Ontario (making Windsor uncompetitive in the market) despite additional tax revenue sources of the City of Windsor from the transportation and casino sectors.

TAX RATE INCREASE

Decisions on municipal tax rate increases are based on annual budgetary needs and therefore, increases in the municipal tax rates should be an appropriate proxy for operating cost increases. Annual municipal tax rates continue to escalate year over year, in response to increasing costs of the City. Specifically, the City tax rate, excluding special levies, education and hospital levies has increased for businesses in the commercial, industrial and shopping centre classes as follows:

2001	2.294%
2002	4.869%
2003	2.127%

The impact of rising municipal tax rates on businesses is both taxing and detrimental to the sustainability and growth of the City in the long term. In fact, combined with reassessment, the financial implications to commercial and industrial property owners is onerous and unacceptable.

2003 average assessment on a commercial property (CT) in Windsor increased by 7.04% and combined with a City tax rate increase of 1.7%, the combined City tax increase to the property owner was 8.74%⁵. Any increase in taxation may become unsustainable for businesses.

POLICY OPTIONS FOR THE CITY OF WINDSOR

In mitigating “overly burdensome” tax increases, Bill 140, The Continued Protection for Property Taxpayers Act, was established in December 2000. The Act was to allow for a gradual, manageable and predictable transition to Current Value Assessment taxation of certain properties. For 2001 and subsequent years, all municipalities are required to limit the reform-related property tax increases on commercial, industrial and multi-residential property to 5% per year of previous year’s taxes. The limit remains in effect only until properties reach their Current Value Assessment level.

Under the Municipal Act, municipalities have the option of limiting tax increases through a variety of property tax tools including municipal tax reductions (former rebate tool), clawback mechanism, optional property taxes, phase-ins, and graduated tax rates on property classes or individual properties in order to make the impact of the Current Value

⁵ Commercial properties subject to Bill 140 capping provisions are assumed to have reached the Current Value Assessment level in 2003 and therefore, no longer limited to 5% maximum increase in taxes.

Assessment increases manageable for taxpayers and are more in line with anticipated annual budgetary increases.

Municipal Tax Reduction

The municipal tax rebate tool that was available in 1998 is replaced with a tax reduction mechanism which allows municipalities to process a reduction on the tax bill, rather than issuing an after-the-fact rebate. The municipalities would reduce municipal taxes of commercial, industrial and multi-residential properties down to an appropriate limit.

Clawback Mechanism

This tool authorizes the limitation of tax decreases as a means of funding the limit on tax increases and can be used in conjunction with other tools. Municipalities are given the flexibility to determine the extent to which, if at all, tax decreases will be limited.

Optional Property Classes

Municipalities have the ability to adopt optional property classes at reduced tax rates to limit the tax increases.

Phase In

The phase-in tool allows municipalities to incrementally phase in tax changes that occur in the year of a reassessment, where phase-in thresholds are based on percentages or dollar amounts.

Graduated Tax Rates

This mechanism allows municipalities to apply different tax rates to different “bands of assessment”, where thresholds of assessed value for each band is determined and thereby limited to an appropriate percentage increase of the previous year’s taxes.

Vacancy Rebate Policy

Since 2001, tax reductions for vacant units in commercial and industrial buildings were provided through rebates, rather than lower tax rates. The amount of the rebate is 30% of the tax attributable to the vacant space in commercial buildings and 35% of the tax attributable to the vacant space in industrial buildings. Vacancy rebates provide relief to existing eligible property owners and is an incentive to new business owners to invest in redevelopment and lead to job creation and growth initiatives in the City.

CHAMBER RECOMMENDATIONS

- For 2004, we recommend that the City reduce the City tax rate to take into account the increase in the Current Value Assessment so that the overall increase in property taxes is held to the rate of inflation.
- In keeping with the City's efforts for fiscal responsibility, it is the expectation of City taxpayers that the City will adhere to strict spending limits and it seems reasonable to expect operating cost increases to be no more than the core of inflation. This policy option would provide for increases in property taxes that are more in line with the average sustainable operating cost increases of the City. In fact, it is attempting to correctly bridge the effect of Current Value Assessment reform with municipal taxation legislation.
- The Committee recommends an increase in vacancy rebates above the 30% and 35% threshold established for commercial and industrial respectively in an effort to instigate redevelopment and growth in the City.