



Property Tax & Municipal Fiscal Framework

2007 - 2008

As the most diverse and most influential business group in the province, the Ontario Chamber of Commerce works closely with governments, labour, academia and various other groups to create a stronger and more vibrant economy in Ontario and the surrounding regions.

The OCC represents 60,000 members through 160 independent chambers of commerce and boards of trade throughout the province. The OCC has worked on behalf of business since 1911.

Property Tax & Municipal Fiscal Framework

This document has summarized the OCC policies related to property tax and municipal fiscal framework in the province of Ontario. It also includes references to approved OCC resolutions, and a list of existing legislation and bills in the legislature.

2007 - 2008



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Property Tax & Municipal Fiscal Framework

I. Property Tax Policies

Providing certainty and fairness in Ontario's property tax system is of paramount importance to the business community.

The property tax system in Ontario is an inefficient and regressive structure that serves to create major economic distortions within disparate jurisdictions across the province. It is a complex, and confusing, system that is rife with inconsistencies and inequities, and is identified as one of the top policy priorities of the Ontario Chamber of Commerce membership.

COMPETITIVE, EQUITABLE AND FAIR PROPERTY TAX SYSTEM

The combination of municipal property taxes and provincial education taxes has led to Ontario recording the highest property tax burden of any OECD country - 3.7% of GDP (2004). The property tax system in Ontario needs to be upgraded to a stable, fair and equitable system.

The current property tax system's inequities are a barrier to economic competitiveness. Unjustified variations in property tax rates distort location choices and displace businesses from high tax communities. Large disparities amongst property classes aggravate further the equity principle.

Compounding the excessive property levels in Ontario is the fact that in many municipalities, a disproportionate share of this tax burden falls on business properties. This burden does not reflect the actual municipal or social services that businesses receive in return.

Solid analysis is required to assess the financial impact of property tax reform. A property tax review panel is required to analyze the full financial impacts of proposed reform on all property classes. The panel should identify and establish an economically healthy property tax burden for each class of property.

The OCC has long advocated for the establishment of an Expert Property Tax Review Panel comprising

business representatives and property tax experts. The panel would design a fair and competitive distribution of the cost of municipal services between the various property classes to be reflected in statutory guidelines for property tax rates. (See full text, appendix 1, page 12)

PHASED-IN REFORM

The property tax system should be reflective of the cost of municipal/social services that each taxpayer category is receiving in public services. Unfortunately, the current system does not achieve equitability and fairness. Recently introduced "ranges of fairness" by the provincial government that directs municipalities to set business tax rates at no more than 10% higher than the residential rates, have not secured equitability.

To smooth the transition and allow different categories of taxpayers to adjust to changes in the system, the OCC has recommended that the Expert Property Tax Review Panel create a long-term plan and timetable to ensure the appropriate tax burdens identified by experts are phased-in for all Ontario municipalities. (See full text, appendix 1, page 12)

MOVE TO FULL CURRENT VALUE ASSESSMENT

A viable property tax system has to follow the best practices of property tax revenue collection. Only full Current Value Assessment guarantees equitability and fairness across all taxpayer groups. Capping and claw back policies implemented to ease the transition to updated property assessment methods have further aggravated inequities within the business property classes.

Businesses entitled to assessment-related tax decreases are required to subsidize properties that would have otherwise faced property tax increases due to the updated Current Value Assessment system introduced in 1998. As a result, many businesses are

paying taxes with little or no relation to their true current value assessments.

The elimination of the property tax cap will contribute to an equitable property tax framework. Therefore, the OCC also recommends that the Expert Property Tax Review Panel develop a timeframe to move all properties towards full Current Value Assessment and for the phasing-out of capping and claw back policies. (See full text, appendix 1, page 12)

UNIFORM BUSINESS EDUCATION TAX (BET)

The OCC has applauded the government's 2007 Budget commitment to lower the Business Education Tax (BET) rate to 1.6% by 2014.

Today, education taxes represent about half of the property taxes imposed on Ontario businesses. The BET rates vary both across taxpayer class and by geographical location, distorting business decisions and luring business start-ups to lower tax jurisdictions.

The existing BET rates place businesses in municipalities with higher than average BET rates in a relative competitive disadvantage. There is no justification for two similar business properties in different municipalities to be charged different provincial tax rates for an education system that equally benefits all.

Additionally, BET rates are not uniform among classes of business properties and are well above education tax rates for residential properties (up to six times the residential rate).

The OCC has recommended a two-stage reform for BET:

- First, by 2009, the government must implement a uniform ceiling BET rate at the lower end of the commercial/industrial urban range.
- Second, by 2015, legislation should equalize business and residential property tax rates for education. (See full text in appendix 1, page 12)

The rates are to be estimated by the Expert Property Tax Review Panel, but it is imperative that Ontario move to a system where all property owners pay the same education tax rate.

Although the reform that the government committed upon in its 2007 Budget will take longer than we recommended, the OCC is encouraged that the government is engaged to fulfill the fairness principle for the business education component of the property tax.

The OCC is looking forward to see the government act on the second phase of the reform that will equalize the residential and business property rates.

FAIR AND TRANSPARENT PROPERTY ASSESSMENT

The fairness principle in regards to property tax is directly correlated with the accuracy of property assessment. Low or high dispersion coefficients (indicators of variation due to consistently underestimated or overestimated property), apart from significantly skewing the property tax rate, point to losses or windfalls to individual taxpayers. It is important that Ontario develops a property assessment system that is uniform, accurate, fair, and transparent.

There is need for a competitive environment to deliver property assessment services. The protected monopoly of the Municipal Property Assessment Corporation (MPAC) has not delivered an improved, cost effective and administratively efficient assessment delivery system.

For more than 30 years, Ontario has had a single provider of property assessment services. This system has failed to provide taxpayers with an open, transparent, accountable and widely accepted property assessment process. A significant benefit of competition is the potential of reducing assessment costs to municipalities by some \$40 million dollars (30% savings).

To ensure fair and transparent property assessment,

the OCC has recommended the government scrutinize the process and make property assessment services conditional to open competitive bidding. Moreover, the OCC advocates that MPAC is monitored against standards prescribed in legislation and regulations with a view to ensure cost-effectiveness and efficient operations. (See full text in appendix 1, page 14)

BUSINESS CONSULTATION ON PROPERTY TAX REFORM

In 1997, the provincial Ministry of Finance introduced the “market–value” property assessment principle in Ontario. The Municipal Property Assessment Corporation (MPAC) was empowered to estimate the value of all classes of properties in Ontario.

Due to large variations in estimated values of similar properties, numerous taxpayers questioned the MPAC’s assessment methodology. As information on the assessment methodology has been neither readily available nor accessible in official regulations/publications, taxpayers have been filing court claims on the transparency and legitimacy of MPAC’s assessments.

The Ontario Ombudsman has conducted an investigation into the transparency of the property assessment process and the integrity and efficiency of decision-making at the MPAC and issued in March 2006 some 22 recommendations on how to reform the system.

The Ombudsman recommended increasing taxpayer access to MPAC’s information, improving the accuracy and consistency of property assessments and improving the fairness and integrity of the appeal process by requiring MPAC to recognize and carry forward assessment reductions after appeal unless there are legitimate reasons why the assessment is no longer valid. Finally, the Ombudsman recommended removing the onus from the taxpayer and shifting the burden to MPAC to justify the accuracy of its assessments if the property owner challenges the assessment before the Assessment Review Board.

The Ontario Chamber of Commerce urges the Government of Ontario to support the Ombudsman recommendations in its report “Getting it Right” and these recommendations be implemented. (See full text in appendix 1, page 14)

The Ministry of Finance and MPAC pledged to implement 18 of the recommendations immediately and to consider implementation of the remaining four after further study.

II. Municipal fiscal framework

Property tax is the main source of municipal revenues; on average in 2005 it accounted for 54 percent of Canadian revenues for local governments.¹ The balance of revenues derives from user fees and intergovernmental transfers.

As tax rates in business classes (industrial, commercial, multi-residential, farmland, etc) significantly surpass the residential tax rates in Ontario, the excessive reliance on property taxes places a disproportionate burden on businesses.

In addition to its fundamental inequity (where the amount of property tax has no relation with the income generated by the taxpayer) property taxes paid by businesses inhibit economic growth and divert business capital from production related activities.

Unlike peer US jurisdictions, Ontario municipalities do not have direct access to funding through other fiscal tools: gas tax, income or sales tax. Concurrently, while providing revenue stability, the property tax system as it is currently constructed is inelastic and regressive and is not well suited to meeting municipal governments' growing responsibilities.

Struggling to keep up with population growth and escalating costs of living, municipalities have increasingly faced challenges in delivering traditional services, such as water, sewers, roads, solid waste, fire and policing, etc. Provincially-imposed "unfunded mandates", such as social services or requirements on quality standards for water, only exacerbate financing gaps.

The few solutions to help municipalities keep up with growing expenditures without increasing property tax rates have been either to identify other revenue sources or reduce existing programs and services. As use of new

revenue tools has been limited, municipalities have consistently denied needed services to residents or postponed infrastructure repair and renewal that have affected local economic development and business performance.

The Ontario Chamber of Commerce has analysed the vertical and horizontal fiscal imbalance between all levels of governments and has developed policies that address funding gaps, neutral revenue sources and the streamlining of municipal administration without increasing the burden on Ontario businesses.

FISCAL IMBALANCES AND SERVICE DELIVERY REVIEW

Municipal governments have struggled to pay for an ever-widening range of services, while successive federal and provincial governments have enjoyed an abundant supply of revenues and consistently run surplus budgets.

A strong proponent to restoring the fiscal balance in Canada, the Ontario Chamber of Commerce has acknowledged the progress achieved in negotiating solutions towards restoring fiscal fairness on the federal level. As a following step, the Ontario Chamber of Commerce urges the Government of Ontario to negotiate solutions to the fiscal imbalances among the federal, provincial and municipal governments, through the Association of Municipalities of Ontario (AMO). (See full text in appendix 1, page XX)

Following provincial downloading of social services and infrastructure costs, municipal governments in Ontario have been unable to concurrently balance their budgets and maintain service levels and capital costs of infrastructure. Since municipal governments are prohibited from running deficits, municipal councils consistently cut needed services to residents and postpone infrastructure maintenance and renewal.

This consistent under-funding has been aggravated in recent years, as transfers from both federal and provincial governments have been reduced or eliminated. A large

¹ Enid Slack, Institute of Municipal Finance and Governance, Munk Centre for International Studies, University of Toronto, Presentation, March 2007, re: www.utoronto.ca/mcis/imfg

gap has emerged between communities' needs for core services and the municipalities' ability to pay for them.

Infrastructure investment has not kept pace with demand, meaning improper maintenance of streets, underinvestment in sidewalks, bridges and viaducts, police and firefighting service infrastructure, transportation and transit systems, water supply and waste-water treatment systems, traffic-control systems, etc.

Underinvestment in local infrastructure has hampered regional economic development and business expansion. The Ontario Chamber of Commerce urges the Government of Ontario to expedite the Provincial-Municipal Fiscal and Service Delivery Review, immediately identifying appropriate funding for municipalities and enact any related legislation to occur in the next 12 months. (See full text in appendix 1, page 16)

The review panel, in consultation with municipalities, should clearly define the strategic principles underlying the division of authority for delivery of programs or services in the province of Ontario, identify the appropriate sources of revenue, the required expertise levels, the efficient use of current resources and anticipated budgetary pressures. (See full text in appendix 1, page 16)

PROVIDE FUNDING TO SOCIAL SERVICES

Ontario is the only province in Canada to place the burden of paying for social services such as housing and public health almost exclusively on the municipal property tax base.

While the standards and the costs of social programs are mandated by the provincial government, their funding comes from a combination of local funding (property taxes) and provincial subsidy. The provincial share for these programs has significantly declined over the past decade. Therefore, municipalities have

struggled to fund an ever-increasing share of the costs of these services from property taxes.

Municipalities struggle to make ends meet because of a limited tax base and the provincial mandate to pay for these services. The Association of Municipalities of Ontario estimates that an additional \$3 billion is added to the property tax bill to pay for provincially-mandated income redistribution programs. These income transfer programs make Ontario property taxes the highest in the country.

New funding formulas and revenue sharing agreements are urgently required to address the fundamental needs of cities to enable them to make the basic investments in urban infrastructure.

The Ontario Chamber of Commerce urges the Government of Ontario to move towards fully funding income transfer programs, such as social assistance, social housing, ambulances and childcare subsidies, from provincial revenues over three years (3) starting in 2008/2009 with full funding by 2010/2011.

In the interim, the Province of Ontario must honour the cost-sharing arrangements that currently exist with Ontario municipalities. (See full text in appendix 1, page 17)

NO MORE TAXATION POWERS TO MUNICIPALITIES

Recently enacted provincial legislation (the Municipal Stature Law Amendment Act, 2006) has provided municipalities access to new regulatory and financing tools, which include business licensing authority and greater flexibility to levy area rates.

Businesses already contribute more to the property tax base than residential properties of the same value and our members are subject to fees and charges that contribute to municipal revenues. Faced with increasing fiscal responsibilities, it is anticipated that new powers granted under new legislation could potentially increase the tax burden of Ontario's businesses.

The Ontario Chamber of Commerce urges the Government of Ontario to refrain from granting local municipalities broader permissive powers of taxation; and provide more detail surrounding the appeals process for municipal by-laws (i.e. ensure that in the event a regulation is created to reverse a by-law, a mechanism is in place to ensure reimbursement of any licensing fees paid). (See full text in appendix 1, page 16)

BROAD PUBLIC CONSULTATION WITH AFFECTED BUSINESSES

If provincial government policies continue to result in increased taxes, fees or charges at the municipal level, business will continue to remit an unfair share of municipal revenues.

The provincial government recently enacted legislation, The Municipal Statute Law Amendment Act, 2006, that identified business licensing as a revenue generating tool for municipalities. While the province did not provide municipalities with additional taxation powers (other than Toronto), business licensing could adversely affect businesses in municipalities experiencing fiscal constraints. Excessive use of this tool could drag in business classes previously not subject to business license fees, and could increase business operation costs and the administrative burden.

Although the province has included safeguarding provisions against abuse of licensing authority, more detail must be provided to guide appellants in the appeal process.

The Ontario Chamber of Commerce urges the Government of Ontario to provide more detail surrounding the appeals process for municipal by-laws (i.e. ensure that in the event a regulation is created to reverse a by-law, a mechanism is in place to ensure reimbursement of any licensing fees paid). (See full text in appendix 1, page 16)

The Ontario Chamber of Commerce also urges the Government of Ontario to continue to engage business

representatives to determine the impact on business and the economy, of various contemplated legislative changes to the Municipal Act. (See appendix 1, page 16)

ACCOUNTABILITY AND TRANSPARENCY IN MUNICIPAL FINANCIAL REPORTING

Municipal government financial reports are inconsistent in timing, scope and content. This makes it extremely difficult to analyze performance and to benchmark the cost of service delivery from municipality to municipality. Financial reports are critical tools for municipal councils to use in their decision making.

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants' (CICA) developed a guide to Preparing Public Performance Reports that governments should adhere to when compiling their annual reports.

Many local governments across Ontario still budget and account for their financial affairs on a cash-type basis and report on them through a series of separate account and fund financial statements. Others apply hybrid systems with elements of both outdated cash-type basis and accrual reporting.

The need for increased transparency and accountability, comparability across all levels of governments and sound decision-making require that local governments adopt an advanced approach in their financial reporting.

The PSAB approved in March 2007 new standards requiring full accrual accounting for local governments. Full accrual accounting standards will require local governments to account for the stock of capital assets, such as roads, bridges, sewage treatment facilities and buildings, and their use in financial statements.

Full accrual accounting standards provide the foundation of financial information needed to understand the costs of using capital assets and improved financial planning related to their maintenance and replacement needs. They also provide for key indicators such as net

debt, accumulated surplus/deficit, annual surplus/deficit, change in net debt and cash flows; all useful for assessing financial position and results.

The new accounting and reporting standards come into effect January 1, 2009, though some governments have indicated their intention to apply them sooner. The Ontario Chamber of Commerce recommends that Government of Ontario encourage municipalities to adhere to new standards requiring full accrual accounting created and approved by PSAB, prior to the January 1, 2009 deadline. (See full text in appendix 1, page 16)

ALTERNATIVE MUNICIPAL REVENUES - REBATING RST TO MUNICIPALITIES

One solution to ease the fiscal pressures on Ontario municipalities is to provide them with alternative funding sources.

In the course of delivering services, municipalities purchase taxable goods. As municipalities have limited revenue sources, the money to pay for these taxable goods comes from property taxes. In effect, provincial property tax on municipal purchases is a transfer from municipal property owners to provincial revenues.

In recognition of the growing challenges faced by Canada's cities and communities, the federal government began in 2004 to provide municipalities across the country a rebate of the Goods and Service Tax (GST) and the federal portion of the Harmonized Sales Tax (HST). This resulted in a cumulative funding increase of \$580 million per year for municipalities nationally. The province would be well advised to follow the example of the federal government and rebate the provincial sales tax to municipalities.

It is estimated that the provincial government generates approximately \$500 million in PST revenue from taxing purchases by municipalities, money that municipalities could use to fund public transit, affordable housing, and infrastructure renewal projects for the benefit of their communities. Continuing to have municipalities

pay consumption taxes on inputs for the delivery of services, many of which are mandated by the province, is not good tax policy.

If the provincial sales tax were rebated for municipalities, this would mean that more revenue from property taxes would remain in the municipalities where they were collected. The Government of Ontario must rebate the provincial sales tax paid by Ontario municipalities (without increasing the compliance burden). (See full text in appendix 1, page 20)

CONTROL OVER MUNICIPAL COSTS

Another solution to maintaining a reasonable municipal tax burden is to control municipal expenditures.

Review of Powers Granted to Provincial Arbitrators

Municipalities in Ontario have been experiencing a considerable increase in compensation costs due to an extraordinary rise in the total compensation awarded by Arbitrators to Police and Fire Services throughout the Province of Ontario.

Over the course of the next 12 months, the Government of Ontario must review the powers accorded to and criteria governing Provincial Arbitrators serving as Chairs of Interest Arbitration Boards under the following Provincial Acts: Arbitration Act; Police Services Act; Fire Protection and Prevention Act; and Ontario Labour Relations Act. (See full text in appendix 1, page 21)

Local governments work diligently to balance local priorities with available funding in a manner that mitigates the adverse impact on their taxpayers. However, even basic cost-control measures, such as avoiding a duplication of administrative services between the police services and other municipal departments, are taken out of the hands of elected municipal officials by the Police Services Act. Further, there is no mechanism to encourage such cost management measures in the Police Services Act or its dispute resolution mechanisms.

In order to provide municipal councils with more direct control over the budgeting of the civilian complement and administrative support of local police services, with the view of eliminating duplication. The Ontario Chamber of Commerce urges the Government of Ontario to amend the Police Services Act. (See full text in appendix 1, page 21)

The Police Services Act enables municipal-police board disputes to be heard by the Ontario Civilian Commission on Police Services, or by an arbitrator. Such lack of local government control has created an enormous sense of frustration and concern amongst local councils, who are forced to absorb ever-rising policing costs, and taxpayers that demand transparency and accountability.

The Government of Ontario must also amend the Police Services Act to make the Police Service Boards directly accountable to the host municipality and to eliminate appeals to the Ontario Civilian Commission, as they relate to the budgeting of the civilian complement and administrative support of local Police Services. (See full text in appendix 1, page 21)

Impartial negotiations

Compensation and benefits account for the largest component of any municipality's annual operating budget. Typically, these are highly unionized work environments whose budgets are constrained by the rigidity of collective bargaining agreements that are often well beyond the annual rate of inflation. Even more generous benefit packages are approved during negotiations while cities are grappling to pay for the increased cost of providing existing benefit packages that far exceed the Consumer Price Index (CPI).

The Ontario Chamber of Commerce urges the Government of Ontario to ensure fairness and equity for all parties involved in these negotiations as well as the municipal taxpayers who are responsible for the compensation costs for many of the unionized workers covered under these particular pieces of legislation.

This process would also allow for the identification of any trends in decision-making that may be biased in favor of one party over another. (See full text in appendix 1, page 21)

Qualifying arbitration parameters

Current legislation governing interest arbitration within Ontario provides little direction to the arbitrators on the factors that should be considered in making an award. Many municipalities across the province have had to accept wage decisions by arbitrators where it is clear the amount of the increase is directly related to awards made in the Greater Toronto Area (GTA). The significant costs that result from this particular practice are clearly evident in the recent collective agreements for fire, police and ambulance workers.

Many municipalities have had to defer or cancel improvements to infrastructure as a result of these ongoing compensation pressures. Practices such as draining municipal reserves and selling off assets has lead to decades of municipal inaction and resulted in crumbling and out of date infrastructure.

The Ontario Chamber of Commerce urges the Government of Ontario to devise a strategy to amend arbitration parameters/guidelines to allow for the consideration of geographic, demographic and economic differences between Toronto and the rest of Ontario when making awards for compensation increases to unionized employees. (See full text in appendix 1, page 21)



Appendix I: Property Tax Policies

Property Tax Review Panel

(Approved on May 5, 2006)

ISSUE:

Business property taxes in Ontario are uncompetitive compared to other jurisdictions and unfair compared to the residential property tax burden. The Ontario government must reform the province's property tax system so that it becomes an equitable and effective source of funding for government services.

BACKGROUND:

Property taxes are the most significant source of revenue for Ontario municipalities accounting, on average, for 48 per cent of municipal revenue. Municipal property taxes pay for the costs of municipal services and also fund social assistance and housing programs that were downloaded from the provincial government in 1998. Provincial property taxes (to partially fund elementary and secondary education) are added on top of municipal taxes and the combination has led to Ontario recording the highest property tax burden of any OECD country - 3.7% of GDP (2004).

Compounding the excessive property levels in Ontario is the fact that in many municipalities a disproportionate share of this tax burden falls on business properties. To help improve tax fairness the provincial government established ratios that directly compared business tax rates to residential tax rates and set a limit where municipalities would be restricted from increasing the non-residential tax burden. These ratios were 1.98:1 for commercial properties and 2.63:1 for industrial properties.

The "threshold" ratios as the name implies were set to represent the upper limit of the business property tax burden. To help municipalities develop more equitable tax policies, the province established "ranges of fairness" which recommended that business tax rates be no more than 10% higher than residential

tax rates. Ranges of fairness were established by the province in 1998 with the intention that municipalities would ultimately move their tax ratios towards the range (1.1:1 to 0.6:1 for commercial and industrial properties).

The current regulations don't accomplish that. They prevent the tax system from becoming less fair but there is no mechanism working to ensure it becomes more fair. Property tax measures introduced through the Continued Protection for Property Taxpayers Act, 2000, crystallized existing inequities and neglected to force improvements to non-residential tax fairness policies.

Capping and claw back policies implemented to ease the transition to updated property assessment methods have further aggravated inequities within the business property classes. Businesses entitled to assessment-related tax decreases are required to subsidize properties that would have otherwise faced property tax increases due to the updated Current Value Assessment system introduced in 1998. As a result, many businesses are paying taxes with little or no relation to their true current value assessments.

In 2003, the Ontario Chamber of Commerce endorsed a policy resolution recommending that the Ontario government establish an expert panel to resolve issues related to business property tax fairness and competitiveness. Since that time, little has changed. In fact, some provincial policy changes, such as modifications to the 'hard cap' in 2004 and 2005, have increased the property tax burden on businesses.

The Province, since it occupies the property tax field and provides the framework within which municipalities exercise their taxing authority, must show leadership in crafting a plan that would reform a tax system that erodes the province's competitiveness. It is suggested the government strike an expert panel to devise a plan that would achieve competitiveness and equity in Ontario's property tax system.

RECOMMENDATIONS:

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Reduce business education tax (BET) rates in the province in the following two step process:
 - a. As a first step, to be completed by 2009, implement a uniform ceiling BET rate at the lower end of the commercial/industrial urban range (e.g., the Halton Region commercial BET rate is currently 1.37 percent); and
 - b. As a second step, to be completed by 2015, equalize business and residential property tax rates for education (e.g., the residential rate is currently 0.26 percent).
2. Strike an Expert Property Tax Review Panel that includes representatives of business organizations whose mandate would be to propose:
 - a. A fair and competitive distribution of the cost of municipal services between the various property classes to be reflected in statutory guidelines for property tax rates;
 - b. A long-term plan and timetable for ensuring the appropriate tax burdens identified above are phased-in for all Ontario municipalities; and
 - c. A plan and timetable to move all properties towards full Current Value Assessment and for the phasing-out of capping and claw back polices.

Market Value Assessment and Property Tax

(Approved on May 5, 2007)

ISSUE:

In 1997 the Ministry of Ontario Finance introduced "Market Value Assessment" with its subsequent excessive increase in taxation ramifications to various classes of properties and businesses in Ontario. This was done without consultation with many types of properties and occupying business that would be affected without researching the impact to these businesses.

An example is within department of the Ontario Finance Ministry offices. They admitted being unaware the classification on Mini-Storage had been settled by an Ontario Supreme Court Decision in 1982 (Canadian Mini-Warehouse Properties Limited v. R. A. C., Region No. 12) when the regulations were rewritten in 1997. The Ontario Finance Ministry still has not moved forward on this decision. The manner in which these regulations are currently still written is costing property owners and the Ontario and Federal Governments millions of dollars each year.

BACKGROUND

Pre 1997, Mini storage facilities were assessed as per a ruling by the Ontario Supreme Court which pointed out where no business is conducted no business tax should apply. Mini-Self Storage is unlike a Mini-Mall where business tenants occupy the latter. Mini-Self Storage facilities are more like apartment facilities where both contain personal and household items, not for re-sale. Both should be assessed and taxed similarly. The Assessment Body of the day challenged the court decision in the appeals court and the decision was upheld.

In 1997, with the advent of Market Value Assessment, new regulations were written ignoring the Ontario

Supreme Court decision, and by default, changing the category of the classification without going back to court where the Government Agencies lost each attempt. The ramification of this change was Province-wide Property Tax increases of as much as 50% for 1998 and the continuance of this increase on an annual basis.

One of the recommendations of the Ombudsman's report "Getting it Right" states, "That, when a property assessment is challenged based on an actual sale price proximate to the valuation date, the Municipal Property Assessment Corporation should generally accept that sale price as the best evidence of the property assessment. The actual sale price should also be treated as an important factor in assessing the current value of the particular property in future years. MPAC should deviate from these general rules only if there are concrete, cogent reasons for believing that the sale has not been made under market conditions or does not otherwise reflect actual market value".

"That the Municipal Property Assessment Corporation should be bound to apply any assessment reductions imposed by the Assessment Review Board to future years' market value assessments of the same property, unless they have been determined to be wrong by a court of law or the Municipal Property Assessment Corporation can clearly demonstrate that the circumstances justifying the assessment reduction have changed. In such case the reasons justifying the change should be set out in the taxpayer's assessment notice".

"That, the Municipal Property Assessment Corporation should be bound to apply reductions agreed to in minutes of settlements to future years' assessments of the same property unless the Municipal Property Assessment Corporation can clearly demonstrate that the circumstances justifying the assessment reduction have changed. In such case the reasons justifying the change should be set out in the taxpayer's assessment notice".

RECOMMENDATIONS:

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. That the Ontario Government Support the Ombudsman recommendations in its report "Getting it Right" and these recommendations be implemented.

Competitive Property Assessment Services

(Approved on May 5, 2005)

ISSUE:

The protected monopoly that the Municipal Property Assessment Corporation (MPAC) has, has not delivered the improved assessment delivery system as hoped.

BACKGROUND:

Ontario's previous government have been reluctant to look beyond our borders when seeking improvements to the property assessment system. The current Ontario government has already looked to other jurisdictions in considering a reformed democratic process and this must carry over to the assessment system as well.

Within the Ontario, the policy framework for assessment delivery has been subject to change. The original agency carrying out Province-wide reassessment in 1998 was called the Ontario Property Assessment Corporation (OPAC). OPAC was incorporated with "opt-out" clauses, allowing municipalities to assume their own assessment functions after 2003 (regulations set by the Minister of Finance). This could have facilitated introduction of the world-wide best practices through private assessment companies. However, the "opt-

out” clauses were repealed following a 2001 review of the assessment delivery system, with OPAC being re-launched as MPAC. MPAC’s status as a protected monopoly has been maintained ever since.

The second, 2001, review report authorized by the Minister of Finance, written by Marcel Beaubien, MPP, was never passed. The Beaubien report did advocate for an open, competitive bidding process to properly serve our municipalities and taxpayers.

Proponents for the current monopolistic system cite the need for a consistent province wide system and the need to continue the current funding formula for apportioning assessment costs to municipalities, as reasons to maintain the monopoly.

To address these concerns in other jurisdictions like Alberta, municipal assessment authorities have been created to provide a list of qualified assessment service providers, provide standardized RFP information to municipalities, maintain an assessment data bank, calculate province wide assessment costs and levy municipalities based on the municipal act, conduct audits of service providers, and disperse funds to service providers. The provincial authority would not conduct assessments.

As many as 90 municipalities have asked the current government to move forward with this recommendation of the second Beaubien report and create a competitive environment for property assessment. Important savings to the taxpayer will result! A report from, Chatham-Kent, indicates that they could save close to \$600,000 in fees should competition exist.

For more than 30 years, Ontario has had a single provider of property assessment services. This system has failed to provide taxpayers with an open, transparent, accountable and widely accepted property assessment process. A significant benefit of competition is that there is a real possibility of reducing assessment costs to municipalities by some \$40.0 million dollars (30% savings).

RECOMMENDATIONS:

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Authorize an open competitive bidding process in the delivery of property assessment services, to properly serve our municipalities and taxpayers.
2. Examine the role of a Municipal Assessment Authority to ensure property assessment service delivery meets standards prescribed in legislation and regulations with the objective of creating a cost effective and administratively efficient operation.

Provincial-Municipal Fiscal and Service Delivery Review

(Approved on May 5, 2007)

ISSUE:

Following provincial downloading of social services and infrastructure costs, municipal governments in Ontario are unable to concurrently balance their budgets and maintain service levels and capital costs of infrastructure. To fulfill their increasing service responsibilities, municipal governments are seeking new revenue sources.

Recent provincial legislation has provided municipalities' access to new regulatory and financing tools, which include business licensing authority and greater flexibility to levy area rates.

Businesses already contribute more to the property tax base than residential properties of the same value and our members are also subject to fees and charges that contribute to municipal revenues. Faced with increasing fiscal responsibilities, it is anticipated that new powers granted under the Act to amend various Acts in relation to municipalities (formerly Bill 130), will further increase tax burden of Ontario's businesses.

BACKGROUND:

Over the years, a fiscal imbalance has developed among the three orders of government:

- The Federal Government has earned revenues in excess of expenditures required for a balanced budget for a number of years
- The Provincial Government maintains there is a fiscal imbalance with respect to the amount of revenue the Government of Canada collects in Ontario and Federal transfer payments and expenditures back to the province as described in the Ontario Chamber of Commerce Fairness in Confederation Reports I and II

- Municipal governments have been encumbered with ever-increasing costs related to provincial social services downloaded from the province without adequate funding.

Municipal leaders have identified the cost of the services downloaded by the provincial government ten years ago as the chief cause of their fiscal problems.

Both Toronto and Ottawa have been identified as two of the most expensive cities in Canada in which to do business, as reported in "Competitive Alternatives, KPMG'S guide to international business costs".*

The Ontario Factor

In Toronto and Ottawa, the cost of social services downloaded by the province amounts to hundreds of dollars a year for each citizen.

The Association of Municipalities of Ontario (AMO) estimates the overall fiscal imbalance between the provincial and municipal governments reaching \$3 billion a year.

While the recently enacted legislation did not provide municipalities additional taxation powers, it has identified business licensing as a revenue generating tool for municipalities (Section 151).

As a result of fiscal constraints placed on municipalities to provide adequate levels of services, business sustainability in certain municipalities could be adversely impacted by:

- excessive business licensing fees;
- increased administrative burden to businesses; and,
- excessive licensing of businesses/business classes previously not subject to business license fees.

The province has included provisions in Bill 130 (Section 158) to prevent municipalities from exploiting this fiscal tool by providing the Minister of Municipal

	2004 spending per person for health, social and family services	2004 total spending per person excluding health, social and family services
Toronto	\$738	\$2,385
Ottawa	\$577	\$1,885
Calgary	\$92	\$1,949
Montreal	\$65	\$1,978
Greater Vancouver	\$45	\$1,839
Saskatoon	\$24	\$1,832
Edmonton	\$22	\$1,976
Winnipeg	0	\$1,437
Halifax	0	\$1,749
Regina	0	\$1,500

Sources: The Conference Board of Canada, Statistics Canada

Affairs and Housing with the power to pass regulations that exempt certain business from business licensing requirements.

However, as businesses would be immediately subject to a business licensing fee levied by a municipality, the time delay caused by the provincial appeal process is a concern. More detail within legislation or in regulations must be provided to guide appellants in the appeal process.

If provincial government policies continue to result in increased taxes, fees or charges at the municipal level, business will continue to remit an unfair share of municipal revenues.

RECOMMENDATIONS:

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Negotiate solutions to the fiscal imbalances among the federal, provincial and municipal governments, through the Association of Municipalities of Ontario (AMO).
2. Expedite the Provincial-Municipal Fiscal and

Service Delivery Review, immediately identifying appropriate funding for municipalities and enact any related legislation to occur in the next 12 months.

3. Refrain from granting local municipalities broader permissive powers of taxation.
4. Provide more detail surrounding the appeals process for municipal by-laws (i.e. ensure that in the event a regulation is created to reverse a by-law, a mechanism is in place to ensure reimbursement of any licensing fees paid).
5. Encourage municipalities to adhere to new standards requiring full accrual accounting created and approved by PSAB, prior to the January 1, 2009 deadline.
6. Continue to engage business representatives to determine the impact on business and the economy, of various contemplated legislative changes to the Municipal Act.

Municipal Funding Gap for the Provision of Social Services

(Approved on May 5, 2007)

ISSUE:

Ontario municipalities are facing budgetary crises that put the future of the Province's cities at risk. The downloading by the Provincial government of the responsibility for providing a variety of provincially-mandated services places an unfair burden on the municipal property tax system and hinders the abilities of municipalities to meet their other responsibilities.

BACKGROUND:

In 1998 the Provincial government downloaded the responsibility for delivery and funding of a number of programs onto the municipalities of the province.

Ontario is the only province in Canada and, possibly, the only jurisdiction in a G8 country to place the burden of paying for social services like housing and public health almost exclusively on the municipal property tax base.

While the Province mandates the standards and overall costs of these programs, they are funded from a combination of property taxes and provincial subsidy. This means municipalities have limited authority to alter costs and must fund the remainder of the costs of these services from property taxes.

City taxpayers are required to fund the gap to maintain service at a level mandated by the province although cities are not involved in the decision-making process as to what level of service should be provided. For example, in 2007, the City of Ottawa will be experience a \$13 million shortfall that has arisen, for the most part, from substantial increases in the costs of childcare, public health and long term care.

Due to this downloading of provincially mandated programs and their resulting funding gaps, many

municipalities across the province have had to deplete reserves, run up debt, defer capital/infrastructure renewal projects and/or sell assets in order to comply with provincial legislation.

Currently the Province of Ontario requires the Municipalities of Ontario to include taxation of \$3 billion on the property tax bill for provincially mandated income redistribution programs. This type of program places an unfair burden on the property owner and would be better funded through income taxes that are based on the ability to pay. These income transfer programs make Ontario property taxes the highest in the country.

The province's cities cannot reach their full growth potential without long term and stable funding streams from the province that will ensure crumbling infrastructure is replaced and new infrastructure is built to accommodate future growth. New funding formulas and revenue sharing agreements are urgently required to address the fundamental needs of cities that will then be able to make the basic investments in urban infrastructure.

RECOMMENDATION:

The Ontario Chamber of Commerce urges the Government of Ontario to:

Move towards fully funding income transfer programs, such as social assistance, social housing, ambulances and childcare subsidies, from provincial revenues over three years (3) starting in 2008/2009 with full funding by 2010/2011; and further, that in the interim, the Province of Ontario honour the cost-sharing arrangements that currently exist with Ontario municipalities.

Long-Term Funding of Social Services Costs Due to Provincial Downloading

(Approved on May 5, 2005)

ISSUE:

Ontario's taxpayers are experiencing increased levels of conflict between jurisdictions of government over the concept of 'downloading'. The issue is the continual change in which level of government, provincial or municipal, is accountable for delivery of programs or services, and the continual changes to the rules and standards associated with their delivery. Municipalities as a result face greater levels of uncertainty and confusion in providing their core services within budgetary restrictions.

BACKGROUND:

The concept of defining the roles of the provincial and municipal government is not new.

- In 1989 an advisory committee was appointed by the Liberal government to consider ways to 'disentangle' the levels of government.
- In 1992 the NDP government began negotiations with municipalities in a bid to reduce duplication.
- In 1996 the Conservatives initiated a "Who Does What" panel to begin a complete overhaul in the delivery and funding of government services, which led to significant changes in accountabilities beginning in 1998.

Contrary to the advice of the panel, Ontario completely downloaded funding of social services to municipalities. As was recognized in advance by the "Who Does What" panel, this model of funding is not sustainable in the long term. To our knowledge, Ontario is the

only jurisdiction in the entire G8 that expects social services costs to be sustained almost exclusively from property taxes.

This model of funding creates significant challenges for older urban centers in the province. These centers are seeing dramatically increasing demands for social services coupled with the burdens of dealing with aging infrastructure, and pressure to maintain competitive business and residential tax rates. All of this leads to a large imbalance in these municipalities' budgets.

The new Municipal Act (January 1, 2003) (the Act) was intended to give municipalities greater autonomy in the following areas: highways (including parking and traffic), transportation systems, waste management, public utilities, culture (including parks, recreation and heritage), drainage and flood control (except storm sewers), structures (including fences and signs), parking, animals, and Economic Development Services.

Not surprisingly, since the Act was passed, municipalities have not yet learned how to use their newfound powers. Some would suggest that they are "stuck" in service-delivery mode rather than undertaking analysis and policy formulation. Others support the notion that councilors are not used to having real power and would still rather blame senior levels of government for their plight.

Regardless of these previous attempts to 'demystify' the roles of provincial and municipal governments, the current reality for Ontario's municipalities remains unclear and embroiled in controversy. Some of the arguments they have put forward include:

- Ontario municipalities receive only 6 cents of every household's tax dollar (35 cents go to the province, 59 to the federal government).
- Provincially mandated health and social service costs were 26.7% of municipal expenditures; outside Ontario they were 1.7% of municipal expenditures.

- Municipalities in Ontario are being forced to defer maintenance and investment at the rate of \$5 billion per year-25% of combined municipal budgets. The average Ontario property tax burden in absolute terms is estimated to be 14% higher than the next highest province and 50% higher than the Canadian average.
- Property tax revenues, from which municipalities derive the bulk of their revenue, grow more slowly than other tax revenues: Between 1997 and 2002, provincial income tax and sales tax revenue grew by 15% and 22% respectively. During the same period property tax revenue grew by 6%.

Furthermore, Ontario's municipalities are unanimous in their concern over the lack of consultation between them and their provincial counterparts particularly where new policies or regulations are introduced that have immediate financial consequences on their budgets.

While several attempts have been made to balance these funding shortfalls through provincial grants or pooling of social services costs with other municipalities, these are viewed by the Chamber as interim solutions only. In the face of another economic recession, when there will be increased demand on social services at precisely the same time that business and residents can least afford increased assessments, and municipalities are prohibited from borrowing to fund operating deficits – this could well be a fiscal and social disaster for municipalities across the province.

RECOMMENDATIONS:

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Create a task force to make recommendations back to the Ministers of Finance and Municipal Affairs on a formula that will reasonably assure sustained funding of social services costs into

the foreseeable future. This formula must ensure financial viability for municipalities, as well as deliver an acceptable level of services to those in social need. The work of such a task force, including any enabling legislation, should be concluded within the next twelve months.

2. In consultation with municipalities, clearly define the strategic principles underlying the division of authority for delivery of programs or services in the province of Ontario identifying the appropriate sources of revenue, the required expertise levels, the efficient use of current resources and anticipated budgetary pressures.

Rebating Provincial Sales Tax to Municipalities

(Approved on May 5, 2007)

ISSUE:

In the course of delivering services, municipalities purchase taxable goods. As municipalities have limited revenue sources, the money to pay for these taxable goods comes from property taxes. In effect, provincial property tax on municipal purchases is a transfer from municipal property owners to provincial revenues.

BACKGROUND:

The responsibilities of municipalities have expanded over the years, albeit without additional fiscal powers. The Conference Board of Canada in a report **Mission Possible: Successful Canadian Cities** expressed the municipal dilemma succinctly:

“The municipal governments of Canada's major cities are caught in fiscal pincers: on the one hand, they bear the costs of

services that have been off-loaded by federal and provincial governments over the past two decades (notably social services in Ontario); on the other hand, they are under-financed by available sources of revenue. Of total government revenues, the federal government receives 39 per cent; provincial and territorial governments receive just under 50 per cent; and less than 12 per cent goes to municipal governments. What is more, the gap in revenues is growing: between 2000 and 2004, while federal and provincial/territorial revenues grew by 17.6 and 22.1 per cent respectively, revenues collected by municipal governments grew by only 14.2 per cent. Some municipalities have tried to close the fiscal gap by raising user fees and property taxes, but even these measures have been insufficient to meet their needs.”²

In recognition of the growing challenges faced by Canada’s cities and communities, the federal government began in 2004 to provide municipalities across the country a 100 per cent rebate of the Goods and Service Tax (GST) and the federal portion of the Harmonized Sales Tax (HST). This resulted in a cumulative funding increase of \$580 million per year for municipalities nationally. The province would be well advised to follow the example of the federal government and rebate the provincial sales tax to municipalities.

It is estimated that the provincial government generates approximately \$500 million in PST revenue from taxing purchases by municipalities, money that municipalities could use to fund public transit, affordable housing, and infrastructure renewal projects for the benefit of their communities. Continuing to have municipalities pay consumption taxes on inputs for the delivery of

services, many of which are mandated by the province, is not good tax policy.

RECOMMENDATIONS:

The Ontario Chamber of Commerce urges the Government of Ontario to:

Rebate the provincial sales tax paid by Ontario municipalities (without increasing the compliance burden).

Need to Reform Arbitration Act to Control Increased Municipal Compensation Costs

(Approved on May 5, 2007)

ISSUE:

Municipalities in Ontario have been experiencing a considerable increase in compensation costs due to an extraordinary rise in the total compensation awarded by Arbitrators to Police and Fire Services throughout the Province of Ontario.

BACKGROUND:

Current legislation governing interest arbitration within the Province of Ontario provides little direction to the arbitrators on the factors that should be considered in making an award. Many municipalities across the Province have had to accept wage decisions by arbitrators where it is clear the amount of the increase is directly related to awards made in the Greater Toronto Area (GTA). The significant costs that result from this particular practice are clearly evident in the recent collective agreements for fire, police and ambulance workers.

Compensation and benefits account for the largest component of any municipality’s annual operating

² The Conference Board of Canada. Mission Possible: Successful Canadian Cities. Ottawa: Conference Board of Canada. January 2007.

budget. Typically, these are highly unionized work environments whose budgets are constrained by the rigidity of collective bargaining agreements that are often well beyond the annual rate of inflation. Unions continue to negotiate for even more generous benefit packages while Cities are grappling to pay for the increased cost of providing existing benefit packages that far exceed the Consumer Price Index (CPI).

While binding arbitration preserves the operation of essential services if the parties cannot reach a new agreement and prevents work stoppages that could result if a strike provision were included in these collective agreements, the awards have put undue pressure on already tight municipal operating budgets. Many municipalities have had to defer or cancel improvements to infrastructure as a result of these ongoing compensation pressures. Practices such as draining municipal reserves and selling off assets has lead to decades of municipal inaction and resulted in crumbling and out of date infrastructure.

Ontario Municipalities need assistance from the province to control their costs and ensure the proper re-investment of tax dollars in infrastructure projects that will ensure future prosperity and responsible growth.

RECOMMENDATIONS:

The Ontario Chamber of Commerce urges the Province of Ontario to:

1. Over the course of the next 12 months, review the powers accorded to and criteria governing Provincial Arbitrators serving as Chairs of Interest Arbitration Boards under the following Provincial Acts:
 - Arbitration Act;
 - Police Services Act;
 - Fire Protection and Prevention Act; and
 - Ontario Labour Relations Act.

2. To ensure fairness and equity for all parties involved in these negotiations as well as the municipal taxpayers who are responsible for the compensation costs for many of the unionized workers covered under these particular pieces of legislation. This process would also allow for the identification of any trends in decision-making that may be biased in favor of one party over another.
3. Devise a strategy to amend arbitration parameters/guidelines to allow for the consideration of geographic, demographic and economic differences between Metropolitan Toronto and the rest of Ontario when making awards for compensation increases to unionized employees.

Reforms Needed for Provincial Arbitration Process

(Approved on December 16, 2005)

ISSUE:

The battle to hold the line on ever-increasing property taxes in Ontario municipalities is being lost in part because of the escalating costs of provincially arbitrated settlements for emergency services personnel.

Although Ontario boasts some of the finest and most professional emergency service departments in the country, demands for disproportionately high wages and benefits for firefighters, police and paramedics (28% over three years in London for EMS in 2004) are routinely approved through the Provincial Arbitration system - leaving municipal councils virtually helpless to defend their local economic situations and placing Ontario communities at a competitive disadvantage with other jurisdictions.

BACKGROUND:

Ever since municipal police associations in the province won their arbitrated settlements for “experiential” or “retention” pay, firefighter’s associations across the province have been positioning themselves to do battle in front of the Provincial Arbitrator in order to maintain wage parity with police, as they have in previous contracts.

And, while retention or experiential pay may have made sense for Toronto (where retention pay was first granted), given the difficulty that city has had in retaining officers, it makes no sense for communities such as London (or most other Ontario municipalities) where there has been no trouble keeping either firefighters or police.

The current system of provincial arbitration does not take into account the circumstances of each municipality. Rather, it determines the outcome of the first-out-of-the-gate and then sets the bar at that same level for all other municipalities in the province.

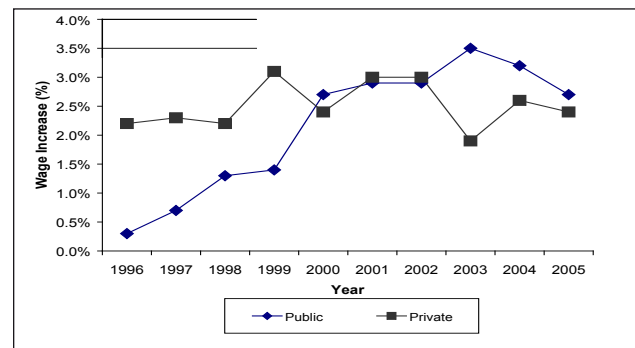
City governments are then left in the precarious position of then challenging the arbitration, usually at a cost of several hundred thousand taxpayer dollars, knowing full well that they will lose the battle in the end. This has been one of the biggest deterrents for municipalities as most see it as a hopeless and expensive fight, the outcome of which has been essentially predetermined. Also viewed as unaffordable and unnecessary is the fact that non-firefighting personnel such as fire prevention, communication and support workers will also qualify for retention pay under the arbitrators ruling further exacerbating the issue and driving municipal property taxes even higher.

No one argues that emergency services personnel deserve incremental wage increases based on the usual set of standards found in the private sector and most other public sector services, i.e. performance, merit, seniority etc. The additional standard that needs to be applied and is arguably the most important one is the municipalities’ ability to pay.

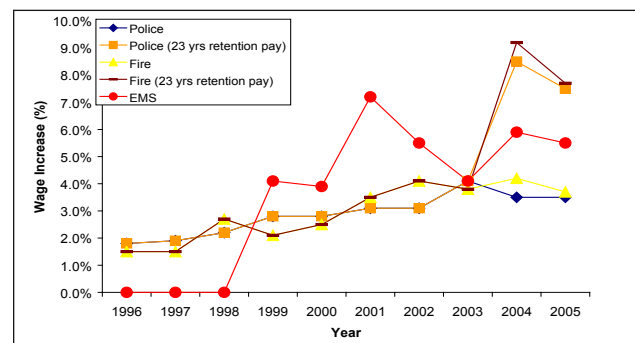
That notwithstanding, to artificially prop up wages based on the notion that municipalities require some kind of retention pay to aid them in keeping their workers is both economically unsustainable and in the long run, will ironically do a disservice to metropolitan areas such as Toronto given that emergency services personnel in that city will soon be able to get the same wages and benefits anywhere else in the province.

The debate over escalating wage and benefit costs and the inability of the employer to continue to pay them has never been more pronounced. One only has to look at the auto sector, the airline industry or more recently the NHL to draw obvious conclusions. The following tables illustrate where wages have been going in the private and public sector settlements:

Public/Private Wage Increases (Labouring Through Change – Hicks Morley)



Average Annual Emergency Services Increases (Hicks Morley)



And the arbitration process makes no distinctions between municipalities. Toronto, Windsor, Hamilton, Sudbury and Brampton have all negotiated retention pay for firefighters when practically speaking only Toronto could make a logical case for retention pay based on their experience. Nor does it take into account the precedent setting impact on private sector wage settlements in effected communities.

Ontario citizens want and need good emergency services but it shouldn't have to be at the cost of good roads and sewers or public transit or the development of industrial lands for economic development. Regrettably, it is these very services that are being compromised as taxpayers pressure their local councils to tow the line on tax increases. And this situation will worsen as the cost of paying for emergency services continues to escalate.

Many city departments, like those in London have done an excellent job in curbing their appetites for spending with the great majority presenting annual budgets that reflect less than three percent increases – an amount supported by the Ontario Chambers of Commerce as it reflects a combination of the cost of inflation plus population growth.

The Ontario Chamber of Commerce respects the fact that provincial arbitration was introduced to offset the right of emergency services to strike. Nevertheless, amendments to the current system are necessary if municipalities are to survive and prosper. Short of having the province take over the funding of all emergency services in the province, we urge the provincial government to adopt the following changes to the current system.

RECOMMENDATIONS:

The Ontario Chamber of Commerce urges the Government of Ontario to:

As a precursor to arbitration, establish (or strengthen where they already exist), a set of 'qualifiers' or criteria that each city's emergency services department must

complete before presenting their case for arbitration. Such 'qualifiers' should be incorporated into a weighted scoring grid and could include but are not limited to:

1. An externally audited report of the number of officers and support personnel who have left their respective employers for the purposes of pay and or benefit increases that are better than they are currently receiving.
2. The average rate of inflation nationally – adjusted by any proven anomalies that may exist in any particular Census Metropolitan Area (CMA), i.e. unusual energy charges, natural disasters, acts of God etc.
3. Population growth figures in accordance with most recent Statistics Canada Census reports in that particular CMA. (goes to resource requirements)
4. Unemployment figures for that CMA – 30/60/90-day averages and 1/2/3 year trends. (determines availability of workforce)
5. Average rate of annual increases awarded across comparator groups in both the private and public sectors within that CMA. (to include terms and conditions as well as nature of work performed)
6. Average rate of departmental budget increases within their own municipality – in other words - is their request fair and reasonable within the context of the current or proposed budget guidelines? (goes to employer's ability to pay)
7. Cost of living differentials within a given CMA including the average cost of housing, food, energy, transportation etc.



Appendix II: Current & Draft Legislation

SELECTED ONTARIO STATUTES:

Municipal Act, 2001

1. Assessment Act, 1990
2. City of Toronto Act, 1997*
3. Corporations Tax Act, 1990*
4. Continued Protection for Property Taxpayers Act, 2000
5. Income Tax Act, 1990*
6. Municipal Property Assessment Corporation Act, 1997
7. Retail Sales Tax Act, 1990*
8. Tenant Protection Act, 1997*
9. Taxpayer Protection Act, 1999*

BILLS IN THE LEGISLATURE

Bill 75, Homestead Act, 2006, Tim Hudak (Erie-Lincoln).

First Reading March 1, 2006.

Second Reading debated and carried on division April 13.

Order referred to the Standing Committee on General Government.

Tim Hudak has introduced the Homestead Act, amending the Assessment Act, that if introduced would impose 5 per cent on the increase that can occur in the assessment of residential land if the owner of the land is the same as the owner of the land in the immediately preceding taxation year or is a child or spouse of that owner.

If introduced there would be always a cap and there would be always winners and losers of "stay-put" property owners versus "frequent movers".

Moreover, the bill provides that the first \$25,000 in repairs, alterations, improvements or additions that an owner of residential land has made will not be considered to increase the current value of the land for assessment purposes if the municipality in which the land is located or the Assessment Review Board does not disallow, in the assessment roll, the value of the work done.

Finally, the assessment of a principal residence is reduced by an amount up to \$10,000 for the number of months of a taxation year during which the owner is at least 65 years of age or is disabled.



Appendix III:
Ontario Property Tax
Fact Sheet

1. Ontario introduced Current Value Assessment (CVA) in 1998. By Revenue Theory CVA is the most equitable and effective property evaluation system for taxation purposes, provided the property tax rate is uniform across all taxpayers.
2. Capping and claw-back are measures introduced by the government to smooth transition to full value assessment for non-residential property classes. Both capping and claw-back policies create equity distortions and increase administrative costs. The decision by the government to introduce a claw-back on over-assessed properties with the intention to finance the shortage of funding collected under the existing capping scheme is an unfair system without precedent in other jurisdictions. In one or another way, capping will always result in cross-subsidizing property taxes by other property taxpayers, unless the government will identify other ways to finance it. It also creates a windfall for capped properties on the expense of properties with full Value assessment or the ones with a claw-back.
3. There are both geographical and property class ratio differences in property tax rates across Ontario and within every jurisdiction. Distribution of tax burden between different property classes is commonly regarded as a matter of political decision and is not always reflecting the cost of municipal/education services a taxpayer in a specific class gets in return.
4. Provincial property taxes (to partially fund elementary and secondary education) are added on top of municipal taxes and the combination has led to Ontario recording the highest property tax burden of any OECD country - 3.7% of GDP (2004). Compounding the excessive property levels in Ontario is the fact that in many municipalities a disproportionate share of this tax burden falls on business properties.
5. Widely varying business education tax (BET) rates across Ontario perpetuate inequities among commercial and industrial property taxpayers. Education taxes represent about half of the property taxes imposed on Ontario businesses, and the rate discrepancies distort business decisions.
6. Business property taxes in Ontario are uncompetitive compared to other jurisdictions and unfair compared to the residential property tax burden.

The current capping and claw-back system in ON set up to smooth transition to full CVA will take:

- 62 years if preserving the status quo (5% annual cap, capped threshold increase - 125\$ [*within which a property would move directly to their CVA taxes]) and
 - 32 years if the annual cap rate is increased to 10% annually and if capped threshold increase is lifted to 250\$;
3. There are both geographical and property class ratio differences in property tax rates across Ontario and within every jurisdiction. Distribution of tax burden between different property classes is commonly regarded as a matter of political decision and is not always reflecting the cost of municipal/education services a taxpayer in a specific class gets in return.

- The current system does not achieve the fairness objective. They prevent the tax system from becoming less fair but there is no mechanism working to ensure it becomes more fair.
7. The current MPAC (The Municipal Property Assessment Corporation) assessment process is not transparent and raises suspicions regarding the fairness of current assessment methodology. Even if the process were transparent and fair, there would be still intolerance and disagreement on the side of taxpayers with property assessed values. The reasons behind this are:
 - a. Property tax has been historically the most unpopular tax.
 - b. Property tax compliance is amongst the highest of all taxes. Property is a commodity that is very difficult to hide or move, whereas if the taxpayers fail to pay the tax, they may be forced to pay taxes by selling their property.
 - c. The lump sum nature of the property tax that is paid once a year adds to the magnitude of negative perception. Property tax may be quite substantial in money terms, versus a sales tax per one purchased item, or an income tax paid every month for the money earned.
 - d. There are categories of marginal taxpayers that are very vulnerable to the volatility of the real estate market and whose incomes are low comparing to what they could afford in paying for property taxes. There is no mechanism to control for the income of taxpayers when it comes to property taxes;
 8. Taxpayers must have a right to appeal the decision of a “monopolistic” property assessment agency where they could seek reassessment.
 9. The existing rebate program for vacant properties offers no incentive for owners to rent or sell their space, therefore reducing municipal revenues and concurrently increasing administrative costs.
 10. Ontario’s taxpayers are experiencing increased levels of conflict between jurisdictions of government over the concept of ‘downloading’. The property tax is the only tax revenue available to municipalities. In every province, the property tax is shared between the municipal sector and the province and/or school boards. Provincial involvement in property taxation is linked to the province’s direct interest in taxing property to fund a portion of the costs associated with elementary and secondary schooling .
 11. Downloading has resulted in unfair tax hikes and current legislation hinders the ability to provide fairness in the tax system. The current practice of imposing higher tax rates on nonresidential (commercial and industrial) properties has the potential for misallocating municipal resources, being less accountable than it should be, and generally unfair in its impact on taxpayers. Also, experts argue that property taxes are the most regressive form of taxation and are not conducive to the dynamic pressures brought about by downloaded provincial costs.



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