Current Value Assessment in the Greater Toronto Area: Impacts and Policy Implications

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Abstract

The political response to the redistributive impacts of the property tax assessment reform in Ontario has caused a long period of controversy. The modern reform process began in 1967 and in 1997, the Provincial Government passed “The Fair Municipal Finance Act, 1997” which provided the legal basis of implementing market value assessment, redefined the assessment property classes, eliminated the business occupancy tax, permitted municipalities to apply variable tax rates for the various assessment classes within some provincial parameters, and authorized the application of other “tax tools.” This paper discusses the key impacts of the reform and the Provincial response to these impacts.

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Introduction

There may be the need for periodic reform of any property tax administration because the current system no longer meets the needs of the government and the communities included in that system. In addition, new approaches and techniques of assessment are identified as being more equitable and politically acceptable. As always is the case, reform will redistribute tax burdens. Even if the system is made more equitable, there may be resistance to the new system because of the redistributive impacts.

The above statements are consistent with property tax assessment reform in Ontario, which due to the political response to the redistributive impacts has had a long period of controversy. Provincial and municipal governments have attempted to implement reform in various ways over many years. The modern reform process began in 1967, when the Ontario Committee on Taxation recommended that the Province take over the assessment of property, then a responsibility of local governments, and implement a system of market value assessment.[1] In 1970, the Province followed up on this recommendation by taking over the assessment function, promising to implement market value assessment, and freezing all assessments until the reform was to be implemented.

In the 1975 Budget, the Province outlined a proposed assessment reform which across the entire province would shift the tax burden away from residential property and to non-residential property.[2] Due to some of the distributive impacts, especially residential property tax increases in Toronto, there was great resistance to the proposed reform. The Province ultimately appointed a Commission to hold hearings in response to the concerns and made a series of recommendations to modify the reform.[3] Subsequently, several other committees met over the issue and suggested further modifications. Due to major concerns especially regarding redistributive burdens in the Toronto area, the Provincial government was still reluctant to act by implementing comprehensive reforms.

As property assessments remained frozen and greater inequities arose, the government became aware that some action had to be taken. In 1980, the Minister of Revenue gave an interpretation to the Assessment Act that permitted municipal governments to pursue a local option for assessment reform. Municipalities were permitted to apply a form of market value assessment or "reassessment by property class" which would remove the

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[1] Report of the Ontario Committee on Taxation, Volume II, The Queens Printer, Toronto, 1967

[2] Province of Ontario, "Budget Paper E," 1975 Ontario Budget

[3] Report of the Commission on the reform of Property Taxation in Ontario, Blair Report, Willis Blair, Chair, 1976.

inequities within classes of property used for assessment purposes. The response to the optional reform was slow at the beginning but as of 1997, just prior to the reform being studied in this report, approximately 90% of the more than 800 municipalities in Ontario had opted for local reform. Most chose "reassessment by property class" that did not address the inequities across classes of property[4].

The most significant municipal governments not to implement any type of assessment reform were Metropolitan Toronto and its six lower tier municipalities, some of which had assessments based on 1940 market values. Several attempts were made by Metro politicians to develop some type of assessment reform that would be appropriate for Metro. However, with each attempt it was not possible to obtain agreement of all parties involved.

As the Greater Toronto Area, Metro (now the City of Toronto) and four other regional governments (Durham, York, Peel, and Halton)[5], began to evolve as an area requiring study and coordination, the inequities of assessments and property taxes between Metro and the surrounding regions began to be highlighted. The focus was especially on nonresidential properties from the perspective of economic development departments and the Metro Toronto Board of Trade. This topic was an area of discussion in "The Report of the Greater Toronto Area Task Force." They recommended that the Province implement a form of Actual Value Assessment (an application of market value assessment) similar to an approach which has proven to be acceptable and practical in Vancouver.[6] Later that year, the Province's "Who Does What Panel" headed by former mayor David Crombie also recommended the use of Actual Value Assessment.[7]

The Provincial Government acted on these recommendations by passing " The Fair Municipal Finance Act, 1997" which provides the legal basis of implementing Current Value Assessment (the Province's name for market value assessment).

In addition to the form of assessment the other important changes include;

1) redefinition of assessment property classes,

[4] Municipalities were given the "local option" of either applying market value assessment that would redistribute burdens across all classes of property; or applying "reassessment by property class" which would remove inequities within each class by applying a constant assessment to market value ratio within each class while maintaining the same revenue collected from each class; or leaving the assessment "status quo."

[5] Because of the Area Code assigned, the outer four regions are now referred to as the 905 Region or 905 Suburbs.

[6] Report of the GTA Task Force, Publications Ontario, Toronto, January 1996

[7] The "Who Does What Panel" was a panel of experts appointed by the Provincial government to give them advice and recommendations regarding a number of urban policy issues.

2) elimination of the business occupancy tax,
3) permitting municipalities to apply variable tax rates for the various assessment classes within some provincial parameters,
4) apply other "tax tools"

In the next sections of the paper these components of the reform will be discussed. The following sections will show the key impacts of the reform and discuss the Provincial response to these impacts. Finally, conclusions will be drawn regarding the impact and appropriateness of the current reform.

The initial objective of the study was to determine the redistributive impacts of the property tax reform among the various property classes, and the governments across the Greater Toronto Area. As we will describe below in the report, the original approach to the reform was modified by the provincial government because it was required to make a number of changes to the implementation of the reform as municipalities applied the reform during the first year. Three types of inequities existed in the previous property tax system that many advocates of reform hoped would be improved upon if not eliminated:

1) Inequities within classes of assessment in a municipality
2) Inequities across classes of property within a municipality (or establishing a ratio or standard approach to what the differentials should be)
3) Inequities within classes of assessment across the Greater Toronto Area.8

The first of these is self-explanatory; it refers to the example that all single family residential properties in the same city should be taxed at the same rate based on current market value. The second inequity refers to developing a rational and consistent approach for distributing tax burden among various classes of property.[9] Addressing the final inequity is important in terms of economic development in that the existing system had significantly different tax burdens for commercial and industrial properties in various municipalities across the GTA. The general trend was that the tax burdens were greater in Toronto than the surrounding four regions.

It is also important to point out the property tax outcomes have been significantly influenced by two other Provincial policy initiatives; reducing the number of municipal

[8] This inequity is illustrated and discussed in Toronto Board of Trade 2000, "Why Grow Elsewhere: Reforming Property Taxes in the City of Toronto" This report points out that industrial tax rates are 10.294% in Toronto, 4.781% in Mississauga (Peel Region) and 4.21% in Markham (York Region). For commercial property the Toronto rate is 7.51%, while the Mississauga rate is 3.768% and the Markham rate is 3.357%.

[9] The provincial government made an attempt to develop this differential by establishing "fairness ranges" for each class of property.

governments through amalgamation, and local services realignment. Local service realignment refers to the Provincial government "downloading" financial and administrative responsibility for a number of previously provincially supported services. In order to create "tax room" for municipal governments to support these additional financial burdens through the property tax, the province provided funding to school boards for half of the revenue formally collected from the residential property tax. In the Ontario system, local municipalities collect the property tax that is comprised of three components: local municipal revenues, regional government revenues, and school board revenues. Traditionally each government establishes its tax rate as required to meet its budgetary needs.[10]

Within the GTA, the amalgamation issue has affected only Toronto where the former Metropolitan Toronto and its six lower tier constituent municipalities were combined into one upper tier government now referred to as the City of Toronto. The short and long term costs and savings have been a matter of speculation and debate. Although the true costs/savings have been difficult to discern it is important to keep the amalgamation issue in mind when examining or comparing any of the Toronto figures or data.

The next section of the report will provide an overview to the Provincial Property tax reform system. In the following section, the City of Toronto is used as an illustration of the impacts of the reform. Toronto has been selected as an example as it had the most out of date assessments, some of them dating back to 1940. Following that section is the analysis of the data and impacts for the GTA municipalities. Finally a number of conclusions are drawn regarding the application and impacts of the property tax reform system.

The New System

The legislative framework for property tax and assessment reform is the Fair Municipal Finance Act that was enacted in May 1997. This Act has been augmented by the Fair Municipal Finance Act (no.2), that was enacted in December 1997. In addition there are changes to the Assessment Act and the Ontario Property Assessment Corporation Act. This legislation and their corresponding regulations were to provide the structure for the new assessment system and local property tax system for municipalities. However, due to a negative response to the impacts of the reform as structured under this legislation, both adjustments to some regulations, and new legislation in the form of Bill 16, the Small Business and Charities Protection Act were undertaken. Bill 16 was enacted in June 1998. Also as described previously, the Fairness for Taxpayers Act was passed in December, 1998.

[10] The exception to this in the GTA is Toronto where since the recent amalgamation has only one tier of local government and the Toronto School Boards.

Despite the early limitations to completing the analysis of the reform due to problems arising from the initial policy decisions, the necessary decisions regarding the implementation of the reform have now been made. Some of these decisions were made earlier as part of the legislation, some are embodied in the regulations, and others are independent, provincial and local government political decisions. What has became very clear to local politicians regarding the changes, is that the new system is very highly politicized in that local politicians had a number of choices to make regarding the implementation of the new system. However, what at first appeared to be choices and options to be made by local politicians to implement the reform, now appear to be not very useful in providing local autonomy. As will be described below many of the choices provided, if exercised, would only lead to undesirable redistributive impacts, bad political decisions or both. Consequently, very few of the discretionary policy choices were applied.

It is useful to outline the main features of the new system. Prior to receiving the details of assessments, final regulations and other provincial decisions, municipalities were given the option of making some decisions during the first half of the transition year regarding their property tax collection and budgets. It is important to note that these "tax tools" were only given to upper tier local governments with the upper tier municipalities being given the option to delegate some of these decisions to the lower tier municipalities. In the case of the Greater Toronto Area these tools were originally given to the City of Toronto and the Regional Governments of Durham, York, Peel and Halton. As the municipal budget year is the calendar year in Ontario, municipalities had to begin the process of collecting taxes and allocating expenditures for municipal services. Consequently, municipalities sent out interim tax bills (for the first six months of 1998) to property owners based on the last half of the 1997 final tax bill. This was a common practice even when the system of property tax assessment was stable. The reason was that municipal councils had not yet set final mill rates by January 1 of each calendar year. Adjustments due to the impacts of reform were reflected in the 1998 final tax bill.

A complicating factor was the important fact that the local municipality has long had the function of collecting the taxes for both upper tier, regional municipalities, and the school boards for education tax. So the final tax rate can only be determined when the local municipality, the regional municipality, and the two school boards (public and separate (Catholic)) have all set their tax rates.

In addition to tax collection, the budget process was delayed in 1998 because of not having appropriate data to set the municipal tax rates. This reflects not only the assessment reform but also municipalities wrestling with the impacts of other provincial policy changes. For example, the Services Improvement Act, 1997 altered the alignment of service responsibilities between local governments and the province. In exchange for the province "downloading" additional financial service responsibility on local governments[11], the province has provided "tax room" in terms of raising additional revenues via the property tax by the province assuming 50% of the cost of residential education property taxes in each jurisdiction. In addition, the Province also sets the tax rate for non-residential education property taxes across the province. This has recently been raised as a controversial issue. Originally, it was anticipated that the non-residential education tax would be applied uniformly across the Province. However, in early February, the Finance Minister announced that the rate would not be applied uniformly. He indicated that jurisdictions that have decades of bad decision making by local politicians should not be subsidized by jurisdictions that have been more efficient and prudent. This announcement essentially indicated that the non-residential education tax will be levied at a higher rate in the City of Toronto than in the rest of the GTA.

Current Value Assessment

The legislation refers to the new assessment as "current value assessment" which is essentially an application of market value assessment. There are a number of central changes comprising the new system that will influence the distributive outcome across property classes in the Greater Toronto Area. All properties across the province will now be assessed at "current value" that reflects a fair market transaction. The date on which the original assessment was based was June 30, 1996, with revisions planned to occur in three, then two, and eventually every year. We now have the second round of assessments that are based on current values as of June 30, 1999. Some of the key elements of current value assessment system are described below.

The major change in the new system is that all 3.8 million properties, 7 million units, across the Province were for the first time were assessed based on the same principle: "current value" initially as of June 30, 1996, and now 1999. Furthermore, as the assessment system is phased in these assessments will be kept current by eventually updating them annually by the year 2006.

The phase-in of the new assessments is shown in Table 1:

[11] Such as transit subsidies, social welfare costs, and the costs of social housing and municipal homes for the age.

Table 1: Phase-In Schedule for Property Taxes and Assessments in Ontario

PROPERTY TAX YEAR	BASIS OF ASSESSMENT
1998 – 2000	June 30, 1996
2001 – 2002	June 30 , 1999
2003	June 30, 2001
2004	June 30, 2003
2005	Average of June 30, 2003 and 2004
2006 and beyond	Rolling average of the three previous year's assessment

Although it is anticipated that in the long run this will be a reasonably equitable system when reassessment and the process of appeals are applied, concerns were raised about the first round of reassessments. The previously identified large number of properties were reassessed in a period of about eighteen months which many consider to be a relatively short time frame. This was accomplished by approximately 1700 employees in 31 regional offices. This included 500 contract employees hired for the explicit purpose of this reassessment. Some professional assessors and other observers have questioned the accuracy that can be achieved by these workers over this time frame.

However, proponents point out that despite the concern for errors, property owners have the right to appeal their assessments, and that the new system provides greater understanding to property owners regarding whether they are over-assessed. Whereas before in municipalities that had not adopted market value assessment, it was very difficult for the average property owner to understand what the property tax assessment value "meant." For example, a property in the former City of Toronto, which had a market value of $200,000, would have had an assessment such as $3800—a number somehow related to its value in the late 1940's. Current value assessment is intended to match market value as of June 30, 1996 and thus should be much more understandable to taxpayers. Furthermore, a new system and the adjustment to changes in property values had to begin at some point in time; reassessment was long overdue in most municipalities across the Greater Toronto Area. Municipalities in this area were most resistant to adopting the optional assessment reforms offered by the Province in the 1980's.

It was anticipated that there would be a significant number of appeals initiated by property owners in response to the new system. In order to be fair to property owners trying to make a decision about whether or not to appeal their assessments, the appeal period was extended from 21 days to 90 days in the new legislation. The exception was in the initial year when the appeal period was 60 days. Due to lateness of returning the assessment rolls in the first year, taxpayers had until August 31st to appeal their assessments. Furthermore, whereas assessment appeal decisions of the Assessment Review Board could previously be appealed to the Ontario Municipal Board (OMB), under the new legislation, appeal to the OMB is no longer permitted.[12] However, under the new system, prior to cases being heard by the Assessment Review Board, a new dispute resolution process has been established. The objective of this is to reduce the number of cases that will need to be heard by the Assessment Review Board.

There will also be some shifting of properties across the "classes" of property for taxation purposes. Therefore it is important to identify general trends in types of properties that will shift across classes between the old and new legislation. The "Fair Municipal Finance" legislation specifies seven basic classes and permits the Minister to prescribe additional classes. There are a total of 7 standard and 5 optional property classes in the new assessment system.

The seven standard property classes are:

1) Residential/farm
2) Multi-residential
3) Commercial
4) Industrial
5) Pipeline
6) Farmlands
7) Managed forests.

The five optional classes are:

1) New Multi-residential (rental only)
2) Office Buildings
3) Shopping Centres
4) Large industrial
5) Parking Lots and vacant land

These classes are important as municipalities will assign ratios to which the tax rate is applied each year when the revenue need is determined through the budget approval process. The ratios assigned to each class of property will determine the relative tax burdens borne by each class of property. In order to assist municipalities in the first year of reform the Province gave each municipality "transition ratios" that they could apply in the first year of reform if they desired to use them. These ratios were organized around the central benchmark of single family residential properties that were given a ratio of 1.0 for all the municipalities in the Province. The transition ratio's for multiresidential and other classes of property that are used to distribute the tax burden across the various

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[12] The Ontario Municipal Board is a quasi-judicial body that hears appeals regarding a number of local government matters in Ontario. In addition to formerly hearing property tax assessment appeals, it s main function is hearing appeals regarding municipal planning decisions. Its role and activities are specified in the Ontario Municipal Board Act.

classes of property. If city councils which were given the authority to alter these ratios and chose to do so, they could only move them within established "fairness ranges," for each property class; or toward the ratios if the transition ratio was above the fairness ratio. This decision by council is one of the many decisions that were presumably given to councils to distribute or redistribute the tax burdens in the new system.

Elimination of the Business Occupancy Tax

The provisions for the Business Occupancy Tax (BOT), had been in the Ontario Assessment Act since 1904. This tax was an additional tax to the property tax imposed on non-residential properties. It was based on a percentage of the property tax. The difference in the two taxes was that while the property tax is imposed on the owner of the property, the BOT was imposed on the user of or business located on the property. The rates for the tax varied depending on the type of business activity taking place. The additional tax ranged from 25% to 75% of the realty property tax.

The revenue from this tax was often viewed as being unstable because when office vacancy rates were high, less BOT revenue was collected. Furthermore, there were also difficulties in collecting taxes when businesses failed or relocated. In some cases, there was litigation regarding what was the appropriate class (and consequent tax rate) for a particular business.

Due to the above difficulties, the new legislation eliminated the business occupancy tax as a revenue source for local governments. Despite the stated difficulties in its administration, this revenue source generated approximately $1.6 billion for municipalities in Ontario annually, representing about 10% of property tax revenues. The obvious question with the elimination of this tax is: how will municipalities recoup this revenue loss? To the extent that municipal expenditures remain the same, the losses must be made up through increased property taxes. The next question is which properties will have increases to make up the lost revenue? The approach taken by the provincial government was to initially assume municipalities will want to have this revenue shortfall made up by increased property taxes to the non-residential property classes. This will have redistributive burdens in two ways. First, the new approach will tax the property owners rather than the users; and second, there will be a uniform tax increase that will replace the varying percentages of the BOT. The ability of property owners to pass on these increases in property taxes to renters will depend upon the structures of the leases that exist. With regard to the second issue, estimates of the increase required for commercial and industrial property to make up for the lost BOT are between 42% and 45%. Consequently, combined tax burdens on properties that had a BOT rate above this amount will decrease, and the burdens on properties that had a BOT below this amount will increase. Now all of the tax is paid by the owner.

The above impacts are premised on the assumption that municipal councils will decide to have the lost BOT revenue burdens fall on the non-residential property. They have the option of maintaining the initial allocation from the province or spreading the burden across other property classes by altering tax ratios. However spreading the burden would require municipalities to decrease the ratios for industrial and commercial property.

Landlords who have gross leases have raised concerns about the elimination of the Business Occupancy Tax. Tenants in Business Improvement Areas (BIA) who have part of their BOT contribute to the organization were concerned about their ability to participate in the management of the BIA if they did not contribute to the organization. The Province finally addressed these issues in Bill 16.

Tax Rates/Ratios/Ranges

In the new tax system, the Province established "fairness ranges" for each class of property. These ranges establish the parameters within which a municipal council may place the tax burden on a particular property class. These ranges represent bands within which municipal councils may set tax rates and they are measured as a ratio of residential rates. Municipalities are free to set the ratio for each class of property within their jurisdiction provided that the rate falls within the provincial fairness ranges. When ratios are currently outside the fairness range, the new ratio must move toward the fairness range.

The "fairness ranges" and ratios are applied in the following fashion. First, it is important to understand that the ratio for single family residential property is 1.0, and that all other ratios will be set in relation to these properties and ratio. Initially each municipality was given transition ratios (existing ratios by class) for each property class which could be used for the initial tax year. These ratios reflect the existing effective tax rates for each property class in each municipality. Municipalities could change these ratios in either the initial or future years provided the ratios are applied within the fairness ranges or moved toward the range, if the ratio is outside the range.

However, for the first year of the reform, the GTA municipalities used the Provincially provided transition ratios as politicians did not wish to redistribute tax burdens from the previous year's effective tax rates across the various classes of property. The reform was being implemented well into the new fiscal year and politicians were reluctant to make decisions that would lead to uncertain outcomes. Although the legislation allows municipalities to set ratios, there are two classes of property that are an exception to this rule. Farmland and managed forests must by law have a ratio that is 25 % (.25) of the residential ratio. In addition to this requirement, the Province simultaneously terminated the rebate that it previously provided for farms and managed forests. This effectively "downloaded" the value of this rebate onto municipalities and ultimately the local property tax payers.

In addition to the choice of setting the ratios, municipal councils will also have the choice of phasing-in the impacts of the reform over a period of up to eight years. This had the impact of decreasing the impact of dramatic tax increases on properties that are adversely affected by the reform. However it delays the impacts of tax reductions on those properties that may have been paying more than their fair share of taxes for a number of years.

The initial legislation also allows municipal councils to make decisions regarding the provision of tax breaks for various classes of property. This is most important with regard to commercial properties and new multi-residential properties. In order to encourage the construction of new multi-family residential property, councils are permitted to apply lower tax rates to newly constructed multi-residential property. The legislation also acknowledged that there may be the need to have several commercial property subclasses and to apply variable tax rates to each class. This would be accomplished through "banding" whereby there would be differential rates for, let us suppose, the first $200,000 of value, and then higher rates for the higher band(s).

Despite these concessions being made for commercial properties and attempts to apply these bands in a sensitive way in the City of Toronto, numerous small businesses still faced increases in excess of 100%. These impacts ultimately forced the Provincial government to propose and pass Bill 16, discussed below.

Another decision that must be made by municipal councils is regarding tax relief for low income seniors and persons with disabilities. Although it is mandatory for upper tier and single tier municipalities to provide such relief, there is some discretion regarding the implementation of the relief. The by-laws that councils are required to pass may defer, cancel, or provide other types of relief to these designated groups. Furthermore, they are to specify who is eligible for the relief by determining low income households as well as defining "senior" and "disabled" property owners.

In drafting and presenting the property tax reform to the public and municipal officials, the Province stressed that municipalities had new autonomy and flexibility in applying property taxes due to the tax tools that had been given to upper tier municipalities. This was heralded as providing local autonomy regarding the application in the new property tax system. However, there were two important facts that made these "tax tools" much less useful to municipalities than was suggested by the Province. First, the timing of the reform was such that the information about the reform was being conveyed to the municipal officials only in January at the start of the fiscal year, as the budgets were being prepared and hopefully finalized for the current year.[13]

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[13] In Ontario, municipal budgets tend to be historically approved by most municipalities' part way into their fiscal year, which is the calendar year. This poor financial management practice has been difficult to change for a number of reasons especially the mismatch with the Provincial government's fiscal year, which begins on April 1st.

Second, most municipalities made very little use of the so called “tax tools” provided with the reform either because they were unsure of the impacts of their use without further detailed analysis, or they did not find them to be very useful in mitigating what they felt were the negative impacts of the new tax system. During the first year the Province claimed that the negative impact on commercial and industrial properties resulted from municipalities not using the available “tax tools.” This lead to the capping of tax increases on commercial and industrial (and multi-residential) property for a three-year period. The caps for Toronto were 2.5% per year, and were set at 10%-5%-5% over the three years for the rest of the Province.

Table 2: Use of Tax Tools by Region

	Phasing	**Optional Classes**	**Graduated Tax Rates**	**Altered Tax Ratios**	**Charitable Rebates**	**Delegated Powers to Lower Tier**
Toronto	Residential up to 5 yrs	No	No	No	Not beyond the Legislative Mandate	NA
Durham Region	No	Yes, large industrial, office, shopping center	No	Yes, only within industrial	Not beyond the legislative mandate	No
York Region	No	No	No	No	Not beyond the legislative mandate	Yes, municipalities may alter ratios.
Peel Region	No	No	No	No	Not beyond the Legislative mandate	Yes
Halton Region	Yes, residential and managed forests over three years	No	No	No	Not beyond the legislative mandate	No

Table 2 indicates the lack of use by the municipalities in the Greater Toronto Area of the “tax tools” provided by the new system. Perhaps from some perspectives the ability to phase in the changes may be considered one of the most important tools. As indicated in Table 2 only two of the five upper tier GTA municipalities opted to phase in the increases (and decreases) as permitted by the legislation.[14] The City of Toronto applied a five-year

[14] The Fair Municipal Finance Act, 1997 permits municipalities to phase in the impacts for up to an eight year period.

residential phase in period while Halton applied a three-year phase in period for residential classes and managed forests. As the use of these tax tools was given to upper tier municipalities, it is important to note that these tools could be given to lower tier municipalities if the upper tier chose to delegate them. Only York Region was willing to delegate this authority and in that case no local municipalities altered the given tax ratios. Again the timing of the reform, and the complexity of estimating the impacts led to the inaction by local municipalities.

In examining the use of the other "tax tools," none of the municipalities opted to use graduated tax rates or to provide reductions for low income multiple family housing. Furthermore, none of them provided for charitable rebates above those that were mandated in the Provincial legislation. When we examine the use of optional assessment classes, only the Region of Durham has opted for additional classes in the industrial and commercial areas. It is also only Durham Region that chose to alter any of the tax ratios that were provided by the Province. The only change that they made was in the industrial ratios.

In undertaking this brief review of the use of the "tax tools" in the Greater Toronto area, it is obvious that little use has been made of these tools. Given the extensive analysis that was eventually undertaken by several of the upper tier municipalities, one can only conclude that making use of these tools did not assist the municipalities in meeting any of their tax or policy objectives. This may have been true especially since the Province imposed legislative caps on tax increases for commercial and industrial properties.

Description of the Rules for Capping

As the impacts of the property tax reform began to become clear throughout the first reform year, 1998, loud complaints were voiced by the business community, especially in the City of Toronto, regarding significant tax increases resulting from the reform. Despite the insistence by the Province that this anticipated result arose from the improper or lack of use of the "tax tools" by municipalities, the Province provided additional "tax tools" to address these impacts in the form of an optional cap on increases for commercial, industrial and multi-residential property, and then a mandatory cap. Within the GTA, the optional cap was only applied by the City of Toronto. Under this system, property tax increases for the effected classes of property were limited to 2.5% for a three-year period, 1998, 1999, and 2000. It is important to understand that this cap placed a three-year limit of 2.5% per annum. This limit is a three-year ceiling on any tax increase, not simply those arising from the new assessment structure. The significance of opting for this system is that if the municipality needs to raise additional funds, any additional property tax revenue for the municipality must be obtained by increasing the property tax on residential property.

However, late in October 1998, the first year of the reform, the Minister of Finance indicted that Ontario businesses were facing unacceptable tax increases and consequently he would be introducing new legation to address this issue. In December, the “Fairness for Taxpayers Act” was passed. This Act limited property tax increases for a three year time period on commercial, industrial and multi-residential properties. The limit is 10% for 1998, and 5% for 1999 and 2000.[15] The difference between this cap and the 2.5% cap is that this cap only applies to assessment-related tax increases. Obviously this retroactive mandatory cap late in the fiscal year created a great deal of work for municipal staff as they were now forced to revise the existing tax bills for the affected properties. This cap removed a large number of the properties in Ontario from the new assessment system as the property taxes paid were now related to the percentage increase permitted above the 1997 (old) assessment system rather than being tied to the “current value” in the new legislation. Despite the announcements by the Province that there will be autonomy and discretion given to municipalities in applying the new property tax system, the capping provision eliminated any discretion that municipalities might have had in setting the rates for these properties, unless they wished to further decrease the property tax burdens on these classes of properties.

Finally, a looming question regarding the reform related to what would occur after the three-year capping period had elapsed. This was a major question that municipalities asked as we approached December 2000. The outcome was basically an extension of the status quo in that the capping legislation was extended. The only difference in this case is that the true assessment for the properties had now been updated in accordance with the reform time tables to reflect “current value’ as of June 30, 1999. Once again very little municipal autonomy exists and property taxes for the capped classes are an extension of historical taxes.

Impact Estimates for the Amalgamated City of Toronto

This section provides an illustration of the impacts of the reform on one of the political jurisdictions, the City of Toronto. Toronto was selected as the illustration as it is the largest political entity in terms of population (over 2.3 million persons), and it had the most out of date property assessments.

Based on the newly completed provincial assessment values for all properties—residential and all other classes—the City of Toronto Finance Department prepared a detailed summary of changes which owners would face if the property tax reform and other associated provincial legislation were to be simply applied with no changes, no phase-in period, no appeals upheld, and no special exemptions or short-circuit provisions. The data files on new assessment values for each property were combined with tax rates

[15] On a compounding basis this is actually a 10-15-20% increase over the taxes paid for a property in 1997.

set to a level which would be revenue-neutral in two important ways: that 1998 revenues would for this impact analysis match 1997 revenues and that revenues from each class would match the 1997 revenues in each class. Additional assumptions were that commercial and industrial properties would have the same educational tax burden as in the past. Since revenue for 1998 was matched to 1997 revenue, the impacts of increased tax required to meet downloading requirements was ignored in this analysis.

Because the effective tax rate on residential properties in Toronto had always been much lower than the rate on commercial and industrial properties, the resulting tax rates differ greatly by class. The Province has put forward a goal of reducing these inequities, which it has highlighted by publishing its "transition ratios." These are ratios of property tax class rates relative to the residential rates (set at 1.0 in all municipalities). It has proposed in the establishment of fairness ranges that commercial and industrial properties should have ratios not greater than 1.1 nor lower than 0.5; these ranges are so-called "fairness ranges." But the 1997 revenue neutral/ class neutral tax rates suggested that the transition ratios were as shown in Table 3.

Table 3: Transition Ratios—GTA

	Residential	**Multi-Family Residential**	**Commercial**	**Industrial**
Provincial Fairness Range	1.0	1.0 - 1.1	0.6 - 1.1	0.6 - 1.1
Region of Durham	1.0	2.70	1.35	2.90
Region of Halton	1.0	2.38	1.41	2.34
Region of Peel	1.0	1.72	1.27	1.62
Region of York	1.0	2.03	1.09	1.30
City of Toronto	1.0	5.08	4.18	6.10

Source: Briefing Notes, City of Toronto

The following analysis conducted by the City of Toronto was based on the preliminary tax rates which are shown in Table 4. While previously, assessments were not at "current value," and the mill rates applied had to reflect these low assessments, the reformed property tax system allows for a tax rate which is simply a percentage of the assessed value. The assessments used for the 1998-2000 period are to represent values as of June 30, 1996.

Table 4: Preliminary Tax Rates for the City of Toronto

Property Class	Municipal	School	Total
Residential	0.783403	0.460000	1.243403
Multifamily Residential	3.978904	0.460000	4.438904
Commercial	3.271256	4.218421	7.489677
Industrial	4.781344	6.296033	11.077377

Source: Briefing Notes, City of Toronto

If these rates were applied without amendment or phasing, these rates, which are those required to meet 1997 revenues by class when applied to the 1996 market values, result in radical changes in tax burdens for individual properties within a class. In its preliminary impact study the extreme levels and distribution of these changes are detailed.[16]

At the simplest level, the question to be addressed is, how many properties received tax increases and how many tax decreases? Based on City analysis (Table 4A City of Toronto, April, 1998), and ignoring changes in taxes of plus or minus 5 percent, 245,835 residences received decreases, and 196,161 increases, out of a total of 537,929 properties. Looking at all increases and decreases, however small, 56% of properties receive decreases and 44% increases.

For multifamily residential properties, decreases of more than 5 percent numbered 1,296 and increases 2,102 out of 4,121 properties (Table 4C of the City of Toronto report). Commercial properties with decreases over 5% numbered 7,222, and increases 29,204 out of 37,848 properties. In the industrial class, 1,553 properties received decreases of more that 5%, and 4,317 received increases of more than 5%, out of 6,503 properties. In every class except residential, the number receiving increases far exceeded the number receiving decreases.

When the analysis turns to the magnitude of tax increases and decreases, very large changes are found. While anomalies are found throughout the new proposed tax bills, reflecting the outdated nature of the earlier assessments as well as the requirements of the provincial legislation, the most succinct way to summarize the distributions is to first look at the residential property class, and then to the three other classes.

Most residential property owners who would receive property tax reductions would receive small decreases, with the median decrease a tax reduction of approximately

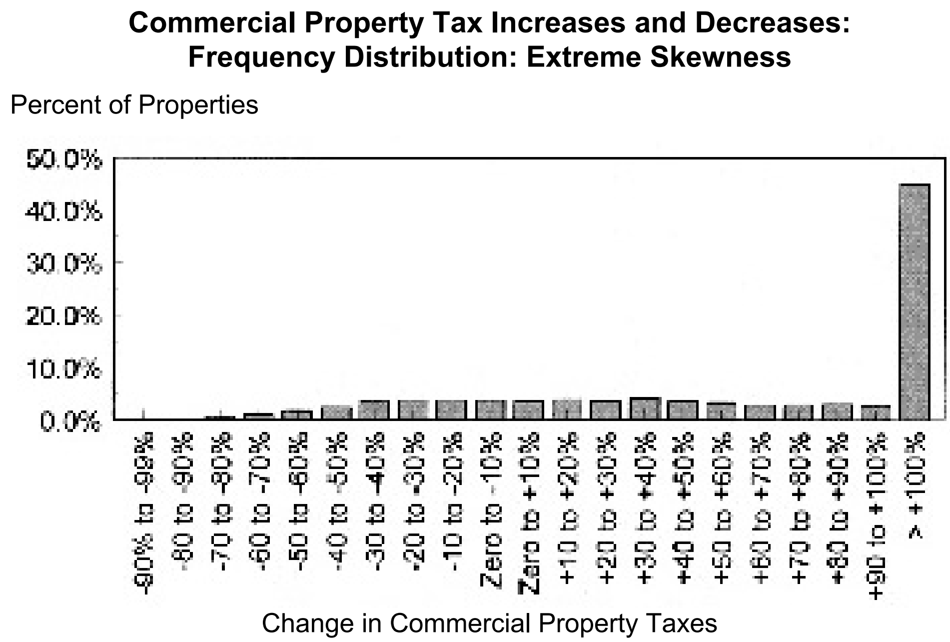
[16] City of Toronto. "Property Tax Assessment and Taxation System Preliminary Tax Impacts - Summary" 1998.

12.75% of the 1997 tax. Residential owners facing increases face larger increases in order to maintain revenues from the class: the median increase is 18.7%, and 7,877 properties (1.5% of all residential properties) face a doubling of property taxes (100% or more increase). In absolute dollar terms, 45,158 properties (8.4% of 537,929) will have to pay $1,000 or more per year in additional taxes under this scenario.

In the multifamily residential class, the median increase is 21.8%. and 321 of 4,121 properties suffer a doubling of taxes.

The commercial class has the most striking changes. The vast majority of commercial properties face an increase (79%), and 45% face a doubling or more of property taxes (17,027 out of 37,848). Looking at all changes, both decreases and increases, the median change (either + or -) turns out to be approximately an increase of 49%. The tail of this distribution runs on to very high multiples—far beyond a 100% increase. As noted at the briefing explaining this analysis, for many storefront businesses in Toronto (often known for its "streets of shops") the property tax increases if implemented would be lethal to many businesses. On the other hand, businesses inside office buildings do not face such large increases because the basis of assessment (1996) was a year in which office building values and occupancies had not recovered very much from the bottom of the early 1990's recession. The extreme skewness of the commercial property tax changes is shown in Figure 1.

Figure 1: Skewed Distribution of Changes in Commercial Taxes in Toronto, 1998



Source: City of Toronto, 1998

Industrial impacts also reflect a very skewed distribution of tax changes: 20% of all industrial properties face a doubling of property taxes.

An examination of these impacts across the various parts of the City of Toronto show great differences based on the age of development (and hence when its assessment was originally set) and on recent changes in property values across the City. Over all classes —total tax revenues—decreases are concentrated in the CBD (due to office building reassessment relative to older properties) and in some outer wards.

Residential increases are highest in the old City of Toronto area, particularly running north along Yonge Street. Apartment building increases are concentrated in the outer borough wards in the former Etobicoke, North York, and Scarborough. Among commercial properties the only two wards with decreases are the downtown CBD and Don Mills, an older suburban office area.

Reaction to Reform from the Commercial Sectors

Previous attempts to initiate property tax reform lead to strong negative response to reform by a number of property tax payers in Metropolitan Toronto, especially small businesses. It should not be a surprise that this attempt to reform the system lead to a similar negative response. Several of the jurisdictions undertook studies to indicate the impact of the new tax regime on various classes of property within their jurisdiction. Not surprisingly some of the most significant shifts were projected to occur in the City of Toronto where the tax assessments were most seriously out of date. The greatest impact was identified, by the City of Toronto study discussed above, to be on commercial property, especially those properties that are part of commercial strips on major arterial roads, either post-war strip retail plazas, or older "Main Streets" retail.

The response to the tax revolt issues in Toronto was the introduction in May of Bill 16 that was passed as the Small Business and Charities Act in June 1998. The primary purpose of this legislation is protect small businesses and to enhance protection for charities. There are also some other provisions that relate to farmland awaiting development and the promised clarification for gross leases and BIA contributions.

With regard to small businesses, municipalities may limit increases on businesses to no more than 2.5% a year. This was originally to apply to 1998, 1999, and 2000, but has recently been extended indefinitely. This capping of property tax increases applies not only to freestanding properties, but also to small businesses in shopping centres, office buildings and industrial malls. For example, the 1998 property tax for the capped classes (commercial, industrial, and multi-residential) would grow no more than 2.5% over the 1997 realty and business occupancy tax taken together.

In addition, to protect small industrial properties, municipalities may set graduated rates for industrial classes similar to the process previously set up for commercial properties. This banding permits lower rates to be charged to lower valued industrial business properties.

With regard to charities that occupy business properties, municipalities must rebate at least 40% of the property taxes paid by eligible charities. This must be given to charities registered under the Federal Income Tax Act, but municipalities may extend it to include similar organizations in business or residential class properties. The cost of the rebates is to be shared by the municipalities and the School Boards who would normally receive the tax revenue.

With respect to farmland pending development, there are two trigger points at which the property assessment of the subject lands will change. The first point is when the plan of subdivision is registered. At this point the property assessment will change from farm use to the zoned use. At this point municipalities will have the option of applying 25% to 75% of the residential rate, (25% to 35% for 1998). However, when the building permit is issued the tax rate may range from 25% to 100% of property's zoned use rate.

With respect to gross leases, landlords are permitted to pass on a portion of their realty taxes to tenants in commercial or industrial properties despite other provisions in the leases. The maximum a landlord can recover is the average business occupancy tax for the property class; or the average business occupancy tax paid in 1997 plus 2.5% increase for municipalities who choose to apply the 2.5% cap. This provision means that where Business Improvement Associations (BIA's) exist, tenants will be making a contribution to its operation.[17] However, prior to September 30, 1998, municipalities must determine the taxes and BIA charges that constitute part of the passed on tax component.

Although it almost appeared to be like a time delay, a second type of tax revolt broke out from small business owners in the A905" area of the Greater Toronto Area. These are the four regional municipalities outside the City of Toronto. This did not occur in most areas until after the municipalities had approved their budgets and set their tax rates which in most cases occurred in the late summer. The budget and subsequent tax rate approval process was unusually slow the year the reform was introduced due to the many changes facing local governments in Ontario.

In most cases it was only after business establishments actually received their tax bills that they realized the magnitude of increases and began to petition for some form of relief. This is in contrast to businesses in the city of Toronto which were able to determine the large impacts when they received their assessment notices. The first group to whom they complained was to their municipal councillors who set the tax rates. However, these politicians indicated that they should take their complaints to the Province who initiated, designed and approved the property tax reform. The provincial politicians sent them back to the local council who they claimed did not use the tools the

[17] Business Improvement Associations are provincially-sanctioned neighborhood business associations empowered to levy a small charge for marketing, street improvements, and other economic development activities.

Province had provided to mitigate impacts, e.g. phase in, banding of commercial properties, 2.5% cap, rebates and graduated tax rates.

Finally, the Provincial government took action by introducing legislation that limited tax increases on commercial and industrial properties at 10% for 1998, and 5% each in 1999 and 2000. This of course did not apply to the City of Toronto which already had a 2.5% cap. Of course the loss of tax revenue from these caps will have to be made up by other properties paying more tax. A number of the Mayors in the 905 area advocated that the province provide grants to mitigate the impacts on the local budgets. As might be expected these pleas were ignored.

Local Political Choices

The new tax regime was rife with choices that the existing upper tier local politicians must make as they implemented the new system. Many cities and towns have never had this much to consider in one year before, particularly when both assessment reform and downloading are considered together. Listed below is a summary of the major decisions which local councils must make:

1) Tax Rates (relative burdens within "fairness ranges")
2) Distribution of the Business Occupancy Tax
3) By-law regarding relief for low income seniors and disabled
4) Phase-in and the associated period of phase-in
5) Optional relief for new multi-family residential
6) Optional classes and subclasses for commercial and industrial.
7) Bill 16 caps, rebates and other options

Analytical Framework for Tax Reform Analysis

While the analysis of property tax reform can be conducted at a number of levels, this study is concerned with the shifts between major property tax classes (such as residential, commercial and industrial) and between the thirty municipalities in the Greater Toronto Area—which also means between the 5 regional municipalities into which the 30 municipalities are hierarchically organized. Alternatively, one could examine tax impacts of changes in assessment at the individual property level (using either the entire tax roll or a sample), and then aggregate the effects to the municipal level. The authors did conduct such a study when property tax reform was undergoing one of its "nine lives" in Metropolitan Toronto.[18]

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[18] Amborski and Mars, 1977.

Data for 1997 was chosen to represent the base year, since it was the last year of the old system, and because more comprehensive reporting was done by the Province for that year than for previous years. Data was gathered on assessment and on tax rates, by property class and municipality. The Ontario Ministries of Revenue and Municipal Affairs are charged with keeping and updating assessments and keeping records of the tax rates set by municipalities. The Ministry of Revenue supplies the municipalities with the data files of individual properties. We requested data from the Ministries on assessments and tax rates for all the individual municipalities. The after, or post-reform case, would refer to 1998, 1999, 2000.

The actual structure of the old assessment class system is more complicated than the reformed system (seven basic classes) and the ones used in our analysis. The provincial database supporting the municipalities under the old system had over 70 detailed property tax classes available for use. Many of these are tax exempt classes, but there are up to six different commercial classes (with rates running from 0% to 75% of the full commercial tax rate, in addition to those taxed at 100%), seven Federal government classes (with rates running from 0% to 75% of the commercial rate), seven Provincial agency classes (0% to 75% of the commercial rate), six industrial classes (with rates from 0% to 140% of the commercial rate), 16 utility classes (with rates from 0% to 60% of the commercial rate), and two residential classes. Overall there were approximately 50 classes in use over 30 municipalities, for 1500 different assessment records and 50 tax rate records for each city.

In addition to the breakdown by class and municipality, Ontario, like many Canadian municipalities, allows owners (and tenants of residential property) to declare to which school board they wish the education portion of their tax bill to be allocated. For non-Francophone Ontarians there are two choices: public schools or separate (Roman Catholic) schools. For Franco-Ontarians, there are public French schools and Roman Catholic French schools. And some classes of property are exempt only from school taxes.

For the purposes of this study, we have eliminated the religious and linguistic variations in tax rates (which are very small compared to other differences), and assumed that all properties paying school taxes paid education tax at the public school rate.

For each municipality, the assessment in each detailed class were aggregated across the different religious and language education classes, and the residential or commercial tax rate was applied, pro-rated where the class of property was one with a rate below or above 100% of the business rate. A summary table was then generated for 1997, which aggregates the detailed classes to the three basic ones: residential, industrial, and commercial. For this report, the municipalities were aggregated to the regional level for the Regions of Halton, Peel, York, and Durham, and Toronto (then Metro Toronto).

The approach taken was to build a research version of the taxation calculation system, operating at the property class and municipality level of detail (rather than with individual properties). This system uses officially recorded assessments, tax rates, and various discounts and modifications to those rates which were in effect before (1997) and after (1998, 1999, 2000) the major overhaul of the system.

The 1997, or "Before" Data

Improving on our first estimates of the 1997 data proved to be a very challenging problem. The complexity of the old system was daunting. The data which should have been available directly from the Province almost always proved to have missing data for one or more classes or municipalities. While the estimating process was established and total revenues for each class and municipality were calculated, they proved difficult to reconcile with total tax revenues in the public record. In the interest of being able to use estimates which are as close as possible to those of record, a new strategy was employed for this report.

The estimates used by the researchers to build tax revenues up from 1997 assessments and tax rates, combined with the rules for exemptions and discounts, was used where needed to provide detail on the totals published by the Province in its final report on municipal finance for 1997.[19] The resulting 1997 tax revenue estimates are shown along with the later years in Table 2 and various Figures.

The Data for 1998, 1999, and 2000, the "After" Data

The reform of the property tax system beginning in 1998 did reduce the number of classes and rates. Nevertheless, a municipality still builds its tax bills based on the classes, and purposes for property taxes shown in the example in Table 5. Most municipalities have only the first three columns (purposes) in use, and some choose not to use the specific categories of Shopping Centers and Offices (using a general Commercial class for all), and not to use Large Industry or Parking classes. But a great deal of complexity still remains, much of it due to the capping and other after the fact solutions were agreed to by the Province after vigorous protest.

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[19] Province of Ontario, Municipal Financial Information 1997 (Toronto: Queen's Printer, 1999)

Table 5: Possible Class and Purpose Categories, post-1998 Tax System

		Purpose of Tax Collected				
Property Class	Occupancy Status	Lower Tier (Municipal) General Purpose	Upper Tier (Regional) General Purpose	Education Purpose	Sewer	Waste Collection
Residential	Occupied					
	Vacant					
Multi-Unit Residential	Occupied					
	Vacant					
Commercial	Occupied					
	Vacant					
Shopping Center	Occupied					
	Vacant					
Office	Occupied					
	Vacant					
Parking	Occupied					
	Vacant					
Industry	Occupied					
	Vacant					
Large Industry	Occupied					
	Vacant					
Pipelines	Occupied					
	Vacant					

To construct the estimates of tax revenues by class and purpose for 1998-2000, the researchers gathered data from a variety of sources. Assessment data in spreadsheet form was purchased from the Ministry of Finance for 1998, 1999, and 2000 as it had been earlier for 1997.

The tax rate data proved to be more difficult to obtain. Data sets provided by the Ministry at various points all had missing data. Reporting is apparently not mandatory. Access to the system on a real-time basis is unavailable to researchers, but through the auspices of the Municipal Finance Officers Association, through their Internet site at http://www.mfoa.on.ca, a large database for the 1998-2000 period was obtained. It too, had missing tax rate data, and was not in a form which allowed for direct incorporation of the rates into the model, but it provided most of the needed tax rates. Other rates were found by contacting the municipality or Provincial staff directly.

A modeling system was constructed in the SAS programming language to calculate tax revenues by class and purpose for each municipality. This model combined spreadsheet data on assessments with spreadsheet data on tax rates and rules for vacancy discounts, tax exemptions of several kinds, payments in lieu of taxes (treated as taxes.) The resulting tabulations were then available to be converted back to spreadsheets for further analysis. Sample comparisons of the results with the few available published tax totals showed reasonable agreement, with some discrepancies caused by questionable allocations of minor taxes and payments in lieu to one or the other categories. The results of this modeling was three tables of taxes by class and purpose for 1998, 1999, and 2000, which are shown as part of Table 6.

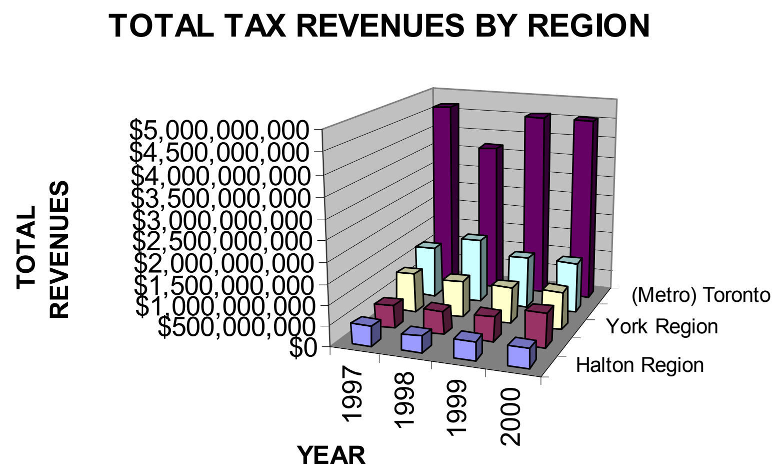
Changes in Tax Revenues

In Table 6 the estimates for each of the four years have been summarized and brought together, showing the revenues for each region and the GTA as a whole, first for the local, regional, and school purposes, and then by residential, industrial, and commercial property classes. Note that the latest year appears first, followed by the earlier years in inverse order.

Overall Taxes

Overall total tax revenues remained in the seven to eight billion dollar range (all dollar amounts are in Canadian dollars.) There was a drop in total property tax revenues from 1997 to 1998, but the total had recovered to a slight increase by 2000. By region, as shown in Figure 2, the revenues of each changed little over the four years, with a few rises and falls in between. Durham Region was the one region to show truly higher revenues at the end of the period, rising from $549 million to $842 million.

Figure 2: Total Tax Revenues by Region



	1997	1998	1999	2000
Halton Region	$484,103,410	$409,221,778	$442,962,680	$472,777,003
Durham Region	$549,932,815	$562,932,315	$588,504,953	$842,939,873
York Region	$947,928,816	$899,773,066	$892,696,163	$920,122,661
Peel Region	$1,259,765,387	$1,595,734,547	$1,256,172,908	$1,261,092,051
(Metro) Toronto	$4,680,021,691	$3,682,610,200	$4,570,466,437	$4,551,816,412

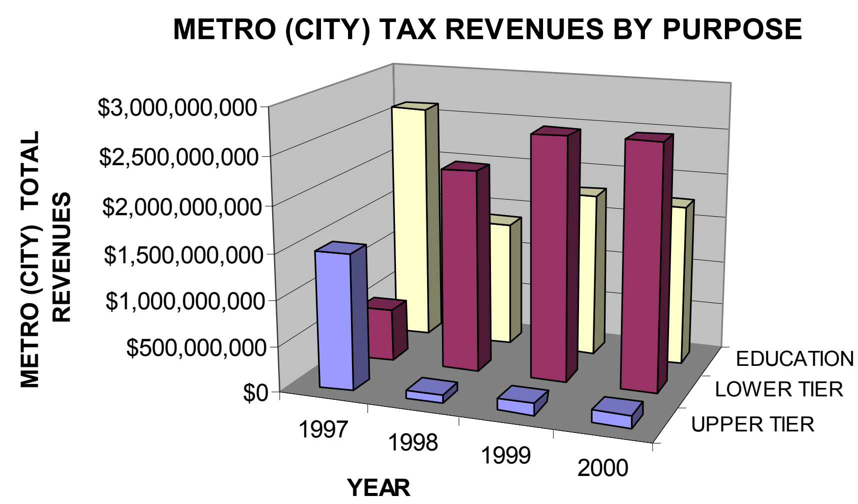
Changes in Purpose for the Taxes—the Level of Government Receiving the Taxes

When looking at the purposes to which the taxes were to be allocated, in effect the government (local, region, or school board) which was to receive them, one finds the greatest changes between the before and after periods. Whereas municipalities collected almost five billion dollars for schools in 1997, the local school taxes were only 2.8 to 3.1 billion in the subsequent three years. Conversely, municipalities which collected taxes for their own purposes appear to have gathered a lot more tax revenues (from 1.1 to 2.9-3.3 billion dollars) Most of this change is due to the restructuring of Metro Toronto, amalgamated with the six previous cities as a local, or lower tier municipality.

The estimates clearly show the taxroom that was created for municipalities and regions to use to fund services which were downloaded when the Province took over one-half of the costs of education.

Looking first at Metro Toronto, the new City of Toronto, one finds in Figure 3, that the switch from a mixed upper-lower tier system of local government is replaced in 1998 with almost all funds going to the new City of Toronto, treated here as a local government, raising taxes only for its own purposes, and for education. The drop in regional taxation of $1.4 billion from 1997 to 1998 is more than compensated for by an increase in local taxation of $1.6 billion. But the total of local and regional, which grows from $2 billion to $2.3 billion, does not use up the taxroom created by the drop in education taxes of $1.3 billion. But by 2000, the two together, local plus regional, rise to $2.8 billion, an increase over three years of $0.8 billion, and education taxes are now up to $1.7 billion, a decrease over three years of $0.9 billion almost an exact compensation, or use of the taxroom. To repeat, total tax burden which was $4.6 billion in 1997, was back to $4.5 billion by 2000!

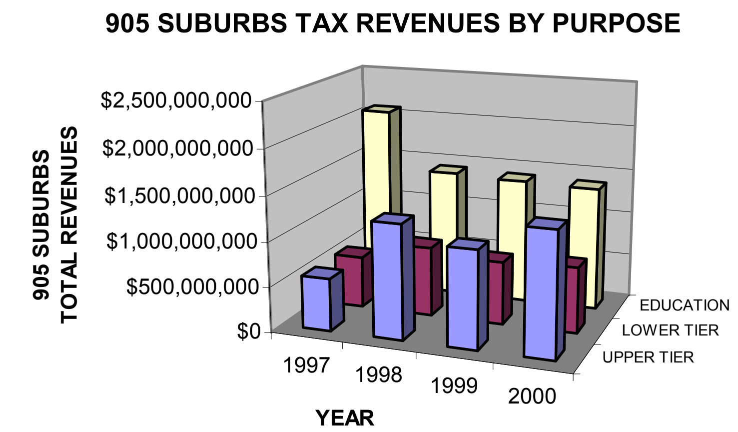
Figure 3: Metro (City of Toronto) Tax Revenues by Purpose



	1997	1998	1999	2000
UPPER TIER	$1,478,170,837	$91,060,356	$131,431,220	$134,310,673
LOWER TIER	$574,589,959	$2,206,366,716	$2,648,826,463	$2,662,619,726
EDUCATION	$2,627,260,895	$1,385,183,128	$1,790,208,754	$1,754,886,013

Looking now at the combined suburbs of the Regions of Durham, York, Peel, and Halton, one finds a slightly different story. As Figure 4 shows, the 1997 to 1998 period saw the creation of taxroom through the reduced requirements for education taxes (a drop of $0.6 billion for the 4 suburban regions combined) compensated for by a larger increase in local and regional taxes of $0.9 billion. The pattern then remained basically constant for the two most recent years, 1999 and 2000. So the overall tax burden of $3.2 billion in 1997 was followed by three years with overall tax totals of $3.5, $3.2, and $3.3 billion respectively. The reduction in education tax revenue was almost exactly compensated for by increases in municipal taxes. In fact there is evidence that the costs of changing the ways things were taxed from 1997 to 1998 led to some of the temporary increases across the suburbs of $0.3 billion to 1998.

Figure 4: GTA Suburbs Tax Revenues by Purpose

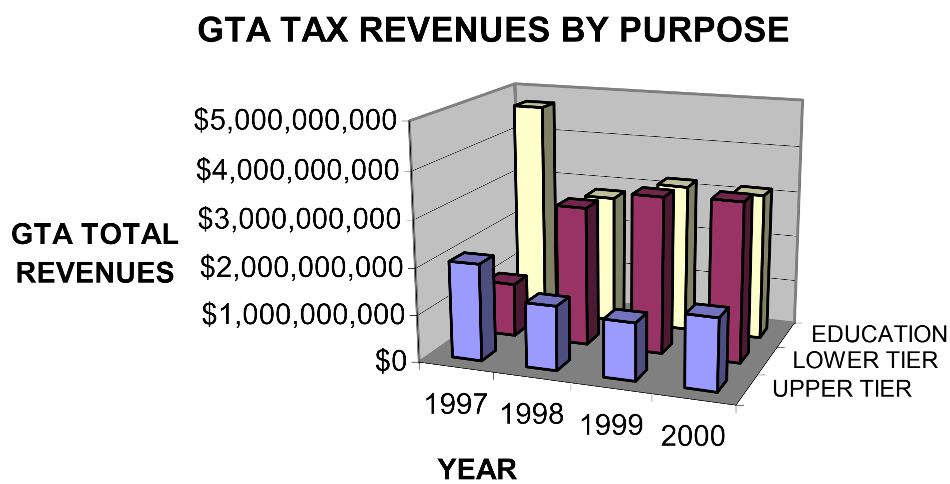


	1997	1998	1999	2000
UPPER TIER	$586,156,349	$1,273,030,293	$1,081,698,811	$1,380,869,472
LOWER TIER	$576,768,535	$773,358,093	$699,808,659	$731,981,213
EDUCATION	$2,078,805,544	$1,421,273,320	$1,398,829,234	$1,384,080,903

Table 6: Estimated Tax Revenues for the Regions by Purpose and by General Property Class 1997-2000

2000 (AFTER REFORM)							
	TAX PURPOSE			PROPERTY CLASS			**TOTAL**
REGION	LOWER TIER (MUNICIPAL)	UPPERTIER (REGION)	EDUCATION	RESIDENTIAL	INDUSTRIAL	COMMERCIAL	
Durham Region	$150,719,406	$492,918,748	$199,301,719	$689,614,461	$77,656,392	$75,669,020	$842,939,873
York Region	$200,649,980	$312,776,756	$406,695,925	$672,326,669	$85,009,054	$162,786,938	$920,122,661
(Metro) Toronto	$2,662,619,726	$134,310,673	$1,754,886,013	$2,028,387,924	$487,197,185	$2,036,231,303	$4,551,816,412
Peel Region	$267,216,119	$396,693,854	$597,182,078	$723,413,098	$219,254,109	$318,424,844	$1,261,092,051
Halton Region	$113,395,708	$178,480,114	$180,901,181	$353,964,703	$59,691,846	$59,120,454	$472,777,003
GTA Total	$3,394,600,939	$1,515,180,145	$3,138,966,916	$4,467,706,855	$928,808,586	$2,652,232,559	$8,048,748,000
1999 (AFTER REFORM)							
	TAX PURPOSE			PROPERTY CLASS			TOTAL
REGION	LOWER TIER (MUNICIPAL)	UPPERTIER (REGION)	EDUCATION	RESIDENTIAL	INDUSTRIAL	COMMERCIAL	
Durham Region	$148,723,143	$234,350,069	$205,431,741	$432,054,769	$80,933,061	$75,517,123	$588,504,953
York Region	$188,952,204	$309,109,760	$394,634,199	$649,283,976	$87,862,008	$155,550,179	$892,696,163
(Metro) Toronto	$2,648,826,463	$131,431,220	$1,790,208,754	$2,020,223,212	$501,937,613	$2,048,305,612	$4,570,466,437
Peel Region	$254,097,354	$394,396,637	$607,678,917	$707,686,951	$223,816,080	$324,669,877	$1,256,172,908
Halton Region	$108,035,958	$143,842,345	$191,084,377	$284,213,679	$60,007,664	$98,741,337	$442,962,680
GTA Total	$3,348,635,122	$1,213,130,031	$3,189,037,988	$4,093,462,587	$954,556,426	$2,702,784,128	$7,750,803,141
1998 (AFTER REFORM)							
	TAX PURPOSE			PROPERTY CLASS			TOTAL
REGION	LOWER TIER (MUNICIPAL)	UPPERTIER (REGION)	EDUCATION	RESIDENTIAL	INDUSTRIAL	COMMERCIAL	
Durham Region	$141,327,803	$211,186,453	$210,418,059	$413,647,906	$77,439,261	$71,845,148	$562,932,315
York Region	$171,437,356	$303,717,303	$424,618,407	$641,884,921	$86,317,964	$171,570,181	$899,773,066
(Metro) Toronto	$2,206,366,716	$91,060,356	$1,385,183,128	$2,060,905,672	$354,129,820	$1,267,574,708	$3,682,610,200
Peel Region	$362,174,994	$627,343,728	$606,215,825	$1,071,004,665	$211,082,856	$313,647,026	$1,595,734,547
Halton Region	$98,417,940	$130,782,809	$180,021,029	$303,615,891	$46,625,816	$58,980,071	$409,221,778
GTA Total	$2,979,724,809	$1,364,090,649	$2,806,456,448	$4,491,059,055	$775,595,717	$1,883,617,134	$7,150,271,906
1997 (BEFORE REFORM)							
	TAX PURPOSE			PROPERTY CLASS			TOTAL
REGION	LOWER TIER (MUNICIPAL)	UPPERTIER (REGION)	EDUCATION	RESIDENTIAL	INDUSTRIAL	COMMERCIAL	
Durham Region	$129,857,492	$115,173,618	$304,901,705	$384,083,199	$99,055,003	$66,794,613	$549,932,815
York Region	$111,750,855	$174,123,486	$662,054,475	$629,479,896	$113,424,064	$205,024,856	$947,928,816
(Metro) Toronto	$574,589,959	$1,478,170,837	$2,627,260,895	$2,323,710,823	$573,748,588	$1,782,562,280	$4,680,021,691
Peel Region	$224,091,046	$215,996,204	$819,678,137	$782,796,933	$241,110,890	$235,857,564	$1,259,765,387
Halton Region	$111,069,142	$80,863,041	$292,171,227	$334,635,707	$89,138,848	$60,328,855	$484,103,410
GTA Total	$1,151,358,494	$2,064,327,186	$4,706,066,439	$4,454,706,558	$1,116,477,393	$2,350,568,168	$7,921,752,119

Figure 5: Tax Revenues by Purpose (Level of Government)



	1997	1998	1999	2000
UPPER TIER	$2,064,327,186	$1,364,090,649	$1,213,130,031	$1,515,180,145
LOWER TIER	$1,151,358,494	$2,979,724,809	$3,348,635,122	$3,394,600,939
EDUCATION	$4,706,066,439	$2,806,456,448	$3,189,037,988	$3,138,966,916

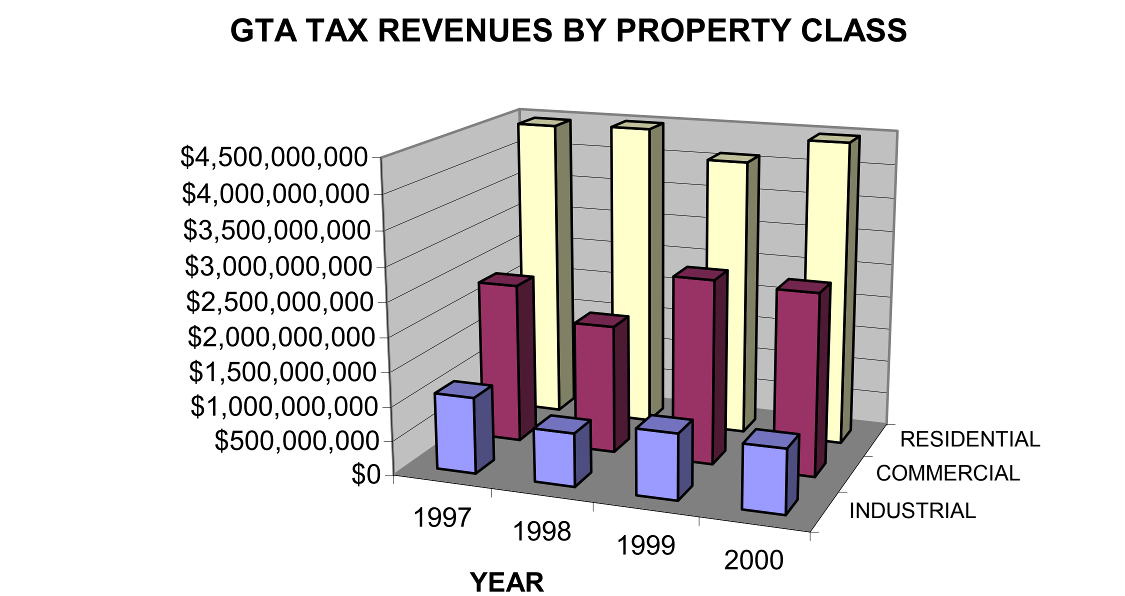
Over five regions of the Greater Toronto Area, the compensation of increased local taxes in place of the reduced education taxes is even more complete by 2000. Over the three year period, education property taxes fell from $4.7 billion to $3.15 billion, a drop of $1.55 billion. Local plus regional taxes rose from $3.15 billion to $4.9 billion, an increase of $1.65 billion. This is essentially an exact compensating increase.

Changes in Tax Revenue by Property Class

Looking first at the overall changes across the GTA, one finds that there has been less change in the property class carrying the tax burden than there was in the tax purpose discussed above. Figure 6 illustrates the changes:

There was an initial drop in the non-residential class tax revenues, but commercial revenues had recovered to a higher value by 2000. Industrial tax revenues which fell over $0.3 billion dollars, still remained lower by $0.2 billion dollars. So the combined effects of increasing assessed values and capped or restrained rates managed to reduce industrial tax revenues across the GTA by 17%, but commercial still rose by 13%.

Figure 6: GTA Tax Revenues by Property Class



	1997	1998	1999	2000
INDUSTRIAL	$1,116,477,393	$775,595,717	$954,556,426	$928,808,586
COMMERCIAL	$2,350,568,168	$1,883,617,134	$2,702,784,128	$2,652,232,559
RESIDENTIAL	$4,454,706,558	$4,491,059,055	$4,093,462,587	$4,467,706,855

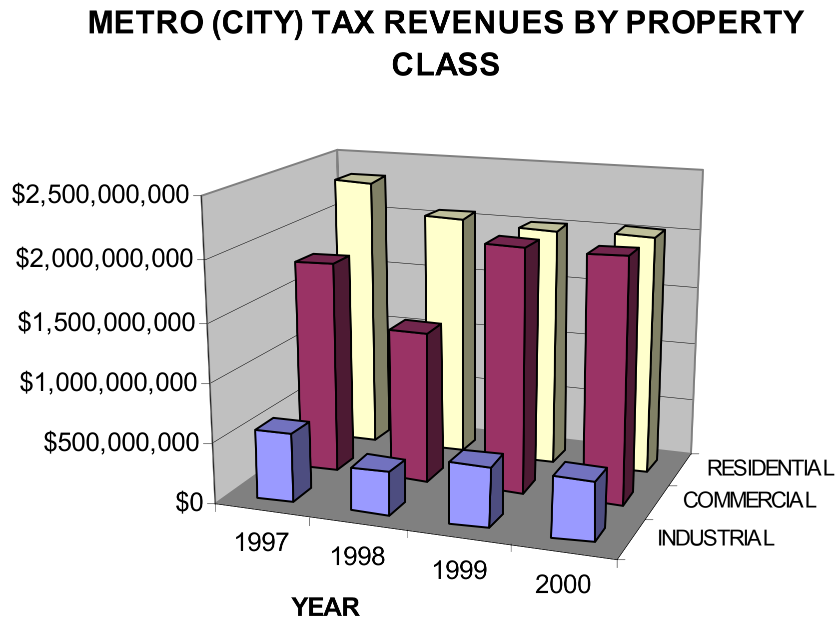
From a share of tax revenues point of view, the residential share of revenues first rose, as high as 63%, but then reverted to the 56% share in place in 1997.

Table 7: Property Class Shares for the GTA

	SHARES BY PROPERTY CLASS FOR THE GTA			
	INDUSTRIAL	COMMERCIAL	RESIDENTIAL	ALL REVENUE
1997	14%	30%	56%	100%
1998	11%	26%	63%	100%
1999	12%	35%	53%	100%
2000	12%	33%	56%	100%

Looking at the same distributions for Metro Toronto, as shown in Figure 7, there is a pattern of reduced residential taxes collected, combined with increased commercial taxes and industrial taxes which drop substantially, and then recover some, but remain $50 million lower than in 1997.

Figure 7: Metro Toronto Property Tax Revenues by Property Class



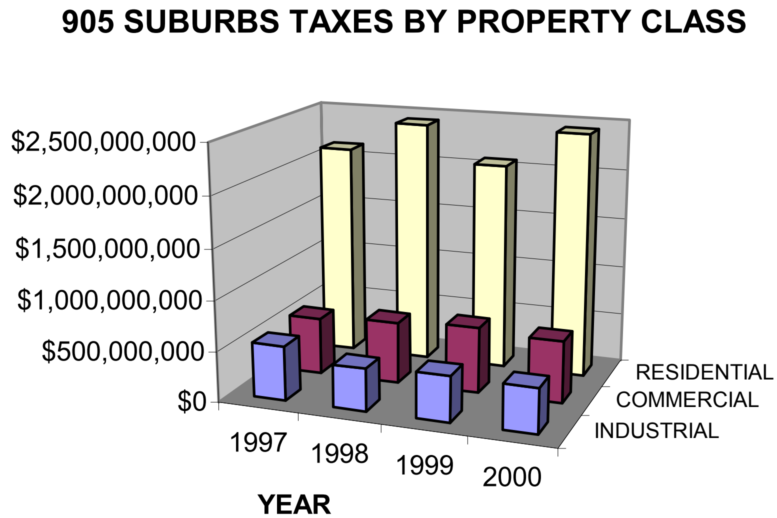
	1997	1998	1999	2000
INDUSTRIAL	$573,748,588	$354,129,820	$501,937,613	$487,197,185
COMMERCIAL	$1,782,562,280	$1,267,574,708	$2,048,305,612	$2,036,231,303
RESIDENTIAL	$2,323,710,823	$2,060,905,672	$2,020,223,212	$2,028,387,924

Table 8: Tax Revenues by Property Class for Metro Toronto

	SHARES BY PROPERTY CLASS FOR METRO TORONTO (NEW CITY)			
	INDUSTRIAL	COMMERCIAL	RESIDENTIAL	ALL REVENUES
1997	12%	38%	50%	100%
1998	10%	34%	56%	100%
1999	11%	45%	44%	100%
2000	11%	45%	45%	100%

The share of taxes returned from each class revealed an increase, 1997-2000, for commercial, a drop for residential, and stability for industrial properties.

Figure 8: Taxes by Property Class for 905 Suburbs



	1997	1998	1999	2000
INDUSTRIAL	$542,728,805	$421,465,897	$452,618,813	$441,611,401
COMMERCIAL	$568,005,888	$616,042,426	$654,478,516	$616,001,256
RESIDENTIAL	$2,130,995,735	$2,430,153,383	$2,073,239,375	$2,439,318,931

Finally, looking at the suburbs, the 905 regions, of the GTA, one finds that in the suburban regions, industrial tax revenues fell only slightly, commercial showed only small change—a rise for two years then a fall—and finally, the residential rose 20%. In share terms, shown in Table 9,

Table 9: Tax Revenues by Property Class for 905 Suburbs

	SHARES OF TAXES BY PROPERTY CLASS FOR 905 SUBURBS			
	INDUSTRIAL	COMMERCIAL	RESIDENTIAL	ALL REVENUES
1997	17%	18%	66%	100%
1998	12%	18%	70%	100%
1999	14%	21%	65%	100%
2000	13%	18%	70%	100%

the shares from each property tax class fluctuated over the 3 years, with residential increasing its share from 66% to 70% by 2000, industrial's share fell from 17% to 13%. Commercial remained the same, and residential rose from 66% to 70%.

Conclusions

Changes in Property Class Tax Burden

Based on the analysis of the implementation of the property tax reform system, and the data that has been analyzed regarding the application of the reform in the Greater Toronto Area a number of conclusions may be drawn. It is first necessary to point out the primary analysis that was to be undertaken, the redistributive impacts of the reform on the classes of property, cannot be properly be undertaken because the reform was not implemented as was expected. After this research was begun, a number of retroactive decisions were made about the implementation of the reform including the capping of increases for certain classes of property. This legislation was passed more that one year after the initial legislation was passed. The result was that for commercial, industrial, and multifamily residential properties the tax burden would be an extension of the pre-reform rates rather than being fully based on current value. At the start of the reform municipalities were given "transition ratios" for the various classes of property in each jurisdiction. These ratios reflect the relative burdens of the previous effective tax rates in each municipality. The move to reduce the differences in ratios between residential and non-residential properties was stymied by the need to apply caps to the growth in non-residential taxes. The results from this capping mean that if a municipality required additional revenue through the property tax, the burden of increased taxes would fall upon single-family residential housing.

This increasing burden on residential properties is in evidence in the 905 suburbs, where while there was some fluctuation, by 2000, residential taxes had grown $0.3 billion dollars, while non-residential taxes were stable. In the City of Toronto commercial properties had, by 2000, received an increase of $0.3 billion, while industrial was stable and residential taxes had fallen slightly.

Changes in Tax Purpose

As for changes in the purpose to which taxes were put—in effect the level of government receiving them—tax room was created by the Province when it removed one-half the educational property tax burden and replaced that share with grants. The data show that in the GTA, taxroom created by the Province was filled almost exactly by increased municipal taxes. Over the three-year period, education taxes fell over 1.5 billion dollars. Total municipal taxes (local and regional combined) rose by 1.6 billion dollars. Figure 5 shows this clearly. The coincidence of local service realignment ("downloading") meant that municipalities receiving this taxroom had to fill it with increased municipal taxes to fund the new service responsibilities.

Final Comments

If we examine the types of inequities that property tax reform is intended to address; inequities within a class of property, inequities across classes of property, and inequities across municipalities, the application of the reform only addressed the first of these objectives. The structure of the reform itself by providing "fairness ranges" attempted to set norms for the relative burdens to be borne by various classes of property. However, the capping provisions, and the unwillingness of municipal councils to decrease the tax burden of non-residential properties at the expense of single family residential properties, rendered these norms for relative class burdens somewhat meaningless. Also meaningless was the statement that upper tier (regional) municipalities will have autonomy over their tax system through the use of various" tax tools." Very few municipalities have applied these tools, as they haven't been identified as being very useful in meeting municipal objectives.

In summary, what has been created in Ontario is not so much a comprehensive system of property tax reform but rather a modified system of assessment reform in which only the inequities within classes of property in each jurisdiction have been addressed. Other significant aspects of the reform include the movement to "current value" value assessment with planned updates to the assessment data, and a revised assessment appeals process. Both of these aspects are important to the public in terms of fairness, transparency, and understanding the assessment system. However, the property tax system itself tends to be a simple extension of the pre-reform system in terms of how the burdens are borne across classes of property, with additional distortions created by the capping and now indefinite extensions to the now called "limits" on the increases to the those property tax classes that are subject to the capping.

What we now have in terms of our property tax system is still one that is essentially under Provincial control rather than one in which there is local government autonomy and flexibility as was heralded when the reform was introduced in late 1997. However, this is the first Provincial government that was willing to attempt the implementation of any province-wide property tax and/or assessment reform since the assessment function was taken over and reform promised by the Provincial government in power in 1970.

This examination of Ontario property tax reforms implemented beginning in 1998 was not a pure test of property tax reform because it occurred simultaneously with local service realignment, amalgamation of the City of Toronto, and strong opposition to increased commercial tax burdens. The realignment, amalgamation, and opposition made the overall changes in actual tax burdens less significant than the reform of the assessment system, which should provide continued fairness in taxation between individual properties within a property class, at the very least.

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