NEIGHBOURHOOD COMMERCIAL PROPERTY ADVOCACY CAMPAIGN
Don't Let Yorkville Die
BACKGROUND INFORMATION

The Yonge-Bloor-Bay Business Association's goal is to prevent excessive property taxation on three-storey, street-front buildings that are critical to vibrant neighbourhoods like Bloor-Yorkville. A neighbourhood commercial property class with an affordable tax rate, replacing the five percent cap on annual property tax increases, is the long-term solution.

Our proposed neighbourhood commercial property class would replace the caps. This new class would prevent excessive tax increases, and at the same time would reduce taxes on those properties whose tax reductions were stalled by the caps.

A mixed political reaction to our proposal. The Tory election platform proposal requiring municipalities to seek public approval to raise taxes through referenda means a property tax hike.

Over the last seven years, our Association's Task Force on Property Taxes met with representatives from the City of Toronto, the Government of Ontario, the Ontario Liberal Party, and the Ontario New Democratic Party to argue the merits of our proposal.

The governing **Progressive Conservatives** have received a report from the Finance Minister's Parliamentary Assistant, Marcel Beaubien, and have done nothing.

The **New Democrats** would give municipalities the power to set up a special tax category for "main street" businesses. Without a guarantee that the tax rate would be affordable for our building owners in this category, the City of Toronto would be allowed to, at the very least, double property taxes. It is a safe prediction. At their meeting in Guelph in February, Ontario's cash-starved big city mayors called for changes to the Current Value Assessment property tax system, including the elimination of the caps.

The Ontario **Liberals** are not prepared to tamper with the property tax system at this time, suggesting that they are prepared to work with the system.

An additional factor is at play • the Tory election platform. Should the Tories be re-elected, they are committed to introducing legislation requiring municipalities to hold referenda before raising taxes, and that no less than 50% of the electorate must participate in the referendum to make it valid.

It is safe to predict that municipalities will neither raise nor lower property taxes. It's also safe to predict that in the current cash crunch, the City will demand the Ontario government repeal the caps.

So what do we have?

A potentially workable recommendation from the Tories but an election platform leading to a property tax hike . . . a proposal from the NDP that gives us no guarantee that the City will not be prevented from hiking property taxes . . . and the Liberals who are prepared to find a workable solution within the current system.

Our proposal is in the public interest; it protects our neighbourhoods and our heritage.

Our proposal to sustain the health of neighbourhood commercial communities is in the public interest from three perspectives: economic, environmental and quality of life.

From an economic perspective, neighbourhood commercial uses clearly fill a market need and contribute to the qualities that make some of these long-established and historic neighbourhoods the most valued in our cities. Bloor-Yorkville, Bloor West Village, The Danforth, and The Beaches are examples in Toronto. They are an urban amenity that contributes significantly to a lifestyle that is considered desirable by many, and helps to generate value in adjacent residential housing.

In addition, neighbourhood commercial uses generally are dominated by owner-operated small businesses and act, in part, as incubators for entrepreneurs in the retail and service sectors. Another economic benefit relates to reduced automobile use, which minimizes demands on municipal infrastructure from both an operational and capital perspective.

From an environmental perspective, neighbourhood commercial uses minimize the use of the automobile, require less land for parking and allow for multiple use trips, again reducing automobile use. This is in contrast to newer communities where retail and service facilities are typically oriented to the automobile, with large parking lots, often generating single purpose trips.

From the quality of life perspective, neighbourhood commercial uses are an essential and integral element of successful urban communities. At the neighbourhood level, they provide a variety of products and services used on a daily or weekly basis. In Ontario's older urban areas there are many streets lined with shops that are, by today's standards, relatively small. However, they are part of a shopping street that usually is within walking distance of the majority of its patrons.
Quiet, tree-lined streets, schools and places of worship integrated into the residential environment, with a variety of parks. These characteristics together with neighbourhood commercial facilities, with shopkeepers who know you by name, are the conditions and circumstances that are considered by many to describe a "neighbourhood."

Buildings included in our proposed neighbourhood commercial property class would not be greater than three stories above grade and erected to within 30 to 35 feet of the front lot line, with street related pedestrian access. The ground floor area is not more than 5,000 square feet.

We support the concept of current value assessment, but the capped increases are a short-term solution that devalues properties.

The Ontario Government implemented the Current Value Assessment system (CVA) in 1998 with the intent of bringing consistency in property assessments across the province. Previously the assessment base in this municipality was seriously outdated and confusing and as such, resulted in unfair treatment for many members of our Association.

Although the annual realty tax increases are capped, the unfair treatment continues. The caps are a temporary solution, and are subject to repeal at the request of a municipality. This uncertainty • the uncertainty of a potentially excessive realty tax burden • devalues properties because a future buyer will discount a building's value to afford realty tax payments.

All properties across Ontario are assessed at their market value on a common base year - 1996. Starting next year, properties will be assessed annually based on their market value as of June 30 in the previous year by the Municipal Property Assessment Corporation (MPAC).

The Fair Municipal Finance Act, 1997 defines current value assessment as the amount of money a property would realize if sold at arm's length by a willing seller to a willing buyer. We support the concept of assessing a property at its "market value" rather than at its "highest and best use."

Although our members generally accepted the assessed value of their properties, the resulting realty tax • determined by multiplying the assessed value by the municipal and education tax rates • was excessive. Realty tax increases of 100 percent were not uncommon. Fortunately in October 1998, former Ontario Finance Minister Ernie Eves capped annual realty tax increase for commercial properties that is now five percent.

The creation of neighbourhood commercial property class, as an optional class in the standard commercial class, may be created under the regulatory authority of the Ontario Finance Minister. Importantly, the minister is able to assign a transitional tax rate which we recommend be 2.5.

As I mentioned earlier, buildings included in our proposed neighbourhood commercial property class would not be greater than three stories above grade and erected to within 30 to 35 feet of the front lot line, with street related pedestrian access. The ground floor area is not more than 5,000 square feet.

Other buildings coming close to this definition and compliment the streetscape would be included.

The Beaubien proposal is workable but his proposed tax ratios are not realistic.

Last November the Finance Ministry released its "Property Assessment and Classification Review" prepared by Parliamentary Assistant, Marcel Beaubien. Mr. Beaubien was faced with five proposals: a neighbourhood commercial properties class, a "small business" properties class, a sub-class for "small rural commercial businesses," application of "current use" valuation principles to the assessment of small business properties, and imposition of graduated tax rates to apply tax rates to lower-valued business properties.

Mr. Beaubien placed himself in the position of attempting to satisfy all those objectives under the goal of assisting small businesses. Suddenly property tax policy is mixed in with income tax policy. His overriding objective was to support small businesses rather than preserving the small store-front retail buildings in neighbourhoods throughout the province.

Mr. Beaubien's solution is to make the optional graduated tax rate mechanism mandatory for the commercial property class requiring municipalities to apply lower tax rates to smaller and lower-valued properties.

The City of Toronto would then have the option of establishing two or three bands of assessment. In turn, the City would set different tax ratios for each band. The City would determine the thresholds of assessed value for each band and it would determine the tax rates that apply to each band. The City will be allowed to do this because, in Mr. Beaubien's opinion, municipalities are best able to determine the thresholds of assessed value that are reflective of their local marketplace. Nevertheless, and fortunately for us, he does recommend that the Ministry of Finance set the criteria for a minimum threshold and a maximum tax rate for the first band to ensure the intent of his proposal is not "defeated" by the creation of an artificially low assessment or high tax rate on the first band.

The bands of assessment and tax ratios would have to be set realistically.

Mr. Beaubien uses the following example.

Band of Assessment	Tax Ratio
$0 to 200,000	2
$200,001 to 500,000	4
$500,001 +	6

Based on an analysis of the 2002 assessment of a random selection of properties qualifying under the above definition of neighbourhood commercial in five Toronto neighbourhoods (Bloor-Yorkville, Bloor West Village, The Danforth, The Beaches and Parkdale) the bands of assessments and tax ratios should be:

Band of Assessment	Tax Ratio
$0 to 500,000	1.75
$500,001 to 1,000,000	2.75
$1,000,001 to 1,500,000	3.25

Residential realty taxes should not be increased to pay for a neighbourhood commercial property class.

Without a neighbourhood commercial property class, our neighbourhoods will be faced with the demolition of these buildings to make way for land assemblies allowing for increased density and buildings large enough to house enough tenants to pay "uncapped" property taxes.

Residential properties in proximately to these land assemblies will decline in value as the traditional neighbourhood character and the lifestyle it supports disappear.

Restricting the tax rate applied neighbourhood commercial properties to 2.5 will result in a revenue loss to a municipality. We propose that the revenue loss be recouped by other properties in the commercial property class. The cost for accepting this additional tax burden will be minimal and affordable for these properties.

We came to this conclusion by identifying 39 properties on Cumberland Street and Yorkville Avenue that fall into or are reasonably close to our neighbourhood commercial property class definition. By reducing the 2003 tax rate from 4.61 percent to 2.50 percent and calculating the realty taxes for each property, we determined that the City's revenue shortfall would total $1,050,103.69. The commercial properties in the Bloor-Yonge area would then be required to compensate the City for that lost revenue at a cost of 14½ cents per square foot.

I should note that this is the worst-case scenario because these 39 properties have generally higher assessments than those in other Toronto neighbourhoods.

Commercial buildings have the revenue base • they have more tenants • to assume the additional realty tax burden, whereas, the neighbourhood commercial properties do not.

Property tax reform is critical to the vitality of downtown neighbourhoods.

The adverse impact of "uncapped" current value assessment on neighbourhood commercial properties will be a campaign issue in the Toronto Centre-Rosedale provincial riding in which a majority of our membership carries out business.

We are asking Bloor-Yorkville residents and property owners alike to make acceptance of our proposal a condition of support for any candidate who seeks their vote on Election Day.

By this means, the candidates will come to understand that without a neighbourhood commercial property class, our neighbourhoods will be faced with the demolition of three-storey, street-front buildings to make way for land assemblies allowing for increased density and buildings massive and tall enough to house enough tenants to pay "uncapped" property taxes.

The underlying theme of our campaign will be that our neighbourhood commercial property class proposal is in the public good . . . that a neighbourhood is a terrible thing to lose.

NOTES

Suggested amendment to Ontario Regulation 282/98 to create neighbourhood commercial property class.

O.REG 282/98, AS AMENDED

1. Add to section 2 the following:

   14. The neighbourhood commercial property class.

2. Add a new section, as follows:

   The neighbourhood commercial property class consists of land that:

   a) is not included within the office building property class, the shopping centre property class or the parking lots and vacant land property class of a municipality; and

   b) is otherwise included in the commercial property class; and

   c) has characteristics principally in accordance with the following:

      (i) has a building erected to *within 30 to 35 feet of* the front lot line, with street related pedestrian access

      (ii) has a building erected not more than three stories above grade;

      (iii) has a building with a ground floor area of not more than 5,000 square feet;

      (iv) adjoins a public sidewalk;

      (v) is not used for the parking of vehicles for which a fee is charged.

Municipal Property Assessment Corporation Overview

Corporate Overview

The Municipal Property Assessment Corporation (MPAC) was established by the *Municipal Property Assessment Corporation Ac*t. MPAC started operating on December 31, 1998, when the Government of Ontario transferred responsibility for property assessment to the Corporation. Originally named the Ontario Property Assessment Corporation, the Corporation was renamed MPAC as a result of amendments included in the 2001 Ontario Budget.

MPAC administers a uniform, province-wide property valuation system based on current value assessment. The Corporation provides municipalities with a range of services, including the preparation of an annual assessment roll for use by municipalities and the Province in calculating property taxes and education taxes. Property taxes and education taxes raise over $15 billion in municipal and provincial revenue.

MPAC is also responsible for preparing a preliminary list of electors for each municipal election and reporting the population of each municipality.

MPAC carries out its activities in accordance with the provisions of various acts and regulations, including the *Assessment Act, the Municipal Election Act,* the *Education Act* and the *Municipal Act.*

MPAC's head office is in Pickering. It has 35 field offices located across Ontario from Cornwall in the east to Kenora in the west, each responsible for assessments in various municipal jurisdictions. MPAC provides support to these local offices through its Customer Contact Centre and Central Processing Facility, both located in Scarborough, Ontario.

Prepares Assessment Rolls

Each year, MPAC prepares an assessment roll for every Ontario municipality. The roll gives the assessed value of all the properties in a municipality or in the jurisdiction of a school board with taxing authority. MPAC also prepares supplementary assessment lists, which municipalities use to add in-year tax revenue from new construction or major alterations to property.

Starting with the year 2002, MPAC will send a Property Assessment Notice to property owners every year. Property owners can call MPAC at 1 866 296-MPAC (6722) if they need help understanding their assessed value or any other information included on the Notice. Property owners can also ask MPAC to reconsider the assessed value through a process called Request for Reconsideration. They also have the option to appeal their assessed value to an independent tribunal, the Assessment Review Board.

Assessment Update

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

This updating process became an annual activity in 2002. As the following table shows, by the 2006 taxation year, assessed values will be based on a rolling average of the current value assessments for the three years preceding the taxation year.

Assessment Update Cycle		
Assessment Year	**Taxation Year(s)**	**Valuation Date**
1997	1998, 1999, 2000	June 30, 1996
2000	2001, 2002	June 30, 1999
2002	2003	June 30, 2001
2003	2004	June 30, 2003

Property Taxes - Who Does What?

Who sets property taxes? Where does the information come from on which property taxes are based? Who plays what role in the process leading from the creation of taxation policy to your tax bill? The different responsibilities related to these questions are outlined below.

ASSESSMENT LEGISLATION (Provincial Government)

The Provincial Government sets the broad legislative framework for current value assessment in Ontario. It does this by creating legislation, called Provincial Statutes. The Government also creates regulations, which are authorized under the Statutes. The principal ministry involved in setting assessment policies is the Ministry of Finance, through the *Assessment Act*. Under the *Fair Municipal Finance Act, 1997*, the Ministry created a new province-wide, current value assessment system, which also introduced new property classes.

ASSESSED VALUE (Municipal Property Assessment Corporation)

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

TAXES (Municipalities and the Provincial Government)

The money required by a municipality to deliver services is largely provided through property taxes. The taxes are calculated by multiplying the assessed value of a property, provided by MPAC, by a tax rate set by the municipality. The tax rate is expressed as a percentage of the assessed value. A municipality can set different tax rates for different classes of property (e.g. residential, multi-residential, commercial, industrial).

The Provincial Government sets the education tax rates.

The formulae for calculating residential property taxes are:

Assessed Value x Municipal Tax Rate = Amount of Municipal Property Tax

Assessed Value x Education Tax Rate = Amount of Education Property Tax

Municipal Property Tax + Education Property Tax = Total Property Taxes

APPEALS (Assessment Review Board)

The Assessment Review Board is an independent tribunal responsible for hearing property assessment appeals. It has the authority to change an assessed value. Under the *Assessment Act*, the last day for appealing is March 31st of a taxation year. All parties to an appeal (the property owner, MPAC, the municipality) can present evidence at an appeal hearing. If the Board reduces an assessed value, the taxes for that property will be reduced by the municipality. The Board's decision is final and binding except on questions of law, which can be further appealed to Ontario's Divisional Court if the Court grants leave to do so.

Neighbourhood Commercial Properties in Selected Neighbourhoods

2002 Assessments for Neighbourhood Commercial Classed Properties
Number of Properties with Ranges ($Million)

Neighbourhood	0.200	0.300	0.400	0.500	0.600	0.700	0.800	0.900	1.000
Bloor-Yorkville	0	0	0	1	12	12	2	9	11
Bloor West Village	0	0	0	0	1	4	2	1	6
The Danforth	0	2	2	4	1	3	2	1	0
The Beaches	0	2	2	2	3	1	0	0	3
Parkdale	3	3	0	3	0	0	0	0	0

Neighbourhood Commercial Property Class Impact

Address	2003 Assessment ($)	2003 Realty Tax (4.61%)	Proposed Realty Tax (2.50%)	Difference ($)
Cumberland Street				
98	3,107,000	143,270.85	77,675	65,595.85
106	1,080,000	49,801.26	27,000	22,801.26
108	925,000	42,653.86	23,125	19,528.86
110-114	2,492,000	114,911.80	62,300	52,611.80
118	1,067,000	49,201.80	26,675	22,526.80
120	1,413,000	65,156.65	35,325	29,831.65
122/124	891,000	41,086.04	22,275	18,811.04
126	822,000	37,904.29	20,550	17,354.29
126A	954,000	43,991.12	23,850	20,141.12
128	1,141,000	52,614.11	28,525	24,089.11
128½	1,122,000	51,737.98	28,050	23,687.98
130	1,249,000	57,594.24	31,225	26,369.24
132	1,559,000	71,889.04	38,975	32,914.04
136	1,653,000	76,223.60	41,325	34,898.60
140	1,101,000	50,769.62	27,525	23,244.62
142	1,261,000	58,147.59	31,525	26,622.59
154	1,100,000	50,723.51	27,500	23,223.51
156	994,000	45,835.61	24,850	20,985.61
158	916,000	42,238.85	22,900	19,338.85
Yorkville Avenue				
75	1,029,000	47,449.54	25,725	21,724.54
77	1,142,000	52,660.22	28,550	24,110.22
79	851,000	39,241.55	21,275	17,966.55
83	1,220,000	56,256.98	30,500	25,756.98
84	1,388,000	64,003.84	34,700	29,303.84
86	961,000	44,313.90	24,025	20,288.90
88	754,000	34,768.66	18,850	15,918.66
90	1,358,000	62,620.48	33,950	28,670.48
102	968,000	44,636.69	24,200	20,436.69
104	964,000	44,452.24	24,100	20,352.24
106/108	1,382,000	63,727.17	34,550	29,177.17
110	1,007,000	46,435.07	25,175	21,260.07
111	1,712,000	78,944.22	42,800	36,144.22
112	1,017,000	46,896.19	25,425	21,471.19
119	1,187,000	54,735.28	29,675	25,060.28
121	1,093,000	50,400.72	27,325	23,075.72
132	1,092,000	50,354.61	27,300	23,054.61
134	1,042,000	48,049.00	26,050	21,999.00
136	3,233,000	149,081.00	80,825	68,256.00
140	1,492,000	68,799.52	37,300	31,499.52
Total Difference				**$1,050,103.69**
Total Commercial Space[1]				**7,241,817 sq. ft.**
Cost per square foot				**$0.14½**

[1] Source: J.J. Barnicke: Yonge-Bloor Node Total Office Inventory