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PROPERTY TAX: IT DOES IMPACT UPON URBAN DEVELOPMENT

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Richard N. Poole
Poole Milligan LLP
4100 Yonge Street, Suite 502
Toronto, Ontario, M2P 2B5 Canada
Telephone: (416) 221-4100
Facsimile: (416) 221-6340
www.poolemilligan.com

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Prepared by Richard N. Poole

Introduction

The recent reassessment within the Province of Ontario has highlighted, if nothing else, the wide variance of property tax burdens amongst commercial and industrial properties throughout the province, as well as the relative property tax burden amongst different classes of property within each municipality. The clarification of the property tax system and the scheme of legislation utilized to implement property tax reform permit a common basis of comparison throughout the Province of Ontario.

The identification of the wide variance of the property tax burden and, in particular, the significantly high tax burden in various municipalities across the province, has influenced decision making both by governments and ratepayers with respect to economic development.

The location of various municipalities in close relation one to the other, and to the economic heartland of Ontario, neutralize several factors associated with economic development decision making. This is particularly true within the Greater Toronto Area. As a result, the issue of a viable property tax burden, now clearly identified as a result of property tax reform, has become a highly relevant consideration.

It is inappropriate, in our view, to review the data without coming to the conclusion that appropriate property tax policy can be linked to the viability of any economic development initiatives. In the absence of such property tax policy high operating expenses due to property taxes can outweigh other economic benefits of a contemplated initiative in high tax jurisdictions.

In considering what might constitute a high tax jurisdiction, one must consider that concept both in absolute terms and in relative terms having regard to the relationship of the

property tax burden within any particular local government area in relation to that burden in neighbouring jurisdictions.

From the perspective of the private sector, the failure to initiate appropriate tax policy lessening the burden on commercial and industrial property within high tax jurisdictions will undoubtedly impair the ability of those high tax jurisdictions to attract and maintain a sound economic base for urban development.

On the other hand, by initiating appropriate property tax policy lessening that burden, significant economic benefit can accrue.

Recent tax policy initiatives in the City of Hamilton and the City of Oshawa have been directed to the reduction of the property tax burden upon large industrial properties situate within those respective municipalities. By cataloguing the relative tax burdens amongst municipalities within the province, it became apparent that for those ratepayers an inordinate tax burden existed. The political initiative reducing those tax rates flow directly from the identification of Hamilton and Oshawa as high tax jurisdictions and the realization of the need to reduce those burdens in order to maintain the sound economic base of those municipalities.

There are two elements of how private sector decision making responds to and impacts identifiable high tax jurisdictions. Firstly, new investment, including investment for expansions or renovations of existing facilities will tend to occur elsewhere. These are real losses to a municipality, although they may be difficult to measure or track on a real time basis. These losses become clearer over time as Aloss growth[®]. Secondly, over time, as aging facilities reach the end of their economic life, businesses will relocate. The economic impact then is more immediately recognizable loss, typically more persuasive than just erosion of the municipal assessment base.

The linkage of property tax policy to economic development initiatives is particularly obvious in circumstances where properties in adjacent or abutting municipalities enjoy significantly lower tax rates than those in the high tax jurisdiction.

The Chart A and Chart B clearly illustrate within the Greater Toronto Area the impact of the varying tax circumstances. An easy comparison can be made amongst the City of Toronto and the neighbouring municipalities of Markham, Richmond Hill, Vaughan, Mississauga and Oakville demonstrating the comparative tax rates amongst those municipalities.

The growth of a large industrial base within those municipalities with a corresponding decline within the City of Toronto can be traced at least in part to the property tax differential amongst those municipalities.

The reference to the tax rates in the City of Hamilton and the City of Oshawa illustrate the impact of the initiatives of those municipalities, particularly the City of Oshawa, in reducing the large industrial tax rate relative to the tax rates of the commercial/industrial base of the municipality as an attempt by the use of that tax policy initiative to maintain the large industrial base of that municipality.

Impact of High Tax Rates on Economic Development Initiatives

Generally, those jurisdictions that establish high tax rates for the commercial/industrial property classes funded a disproportionate percentage of municipal expenditures from that base. Almost invariably, the corresponding tax rates for non-commercial/industrial properties are generally lower in such municipalities in comparison to other municipalities less reliant on high tax rates for commercial and industrial properties. With such high tax rates for commercial/industrial properties, municipalities are somewhat restrained in utilizing property tax policy tools to ensure the viability of an individual economic development initiative. The flexibility inherent in a more widely disbursed tax base which

might permit specific initiatives to be developed in order to advance the overall economic environment, is eroded or may not exist in a high tax jurisdiction.

The use of the property tax incentives as part of the establishment of an Enterprise Zone is also constrained in circumstances in which the municipalities to which the Enterprise Zone might be appropriate constitute high tax jurisdictions.

There is significant literature indicating that Enterprise Zone programs do not have a significant impact upon local employment and by inference upon the economic development initiatives intended from the utilization of this vehicle. Analysis has established a school of thought that suggests such targeted initiatives might be better substituted by tax relief of more general application.¹

Targeted schemes, however, may well have an impact, particularly in high tax jurisdictions, of revitalizing and harnessing market incentives for urban renewal.²

Impact Upon Economic Development

¹ Bondonio D., Engberg J., 2000. *Enterprise Zones and Local Employment: Evidence from the States- Programs*; Heinz School of Public Policy and Management, Carnegie Mellon University, Pittsburgh, PA 15213-3890, USA (Regional Science and Urban Economics, Volume 30, Issue 5, September 2000)

² *Pennsylvania's Success with Local Property Tax Reform: The Split Tax Rate* by Alanna Hartzok (<http://www.earthrights.net/docs/index.html>)

The economic advantages perceived (by some) to arise from the development of sports and entertainment facilities, including stadia, arenas, convention centres, private live theatre and other prestige landmark facilities raise specific issues as to the relationship between the property tax burden and the viability of those enterprises in individual municipalities. In all circumstances, a balance must be struck. On one hand, there are the requirements of the municipality to receive tax revenues from such facilities. On the other hand, there is the issue of economic viability of these facilities in competition with others established in jurisdictions which either extremely limit or exempt such enterprises from the property tax burden. The issue is further compounded in circumstances in which fully taxed facilities are located in high tax jurisdictions.

The location of such facilities are often subject to significant debate. Many factors play into the determination of such locations. Nevertheless, property tax as a significant component of operating costs can often weigh in the determination of the ultimate decision making process.

In the field of professional sport, a wide disparity exists as to the property tax burden amongst facilities. Little or no property tax is paid on National Hockey League arena complexes throughout the United States. Molson Centre in Montreal pays property tax in excess of \$8,000,000 CDN annually. Similarly, the Air Canada Centre in Toronto pays property taxes in excess of \$7,000,000 CDN annually. Even within Canada there is a wide disparity of tax burdens for essentially similar and competing facilities. Property taxes at GM Place in Vancouver are dwarfed by those paid at Molson Centre in Montreal and Air Canada Centre in Toronto.

A recent provincial legislative initiative empowers municipalities to significantly reduce the property tax burden on arena facilities within the municipalities in partial answer to the wide disparity of tax burdens established for essentially similar and competing

facilities. This initiative has been undertaken by the City of Ottawa giving rise to significantly lower property taxes attributable to the National Hockey League arena in that city.³

³

O.Reg. 282/98, section 14.1

A recent provincial legislative initiative significantly reduced the property tax burden of live private theatres in Toronto. This initiative was undertaken in response to competitive concerns raised by owners facing significantly higher property taxes than those payable for similar facilities in New York and London.⁴

Owners of private convention centres and other landmark facilities continue to demand reduction in the property tax burden based upon unfair competitive advantage of neighbouring municipalities and, more importantly, competition provided from civic facilities exempt from property tax. In response to those concerns raised, a similar provincial legislative initiative was undertaken to reduce the property tax burden of private convention centres in Toronto.⁵

The implementation of property tax initiatives by the Provincial Government are an attempt to address the impact of the property tax burden upon urban development for these landmark facilities. The response of government to these issues reinforces the view that property tax, particularly in high tax jurisdictions, can impact upon urban development.

In the absence of specific policies that impact upon property tax burden, strange results can occur within the fabric of urban development.

In the City of Edmonton, Alberta, for years, structures were demolished in the Downtown Core and replaced by parking lot facilities at grade in anticipation of subsequent high density redevelopment. Edmonton became in many respects a city of parking lots.

⁴ *Ontario Assessment Act*, section 27.1

⁵ *Ontario Assessment Act*, section 27.2

The demolition of these improvements was directly related to the property tax scheme establishing a significant tax burden based upon the value of land in its highest and best use to which additional taxes were ascribed for improvements constructed on site. In circumstances, therefore, in which the land was under utilized having regard to its potential value, tax burdens ascribed to the land coupled with additional tax burdens ascribed directly to the improvements on site in effect gave rise to double taxation.

Those improvements otherwise economically viable as an interim use pending redevelopment as the market dictated were no longer viable having regard to the property tax burden attributed.⁶

The trend of office sector development in the Greater Toronto Area targets that development to the municipalities surrounding the City of Toronto. While many factors are at play in the decision making process by which office development is undertaken, the significant differential in property tax rates between the City of Toronto and the surrounding municipalities has clearly impacted that development scenario.⁷

⁶ *Re T. Eaton Co. and Alberta Assessment Appeal Board et al.* (1995), 128 D.L.R. (4th) 469; *T. Eaton Realty Company Ltd. and Alberta Assessment Appeal Board et al.* (Court of Appeal of Alberta, dated April 13, 1992, as yet unreported)

⁷ Reference can be made not only to the effective tax rates of Chart A and

Conversely, residential property tax rates within the city are significantly lower than those of the surrounding municipalities. In the result, targeted residential condominium development has become the mainstay of the new construction within the City of Toronto. Once again, significant factors are at play with respect to this urban development, but it is clear that the property tax burden as established has directed this land use.

As with office sector development, so with hotel development within the City of Toronto. The development of new hotel infrastructure with particular reference to luxury hotels has been retarded as a direct result of property tax rates for hotel development within the municipality.

Chart B, but also actual property taxes paid. The average property taxes per square foot of a downtown office building in the City of Toronto is \$15.00 CDN per foot annually. A similar Class AA[@] building in Mississauga would attract taxes of \$7.00 per square foot.

Finally, the development of low cost housing within the municipality is skewed by the tax regime historically in place. With the advent of new legislative initiatives equalizing the tax rate to be applied to low cost housing with that utilized for residential property, a surge of construction has taken place.⁸

Conclusion

Significant literature exists divorcing the impact of the property tax burden from its consequences.

Much of the literature, however, does not reflect, in our view, the circumstances in which there is an actual high tax burden or a relative high tax burden with respect to neighbouring municipalities.

The empirical evidence from the Greater Toronto Area coupled with the initiatives undertaken from a tax policy perspective demonstrates the potential of impacting urban development by the application of appropriate property tax policy.

A uniform property tax system of significant geographic ambit with a low property tax rate may not give rise to any significant land use consequence. It is not the purpose of this paper to suggest in all circumstances that there is a relationship. It is the view of the author, however, that that relationship does exist in circumstances described as evidenced by the empirical data in play in this jurisdiction.

⁸ O.Reg 282/98, Section 10

CHART AA@

1998 TAX RATE SUMMARY (ROUNDED) SELECTED CATEGORIES OF REAL PROPERTY

The tax rate is a percentage of value as established for current value assessment. Rates listed to do not reference tax shifts resulting from phase-ins, "caps", "clawbacks" or other ameliorative measures.

<u>Municipality</u>	<u>Residential/ Farm Tax Rate</u>	<u>Multi Residential Tax Rate</u>	<u>Occupied Commercial Tax Rate</u>	<u>Occupied Industrial Tax Rate</u>	<u>Occupied Large Industrial Tax Rate</u>
Toronto	1.26	4.65	7.64	10.66	N/A
Markham	1.34	2.30	3.37	4.31	N/A
Richmond Hill	1.35	2.31	3.39	4.32	4.32
Vaughan	1.32	2.25	3.34	4.17	4.17
Mississauga	1.45	2.20	3.83	4.99	4.99
Oakville	1.42	2.80	3.50	5.68	N/A
Hamilton	1.97	5.10	6.53/7.69*	9.94/12.43**	12.98
London	1.65	3.30	4.59/5.37/6.40***	7.60	8.78
Windsor	1.72	3.65	4.76	7.16	10.20
Oshawa	1.78	4.04	4.07	6.06	9.69
Ottawa	1.95	3.90	5.95	7.04	6.05

* higher rate for assessments over \$200,000

** higher rate for assessments over \$500,000

*** lower rate for shopping centre class, higher rate for office building class

CHART AB@

2002 TAX RATE SUMMARY (ROUNDED) SELECTED CATEGORIES OF REAL PROPERTY

The tax rate is a percentage of value as established for current value assessment. Rates listed to do not reference tax shifts resulting from phase-ins, "caps", "clawbacks" or other ameliorative measures.

<u>Municipality</u>	<u>Residential/ Farm Tax Rate</u>	<u>Multi Residential Tax Rate</u>	<u>Occupied Commercial Tax Rate</u>	<u>Occupied Industrial Tax Rate</u>	<u>Occupied Large Industrial Tax Rate</u>
Toronto	1.10	3.30	5.31	7.14	N/A
Markham	1.24	1.50	2.96	3.63	N/A
Richmond Hill	1.23	1.49	2.95	3.62	N/A
Vaughan	1.20	1.45	2.92	3.64	N/A
Mississauga	1.24	1.88	3.20	4.06	4.06
Oakville	1.27	2.40	3.14	4.92	N/A
Hamilton	1.83	4.50	5.97	8.05	9.44
London	1.20	2.95	5.17	6.74	6.74
Windsor	1.74	3.82	4.82	6.41	9.14
Oshawa	1.80	3.79	4.09	5.97	7.17
Ottawa	1.72	3.29	4.87	5.71	4.90