

Comments by Bob Topp at the WRAFT Annual Meeting November 11, 2006

Welcome to WRAFT's third annual meeting.

We had hoped we wouldn't have to have a third annual meeting. We had hoped our job would be done, WRAFT would be history and those of us who had put a fair bit of time and effort into this fight for an equitable property tax system could retire once again. But I'm afraid that has not been the case. Instead, with the joining together of our WRAFT membership with a number of urban alliances, with the full support of FOCA and with the addition of a major seniors organization, we now consist of roughly 800 ratepayer, municipal and seniors groups. In terms of individuals under our umbrella, we represent close to one million Ontario voters.

After a couple of years you were getting used to the name WRAFT. But WRAFT, now made up of some 250 waterfront associations spanning the province, had a problem. While its membership was clearly the hardest hit by the volatile and shifting property tax regime, we were not getting anywhere in our efforts to convince the politicians at Queens Park that they had a seriously flawed system which had to be fixed. Our entreaties, your letter, your petitions – they were all falling on deaf ears. The problem that WRAFT had is that we were still a relatively small minority and more to the point we were seen as elite. And it didn't seem to matter how many hardship stories they heard, the feeling was that the system was working and the waterfront property owners, if they really couldn't afford the taxes, could always sell their property and make a nice profit. Or maybe get a mortgage or rent the property out for half the summer.

Well, guess what. We're not quitters. We know the system is wrong and we had the feeling the volatility and unpredictability of the present tax regime wasn't just a waterfront problem. As I mentioned here a year ago, the message was driven home at a ratepayer meeting a year ago in High Park which we attended. At that gathering, clearly homeowners were angry at the flawed assessment and appeal process and were even more angry at the fact that for the last three assessments they had been picking up a bigger and bigger share of the Toronto tax load.

So as we promised last year we spearheaded the formation in April of province-wide alliance of coalitions, the Coalition After Property Tax Reform (CAPTR). Founding members were WRAFT, FOCA and three urban coalitions, two in central Toronto and one a province-wide urban group. Once CAPTR was established, we sat down with our new partners and reached agreement on a simple reform proposal.

- Annual assessment increases under our proposal would be capped at 5%, a rate equivalent to the long term average increase in residential real estate values in Ontario. This cap would remain in place until sale of a property on an arms-length basis at which time the assessment would go to current value. This assessment cap does not mean a 5% tax increase. It simply means, for example, that if the average assessment increase in a municipality was 3% and your increase was 10%, it would be capped at 5%.

- Properties on “hot” real estate markets across the province have already experienced substantial tax hikes and we believe these need to be offset either through an earlier cap or through some other leveling mechanism.
- All Ontarians concerned with property tax reform, agree that social service costs should be removed from property tax. AMO estimates this cost at \$3.2 billion. It contributes to making Ontario’s property taxes as a share of GDP, the highest in the OECD.

Shortly after CAPTR was formed, the United Senior Citizens of Ontario (USCO), a 300,000 member group joined forces with us. I’m pleased to announce today that the Retired Teachers of Ontario, a 54,000 member group, has just confirmed that they are joining CAPTR. The property tax system has been causing financial grief for great numbers of Ontario seniors. This fact is evident to both Ontario opposition parties who are developing reform proposals to provide relief not just for seniors but for all Ontarians.

That’s enough about our organization. What do we have to show for our efforts, and what are our plans for the year ahead, the year leading up to the next provincial election in October 2007? First of all , in terms of what has been accomplished to date, the most tangible outcome from WRAFT and CAPTR lobbying as well as the efforts of others has been the two-year moratorium put in place by the Liberal government in July, and ending with renewal of assessments in 2008 affecting taxes in 2009. This freeze will, we estimate, if previous trends continue, produce an average waterfront saving of 24% of current taxes over the two year period. The other development, for which we and you can take some credit is the efforts of both the PC and NDP parties to establish their policies on property tax reform. The PC Private Members Bill on capping assessment increases, and the NDP Task Force call for a permanent freeze on assessments, both indicate the direction those parties are moving in and a recognition again that the CVA-based system for distributing property taxes is not working. Finally I cannot say enough about the impact of the Ombudsman’s report in bringing the flaws in the assessment process front and centre and making strong and effective recommendations for reform. He observed as well in his report some of the fundamental problems with the use of the volatile assessment system for distributing property taxes. He correctly recognized that these problems were outside his jurisdiction and could only be fixed by the politicians.

What we have not achieved so far is an admission by the Liberal government that reform is necessary together with a commitment to carry out that reform during the moratorium. It makes no sense, other than political sense, to have a two-year freeze and use the time just to fix MPAC and then be hit with even greater volatility in 2009. We have conveyed this message very clearly to the offices of both the Premier and the Finance Minister and hope they are listening. There are signs that this is the case. Mr. McGuinty for months has been acknowledging that an overhaul is needed. Until recently Mr. Sorbara has been silent but in response to the NDP task force recommendations a few weeks ago he did say “we are looking at changes to make the system fairer, more transparent and more equitable”. This is a positive sign and perhaps some movement is underway. Let me simply say that we are all aware that the election is less than a year away.

You have heard from our Treasurer that our bank account is running down rapidly. We need to maintain a healthy treasury in order to ensure that we can keep up the battle till success is achieved. Our experience is that one champion in an association can through personal contacts and letter writing, raise the money we need to get the job done. This should be an easy task given the tax savings achieved from the assessment freeze. Let us know if you can help. You'll be hearing more from us on this subject.

I'd like to take this opportunity to thank the WRAFT directors and executive for their efforts over the past years. I'd also like to acknowledge those of you who have written their MPPs about their taxes. Believe me, it makes a difference. I'd like to thank those of you who have made a donation to our cause. I'd like to also acknowledge George Boddington and Peter Regenstreif our government relations advisors, who have not only given us excellent guidance but have done so on a pro-bono basis. And speaking of volunteers special thanks to John Moffatt, our membership tracker and computer guru. In closing, I want to reiterate that we're not going to go away until the property tax system is fixed. But I'm hopeful this will be our last Annual Meeting. What better time to make the necessary repairs than now, during the assessment freeze. Under the present regime all Ontarians are vulnerable. And we believe that all Ontario political parties are recognizing the need for change.

Bob Topp has been Executive Director of Waterfront Ratepayers after Fair Taxation (WRAFT) since its formation in February 2004. He is also Chairman of the Coalition After Property Reform (CAPTR), formed in April, 2006 by five ratepayer coalitions, including WRAFT, to broaden the alliance fighting for an equitable property tax regime in Ontario.

Minutes of a meeting of the members of WATERFRONT RATEPAYERS AFTER FAIR TAXATION INC (hereinafter called “ WRAFT”) HELD AT THE York Reception Centre, 1100 Millwood Rd, Toronto , Ont at 2:00 pm on November 11, 2006.

The Chairman of WRAFT, Cliff Hatch, acted as Chairman of the meeting and the Secretary, Ron Booth, as Secretary.

The Chairman called the meeting to order and welcomed the attendees. After some opening remarks he introduced the following guests : from the Ontario Government Minister Kathleen Wynne and MPP David Zimmer, NDP MPP Mike Prue, Reeve Peter Ketchum of the Archipelago Township and Peter Tomlinson, guest speaker.

NOTICE OF MEETING

On motion duly made and seconded it was unanimously resolved to dispense with the reading of the Notice of Meeting. The Secretary was directed to file a copy of the notice with the minutes and the Chairman declared a quorum to be present and the meeting regularly constituted for the conduct of business.

APPROVAL OF MINUTES

On motion duly made and seconded it was unanimously resolved the minutes of the meeting of members held November 5, 2005 be approved.

APPROVAL OF FINANCIAL STATEMENTS

Bob Topp reported on the unaudited financial statements of WRAFT for the period from February 18,2004 to September 30,2006 and the year ended September 30,2006 as circulated to the meeting. On motion duly made and seconded it was unanimously resolved that the financial statements for the period ending September 30, 2006 be approved and that an audit of the statements be dispensed with. The Secretary was directed to file a copy of the statements with the minutes.

APPROVAL OF ACTS OF DIRECTORS AND OFFICERS

On motion duly made and seconded it was unanimously resolved that all acts, contracts, by-laws, proceedings, appointments, elections and payments enacted, made, done and taken, including the participation in the forming of and contribution to the costs of the Coalition After Property Tax Reform during the fiscal year ended September 30,2006 be approved.

ELECTION OF DIRECTORS

The Chairman called for nominations for the election of directors of WRAFT for the ensuing year. The following were nominated: Gary Atkins, Tom Beer, Douglas Bryden, David Bull, Guy Crombie, Betty Duffield, Michael Hasley, Clifford Hatch, Jack Hignell, Alan Morson, Scott Mortimer, Mary Neal, Terry Rees, Noel Thomas, Bob Topp. There being no further nominations the Chairman declared nominations be closed. It was moved seconded and unanimously resolved that the foregoing be elected as directors of WRAFT for the ensuing year or until their successors are elected or appointed.

EXECUTIVE DIRECTORS REPORT

Bob Topp reported on the activities of WRAFT since the last annual general meeting and plans for the year ahead.

There being no further business the meeting then terminated.

Waterfront Ratepayers After Fair Taxation (WRAFT)
Statement of Cash Receipts and Disbursements
February 18, 2004 to September 30, 2006

	Feb 18 2004 to Sept 30 2005	Oct 1 2005 to Sept 30 2006	Totals to Sept 30 2006
Receipts			
Founding Member Dues	\$ 25,000		\$ 25,000
Membership Dues	35,700	\$ 11,400	47,100
Donations	211,427	47,756	259,183
Donations CAPTR		1,050	1,050
Bank Interest	2,056	1,176	3,232
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Total Receipts	274,183	61,382	335,565
Disbursements			
Administration	11,127	3,342	14,469
Board/Executive/Members Meetings	9,322	3,215	12,537
Management	38,000	29,000	67,000
Government Relations	15,795	28,709	44,504
Communications	27,833	7,851	35,684
Advertising	25,382	861	26,243
Research	31,568	16,959	48,527
Mailings	4,202	4,428	8,630
Rent	5,500	6,000	11,500
Liability Insurance	1,080	1,080	2,160
CAPTR - Schedule 1		28,419	28,419
Bank Charges	637	246	883
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Total Disbursements	170,446	130,110	300,556
Receipts less Disbursements	\$ 103,737	-\$68,728	<u>\$ 35,009</u>
Bank balances	Savings		\$ 17,388
	Chequing		16,575
	CAPTR		1,046
			<hr/>
			<u>\$ 35,009</u>

IN SEARCH OF THE LESSER EVIL:

Debating the Future of Residential Property Taxes

Presentation by Peter Tomlinson to Annual General Meeting, Waterfront Ratepayers after Fair Taxation

November 11, 2006

This afternoon I will start by looking at some recent developments here in Ontario.

I will then move on to discuss three recent elections in Atlantic Canada – elections in which assessment capping was an issue.

Finally, I'll mention impending developments farther afield – across the Atlantic in England and Sweden.

The questions I'll be raising are these:

Does taking responsibility for CVA taxes mean putting votes at risk – that is, at the provincial level?

And a related question: can votes be won with pledges to thwart CVA taxation – for example with assessment caps?

First to Ontario. Since its 1998 launch, Ontario's CVA property tax has not enjoyed a smooth ride. And lately, political leaders have shown signs of motion sickness.

One telling symptom: support for frequent revaluations has been lacking. Frequent revaluations keep assessments lined up with current market conditions, and – their proponents hope – minimize sticker shock for taxpayers.

When the Liberal government took office, the Assessment Act mandated annual revaluations – all five taxation years '04 to '08 were supposed to be included.

However, the government has now cancelled three of those five revaluations.

Of the other two, revaluation for tax year '04 was finalized when the government took office. Effectively, then, the government has given the green light to just one of four revaluations it controlled this term.

That green light was for the current tax year: 2006. We won't see another revaluation before 2009. That's quite a departure from the Assessment Act as it read three years ago.

True, the government offered reasons for all those cancellations. The reasons were – if not compelling – at least plausible: a change in valuation dates, and breathing room for MPAC to act on the Ombudsman's recommendations.

But reportedly, caucus concerns were also at work: taxation shockwaves in election year '07; canvassing with the next year's assessment notices still hitting mailboxes.

For its part, the former government did not cancel any reassessments. But caucus concerns were calmed by other means. Each time the PC government faced re-election, it would announce a property tax cut for residents.

There was an education tax cut for everyone in '99, and a promise to end the education tax for seniors in '03.

Now in opposition, PC finance critic Tim Hudak has introduced the Homestead Act – a private member's bill capping residential assessments at 5 percent / year.

Where the 5 percent cap keeps a property's assessment below CVA, the cap would be lifted on sale – with the next owner's 5 percent cap based on CVA at time of sale.

On second reading, members of all three parties voted for the Homestead Act. Among Liberal MPP's present, more voted in favour than against.

These numbers, along with strong support from PC and NDP members, permitted easy passage on second reading – but only into limbo (the final resting place of most private members' bills).

Reportedly, members of the PC party are now weighing a capping pledge of some kind – for possible inclusion in their '07 election platform.

An NDP task force, chaired by MPP Michael Prue, has one-upped the Homestead Act. As I read it, their proposal would shut down the mass appraisal process entirely.

In each future year, the only properties getting new assessments would be sold properties, which would move to CVA at time of sale. Everyone else would stay frozen, at the assessment they have today.

The NDP proposal goes even beyond the California system, where the cap is at 2 percent or the inflation rate – whichever is less. Mass appraisals are still done there: you need to know a home's CVA to make sure it isn't lower than the capped assessment. If it is lower, the assessment goes to CVA.

However, the NDP proposal has one feature in common with the California system: the likelihood that taxpayers who don't move will see lower taxes – lower, that is, than with CVA. Who will pay for their benefit? Those who do move, especially frequent movers.

The dollar benefit to non-movers depends on how much average home prices go up. It also depends on the volume of sales. And, of course, it depends on the cap threshold.

The lower the cap threshold, the more likely it is that non-movers as a group will benefit.

Whatever the cap threshold, the largest benefit is to those whose property values go up the most.

It's too early to see if the initiatives I've mentioned are politically significant. Political considerations may have been far from their authors' minds. But it seems fair to say the initiatives are consistent with votes being at stake.

Behind the scenes, there is a policy debate. The debate here in Ontario parallels a debate in many jurisdictions.

On one side are the defenders of orthodoxy. Their recommendation is straightforward: learn to live with CVA taxes – stay the course. If necessary, provide relief based on need, but do not cap assessments.

Here is a typical orthodox pronouncement, in this case from the International Association of Assessing Officers based in Chicago:

“Limits that constrain changes in assessed value of property may appear to provide control, but actually distort the distribution of the property tax, destroying property tax equity and increasing public confusion and administrative complexity. Legislators and the public should be made aware of the inequities resulting from valuation increase limits and be actively discouraged from pursuing such limitations.”

Orthodox ranks include senior staff of bureaucracies – whether in Canada, the US or Europe, and at all levels of government. Among academics with an opinion one way or the other, most are inclined to the orthodox side.

Opposing the orthodoxy, we have taxpayer activist organizations. And supporting these organizations are individual taxpayers – angry or fearful when their taxes go up, and who vent their dissatisfaction in ways that politicians find hard to ignore.

In North America, the debate generally comes down to CVA taxes versus capped assessments. It is easiest to implement a new system starting with today's tax burdens, or some approximation thereof. The aforementioned Homestead Act starts with today's tax burdens, as does the NDP task force report.

More radical interventions, such as the Swedish proposal I will mention later, require a transition that may be difficult. These interventions may rate discussion in North America, but have not been implemented to date.

With one notable exception, most jurisdictions in North America that do cap assessments move them to CVA on sale of a property. That is a system known as acquisition value assessment. The non-adopter of acquisition value assessment is Oregon, where the buyer keeps the seller's cap.

In general, the orthodox side here in Ontario is candid in recognizing our bumpy ride with CVA taxes. They note that our market conditions are far from the tranquil state ideal for CVA taxation.

And our average tax bills are higher than those in jurisdictions more reconciled to CVA – British Columbia for example. (However, even in BC, the tax volatility issue is back on the agenda: Vancouver has embarked on yet another study of how to mitigate it.)

The orthodox position in Ontario views CVA taxation as the “least-bad” option – problematic, but less problematic than the alternatives.

And capping proponents should probably adopt a similar stance: that is, view capping as their own contender for “least-bad” status.

In other jurisdictions, capping has sometimes been promoted as a panacea. In Ontario, perhaps more than elsewhere, panaceas attract media suspicion.

It is clear that property taxes based on capped assessments will not have the “purity” of a CVA property tax.

With a CVA tax, taxable assessments are estimated selling prices, and those estimates determine the distribution of tax burdens. That distribution, from the orthodox standpoint, is equitable.

With capped assessments, many taxable assessments will be lower than estimated selling prices – and policy decisions are required on a cap threshold and base year.

The trade-off is that the distribution of tax burdens is controlled. At least for long-term owners, there is protection from future tax increases at far above average rates.

In somewhat oversimplified form, I have broad-brushed the two contending sides in debate. Caught between the two sides are the politicians.

Politicians are generally inclined to orthodoxy, especially those in government – perhaps due to more frequent contact with staff. However, few politicians are so deeply committed to CVA taxation they would risk defeat on the issue.

Let's turn now to Nova Scotia and New Brunswick.

In the 2003 Nova Scotia election, the PC party put a 10 percent assessment cap into its platform, with a base year for capping going back two assessment cycles. (The back-dating feature was to assist those with large tax increases having occurred already, in addition to those with large tax increases yet to occur.)

Leading up to the election, there had been vocal taxpayer dissatisfaction with the CVA tax system, in areas with above-average assessment increases.

The opposition parties did not adopt capping pledges of their own, but equally did not rally to CVA's defence. Instead, they avoided the issue – keeping their options open.

The PC party won the election with a minority, maintaining the status it had going in. It then legislated the capping program, with enough opposition support to ensure comfortable passage.

As legislated, the capping program faced a 2008 sunset. However, in June 2006 there was another election in Nova Scotia. This time the PC party promised to maintain the capping program.

Again the PC party won the election with a minority. And again opposition parties did not oppose the capping pledge.

This happened only a few months ago, so the ultimate fate of capping in Nova Scotia is still to be learned. But based on current indications, the capping program looks permanent.

In New Brunswick, there was an election in September 2006. The PC party held office during the previous term, with a slender majority. On August 28, part way into the campaign, the PC party promised a 3 percent assessment cap.

The capping announcement caught the Liberal opposition off guard. One of its candidates said the PC capping program did not go far enough, while two other candidates said capping in any form should be rejected.

At that point, Liberal leader Shawn Graham stepped in, saying “We’re not talking about (assessment capping) right now. We want to consult with municipalities and we’ll have more to say about it at a later date.”

Thus the same pattern seen in Nova Scotia emerged in New Brunswick. The PC party promised to implement an assessment cap, while the Liberals kept their options open.

(New Democrats, in contrast to their position in Nova Scotia, are shut out in New Brunswick – with no elected members before or after the 2006 election.)

The 2006 outcome in New Brunswick saw the PC party win the popular vote – 47.5 percent versus the Liberal's 47.1 percent – but they lost the seat count.

The outcome in seats was very close. A switch of fewer than 100 votes – in each of two seats – would have kept the PC's in government.

It is difficult to draw definitive conclusions from our Upper Canadian vantage point. In-depth analysis of voter motivations would be required.

However, the Maritime experience – the first Canadian experience with assessment caps as an election issue – did produce some interesting results.

First, the pro-capping party won the popular vote in all three elections. That might have happened anyway, without the capping pledge. But, three-for-three is interesting nonetheless.

Second, in all three cases it was the party in government that proposed capping. Governing party candidates are the ones who would otherwise bear responsibility for CVA taxes.

(Candidate responsibility was an issue in a recent Ontario by-election, according to press accounts. The Liberal candidate, while promising to bring property tax issues to the Finance Minister's attention, was not in a position to recommend alternatives to CVA. Conversely, the victorious NDP candidate proposed policies anticipating the NDP task force report.)

Third, no party in the Maritime elections rallied to defend CVA taxes. After the governing party brought up the issue, the others kept their options open.

And fourth, after the '03 Nova Scotia election, opposition parties allowed capping to pass. It would have been possible to kill it, but the opposition parties were not prepared to do that.

All these results are certainly consistent with assessment capping being a net attractor of votes.

There are some further points to note in the case of New Brunswick. Former Premier Bernard Lord justified his 3 percent cap in these terms:

“This would put an end to taxation by revaluation, where revenues go up significantly without anyone making a decision.”

It is not unusual in the Maritimes for local councils to peg their tax rate, and then see how much revenue comes in as assessments are revalued. That practice, frowned upon here in Ontario, can be rationalized where property appreciation is close to the inflation rate.

Premier Lord actually set a trap for himself by justifying capping as he did. He implied that collecting X dollars in revenue is bad policy if done “without anyone making a decision”, but all right if someone does take responsibility.

The media soon found mayors who predicted a tax-rate increase, also saying the Premier would be the one bearing responsibility – unless, of course, he increased their grants.

As some media saw it, the capping pledge hadn't been thought through. Positioning the program as revenue neutral in the first place would have avoided that.

One other, easily predictable, issue came up in New Brunswick. In press interviews, the deputy mayor of Rothesay predicted that eventually, recent home buyers would pay far higher taxes than neighbours of long standing.

This result is inevitable with acquisition value assessment: it should never come as a surprise. However, it had apparently not been dealt with in PC press materials. So the media saw it as a hidden flaw.

Finally, let's turn to England and Sweden.

What I am holding up now is a copy of the London Sunday Telegraph from two weekends ago. Perhaps you can see the headline on the front page. It says “Council tax to soar 300% in ‘nice’ areas”.

This seems to contradict everything known about the Council tax, generally seen as the ultimate in tax stability.

With the Council tax to date, no monetary values are placed on properties – instead they are just assigned to value “bands”, eight bands in all. Every property in a band pays the same tax.

There are thus only eight possible tax bills, with the highest bill three times the lowest.

The Telegraph article is mostly what its authors think will happen. But apparently, questions in Parliament have produced some hard information – via ministerial answers.

There will soon be a mass appraisal of every home in England, aimed at generating property-by-property CVA values. CVA values are already the base for property taxes in Northern Ireland, which has never used the banding system.

After the mass appraisal, the authors expect that the banding system will be scrapped in England. Instead there will be a uniform tax rate (0.78%) on CVA. That rate would apparently apply across England.

Next month, an in-depth report on the Council Tax – by Sir Michael Lyons – is to be published. The recommendations in that report may indicate the direction the government will take.

If the Labour government does introduce a CVA property tax in England, the next election will be an interesting one to watch. The Telegraph article already has Conservatives in Parliament rallying to the Council Tax's defence.

In the case of Sweden, an election two months ago featured property taxes as an issue. The four-party coalition that won the election has proposed a radical change to the property tax system.

The Swedish property tax is now levied on homes at one percent of assessable value – that value appears to approximate our CVA.

The coalition's manifesto pledged to eliminate the existing property tax and replace it with a local tax unrelated to value – a flat amount per house. That would be known in North America as a parcel tax or non-ad valorem levy.

The proposed tax amount in Sweden is to be about half the average level of property taxes paid today.

The property tax revenue not replaced by the parcel tax would – according to a National Post article last summer – be made up on the income tax side.

Reportedly, that would be done by ending the capital gains tax exemption for principal residences. Presumably, they would tax the capital gain from now on, rather than going back to house prices paid in the past.

I attempted to check this by reading the coalition's manifesto, but the internet copy is in Swedish only.

In any case, the Swedish election may be another case where thwarting CVA taxation was seen as a vote winner.

I don't want to make too much of the events I've described. There have been scores of elections – all over the world – with CVA taxes as a non-issue. But, in some cases, they do become an issue.

Of course Ontario is the jurisdiction that interests us most. It's still too early to say whether CVA taxes will be an election issue next year. But based on the developments I mentioned earlier, it would be no surprise if they were.

Peter Tomlinson has a PhD in Economics from Johns Hopkins University. He was Director of Economic Development for the City of Toronto until 1997 and since that time has consulted on property tax and other issues for number of public and private clients. He currently lectures in Economics at the University of Toronto.