Provincial Land Tax - An overview of rural services, costs and funding

Prepared for members of the District of Kenora Unincorporated Ratepayers Association and the Lake of the Woods District Property Owners Association

In the fall of 2013 the Ontario government announced it would be undertaking a review of its Provincial Land Tax (PLT) system. Consultations with various groups were held during summer and early fall of 2014 with an aim of bringing forward solutions that address questions of tax fairness.

The PLT, which dates back to 1924, is a property value based tax levied by the provincial government to offset some of the costs of providing services to people living in the province's non-municipal areas. With changes in local government structure over the years, all non-municipal areas are now solely in Northern Ontario.

The goal of the review is two-fold:
To look at concerns raised by municipalities that those living in PLT areas utilize services funded and provided by municipalities; and
To look at concerns that the level of property taxation to support local services in non-municipal areas is significantly lower than in neighbouring municipalities.

The PLT review, the second in the past decade, has raised concerns among those living in unincorporated areas and groups that represent them. The first concern is one of a 'tax grab' by municipalities. Just as school boards expanded taxation boundaries in the 1970s and 1980s to take in assessment rich unincorporated areas knowing there were few children living there to be educated and incur additional costs, the fear is municipalities are looking for a way to derive money from non-municipal areas without having to incur the costs of providing services to them.

The second concern is that non-municipal residents will face steep tax increases under a revised PLT system that will fail to address current inequities in the system.

PLT property facts

• 69,000 properties in total (MPAC)
• 59,000 classed as residential (MPAC) or **85%**
• 43,300 occupied, permanent/seasonal split is roughly 50/50 (MPAC)
• 33,500 permanent population (Canada Census)

Co-funding of Services

During the consultation session in Kenora, Ministry of Finance officials emphasized that no municipality or municipal organization has yet provided any factual study or documented examples to back up the assertion that non-municipal areas are receiving municipal services at 'no cost'.

While the final decision on any PLT changes will be up to elected officials, primarily the Minister of Finance, it is doubtful the government will give municipalities access to the PLT tax base. Besides not having proven their case, levying taxes outside their own municipal boundaries is prohibited under the Municipal Act. For that to change, a major shift in overall provincial property tax policy would be required.

What is more likely to happen is for the government to encourage municipalities to enter into co-funding arrangements where joint service delivery is feasible. This is allowed and takes place now under current legislation, both between municipalities and between municipalities and various boards in non-municipal areas. Local fire service is a prime area example of this.

In the Rainy River District, Lake of the Woods Township, adjacent Dawson Township and the Town of Rainy River now co-fund a single fire service. In a few areas of the province such arrangements also extend to non-municipal areas where Local Service Boards have responsibility for fire protection.

Local Service Boards are legislated to deliver other services too. They include garbage collection, recreation, libraries, sewer service, water service and emergency telecommunication services.

Any of these services can be co-delivered with a neighbouring municipality or municipalities provided all parties agree and the government approves it. Local agreement is an important factor in non-municipal areas where providing a service through a service board or expanding the services already provided requires not only a board decision, but approval of the rate payers in general at a public meeting.

Roads are also a permitted service under service board legislation but no Local Service Board provides that service at present, leaving road responsibility and tax or local fee levying to Local Roads Boards, Statute Labour Boards and roads associations.

While co-funding roads with a neighbouring municipality is possible under current legislation, it is unlikely in most cases as the current system works well. As with Local Service Boards, approval of all parties, including the province and ratepayers in the roads board jurisdiction would be required.

PLT revenues
- $10.7 million in total
- $7.5 million from residential properties
- $2.9 million from pipeline levies
- $300,000 from commercial/industrial and other property classes

Provincial support of services
The second point raised by municipalities; the much lower level of taxation and a much higher level of provincial subsidy that property owners non-municipal areas receive, is a valid one. While PLT rates and its rate structure have changed on several occasions, tax collections through the PLT have not increased dramatically over the past several decades.
Government decisions to maintain 'revenue neutrality' when major changes were made to the PLT system in 1998 and 2008 have meant any increased revenue over the years has come from assessment increases related to new construction in PLT areas.

In 1998, when residential education tax rates were lowered province-wide and municipal taxes increased, and an interim PLT was imposed in education tax areas to mirror what was happening in municipalities, total revenues were maintained at about $10 million. In 2008, when current value assessment and two-tier residential PLT rates were applied, total revenues were maintained at $10.5 million. They have since risen to approximately $10.7 million. Meanwhile, in many municipalities adjacent to PLT areas total tax revenues have doubled or more, much of it through increased taxes paid by residential property owners.

While some of the tax difference is due to the smaller number and lower cost of local services delivered in non-municipal areas compared to municipalities, a large portion of it is related to a higher percentage of government support.

The province also provides tax support in municipal areas and the degree of difference between the two levels of support is the subject of much debate. For example, in the Kenora area a non-municipal householder in 2013 paid approximately $900 in PLT and levies to local road and service boards. For a municipal property owner, taxes for a similar package of services amounted to roughly $1,300 on an average city of Kenora tax bill of $1,800.

Average residential PLT/Local Board taxes excluding education tax
Kenora $1,300 (for comparable services)
Storm Bay Road $869
McCullum Point $1,035
McKenzie Portage $963
Pellatt No. 2 $423
Rush Bay $510
Kenora District $565
All Districts (School Zones) $541
All Districts (Non-School) $345
PLT only (Non-School) $45
PLT only (School Zones) $230
PLT (all areas) $140

The Ministry of Finance put forward an estimate of $70 million to $75 million during the recent consultations sessions as reflecting what it pays on the behalf of non-municipal residents for services, compared to what it would pay if the PLT areas were in municipalities. This amount doesn't reflect the total cost of services, nor all services, nor does it fully account for government support mechanisms and programs for municipal taxpayers.

Ministry officials acknowledge the amount needs to be better refined and explained as discussions proceed and before a decision is made.

The PLT revenue number itself also needs to be current. Government officials have been using the same $10.7 million figure since 2006/2008, yet an averaging of PLT collections in Ontario's published Public Accounts suggests $11.75 million would be a more current number for PLT revenues as of 2013/2014. Accurate revenue numbers are needed before any valid decision on increasing PLT revenue can be made.

Service costs

Knowing total service costs and how those costs are funded is an important part of the PLT discussion. The Ministry of Finance did not have a total cost number available at its consultation sessions, although ministry officials speculated it could be as high as $200 million.

Determining total service costs in PLT areas is challenging. Unlike municipalities there is no centralized accounting of the various services delivered in PLT areas by the various government ministries and local boards, nor is there a straightforward accounting summary of where the money to pay for the services comes from.

General summaries and estimates can be derived from various available sources.
The main services that receive funding from locally raised revenues include policing, fire protection, roads, land ambulance, social services (Ontario Works, Child Care and social housing), public health and long term care homes.

Policing: The Ministry of Finance puts the full cost of this service at $22 million based on what it pays the OPP. Officials at the consultation meetings had no breakdown of what services were involved or how the cost was arrived at. The cost works out to $500 per household, which is above the provincial average of $350 for municipalities policed by the OPP. Prior to 1998, OPP service was provided at no cost to municipalities under 5,000 in population and to PLT areas. In 1998 municipalities began being charged for the service, with the province covering costs above a per-household threshold. A separate calculation of that support, included in Ontario Municipal Partnership Funding (OMPF) for municipalities is no longer done. However policing is still considered one of the basic costs OMPF grants are intended to offset.

In non-municipal areas policing is one of the services partially funded through the Provincial Land Tax. The province is initiating a new OPP billing model in 2015 whereby municipalities will be billed on a per property basis plus charges for calls for service with the aim of moving the majority of municipalities using the OPP closer to the provincial average. If this same billing model were applied to the PLT areas the overall OPP billing is not expected to change dramatically.

Fire Protection: There are 50 recognized fire departments providing service in the PLT areas. Operational funding, averaging $100,000 per department or $5 million in total, is generated through local levies or voluntary payments, along with local donations, fundraising and own source revenues, primarily for those departments providing fire suppression and prevention services at highway accident scenes. They receive a per vehicle hourly response fee paid by the Ministry of Transportation, which is later billed by the government to the insurance companies and vehicle owners involved. Municipal departments, under similar situations, also receive these payments.

Some departments also operate First Response Teams, supported primarily by local fundraising, grants from the Kenora District Services Board (KDSB) and donations.

Government support for non-municipal fire protection services consists of equipment and training through the Office of the Fire Marshal under the Northern Fire Protection Service. Equipment support, mainly ensuring each department has one government funded fire truck, costs the government approximately $1 million annually based on the pro-rating of fire vehicle costs over a 25-year service life.

Municipalities also receive one-time government grants on occasion for some capital projects and some support for training.

In both municipal and non-municipal cases the bulk of fire protection costs are funded locally, and the cost difference explains some of the difference between municipal and PLT tax levels. In Kenora, fire protection costs average $250 per household before any allowance for government support; in PLT areas it is about $100 per household mainly due to the impact of volunteer labour.

It is important to remember that fire protection is not a legislatively required service in Ontario, and while all municipalities have fire department protection of some sort there are vast geographic swaths of the unincorporated areas that do not have local fire protection.

Fire protection is not one of the services funded through the PLT, however local fire fighting by MNR crews, when required, is funded in part through the PLT.

Roads: In Ontario, provincial highways are fully funded by the province. Local roads, within municipalities and in non-municipal areas are considered a local responsibility although there is provincial involvement as these are public roads. In non-municipal areas local roads come under a variety of groups ranging from government sanctioned Local Roads Boards and Statute Labour Boards that pre-dated the Local Roads Board program, Special Roads and 50/50 Roads, to formally incorporated Roads Associations and informal neighbourhood groups.

There are over 4,000 kilometres of roads under Local Roads Boards jurisdiction, and while no figures are available for road totals for other classes of local roads an estimate of another 1,000 kilometers is not unreasonable. Based on an average expenditure of $10,000 per km, local roads represent a $50 million annual cost in unincorporated areas.

Unlike municipalities where local roads are funded primarily through taxes, there is considerable direct provincial funding support for local roads in non-municipal areas. Operational and minor capital costs are co-funded on a 2:1 basis with Local Roads Boards and on a 1:1 basis with Statute Labour, Special and 50/50 Roads. The province also assumes the full cost of major capital work like bridges and covers administrative costs for Local Roads Boards. Roads Associations, whether formally incorporated or not, receive no specific government funding.

As well, the Ministry of Natural Resources pays Local Roads Boards a payment in lieu of taxes where Crown land fronts on roads; 173 of the province's 191 Local Roads Boards receive such payments which range from less than $10 to over $100,000 and total just over $1 million annually.

In total, the government estimates it co-funds 300 to 350 local road systems. Some of the provincial co-funding for local roads comes from the PLT. Local funding comes from property levies, either assessment based or per property, through Local Roads Boards and Statute Labour Boards on tax bills; or through fees or dues paid directly to roads associations and neighbourhood road maintenance groups.

In some cases property owners pay both a Local Roads Board tax levy if they are within the jurisdiction of a Local Roads Board and a local roads association fee if their access or branch road is not part of the approved Local Roads Board road system.

Land Ambulance: This service is co-funded by the province on a 50/50 basis in municipal and non-municipal areas, and in Northern Ontario is one of the services delivered through District Social Service Administration Boards. Total cost for the service in PLT areas, determined by assessment share in each of 11 district service board jurisdictions, is $37 million. The Ministry of Finance pays the 50 per cent local share ($18.5 million) on behalf of unincorporated area residents with some of the money coming from Provincial Land Tax revenues.

Municipalities pay their local share out of general municipal revenues, a large portion of which comes from property taxes.
Users also contribute to the overall service cost through a $45 charge paid to the receiving hospital for those covered by the provincial Ontario Health Insurance Plan and a $240 fee for non-Ontario residents. This is a very low user fee compared to other jurisdictions. In Manitoba, for example, residents pay an average of $400 towards an ambulance call and non-residents upwards of $1,000 depending on the ambulance service involved.

Social Services: In 1998, the cost of many previously provincially-funded social services – income support and benefit programs, social housing and childcare – were transferred to municipalities. Since then the province has taken back full funding for some, but not all of the services, and increased its share of co-funding for others. Local funding currently accounts for about one-third of the remaining co-funded social service costs.

Funding for the local share is allocated by district service boards on the same assessment basis as land ambulance costs. The Ministry of Finance paid $13.1 million to the 11 northern service boards for social services in 2013.

Public Health: Public Health services are funded primarily by the provincial government. However, Ontario's public health units are required to derive a share of their revenues from local municipalities. This is done through a per capita levy based on permanent population numbers. The levies across the eight health units serving PLT areas range from $20 to $55, with the average being $35. Payment of local share costs for non-municipal areas, as well as First Nations, is included in general provincial government funding of the health units. Based on a permanent population of 33,500 for unincorporated areas, this would amount to $1.2 million. However the provincial government heavily subsidizes the per capita levy paid by municipalities, covering 75 per cent of the per capita amount. Applied to the PLT area that subsidy formula leaves a $300,000 cost to be paid out of PLT revenues.

Long Term Care Homes: Long term care homes, primarily funded through Ministry of Health and resident accommodation charges, have a local funding component in the case of publicly owned facilities. Privately owned facilities receive higher per resident payments from the province and don't have a local funding component.

Based on municipal levies in the Kenora District, which are allocated to municipalities on a property assessment basis, the levy amounts to $1 million per $1 billion of property tax base assessment. The unincorporated area contribution to public long term care homes, currently included in general Ministry of Health funding delivered through Local Health Networks, would be approximately $7 million using that formula.

Service	Total Cost	Additional Payments for PLT areas
Fire Protection	$6 million	$1 million
Policing	$22 million	$22 million
Roads	$50 million	$33 million
Land Ambulance	$37 million	$18.5 million
Social Services	$40 million	$13.1 million
Public Health	$1.2 million	$0.3 million
LTC Homes	$7 million	$7 million
Total	*$180.2 million*	*$94.9 million*

As well, the Ministry of Finance covers administrative costs for the PLT system, this includes the cost of ministry staff, payments to MPAC for maintaining property assessment accounts, and payment to the City of Thunder for collecting the PLT through the province's consolidated land tax bill which collects the PLT, education, Local Roads and Local Service Board levies on a single bill. The Ministry of Finance says administration costs amount to $3.6 million annually.

Offsetting these provincial payments of approximately $100 million on behalf of unincorporated area residents is the $10.7 million collected through the PLT.

That would mean a provincial subsidy in the range of 90 cents per local tax dollar. Even when $9.3 million in local levies collected on behalf of Local Roads and Service Boards are added in, compared to total service costs the government appears to be subsidizing non-municipal taxpayers in the 85% range. This is considerably higher than in municipal areas where provincial support ranges from 30% or so in mid-sized centres with populations of 5,000 or more, to the 50 to 60% range in smaller communities with populations of 500 or less.

Not included in PLT collection totals are the monetary value of volunteer services and voluntary payments or fees paid for services like fire protection, recreation facilities and community halls, roads maintained by road associations or informal neighbourhood groups, and other services that in a municipality would be delivered by local government and funded in whole or part through the property tax system.

Also not included in is a value to reflect the Ontario Municipal Partnership Fund, the main source of direct government support for municipal taxpayers, and payments in lieu of tax for Crown property and hydroelectric generating stations, another major source of tax related municipal revenue.

The OMPF program and companion Special Assistance, and GTA assistance funding amount to $750 to $800 million annually, or $250 per household province-wide. But the level of support rises dramatically for smaller municipalities, reflecting low population densities, higher service costs, and smaller business/industrial tax bases in the technical

calculations used to determine how much each municipality receives.
In cities like Kenora and Thunder Bay, OMPF support ranges between $550 and $600 per household. It reaches or exceeds $1,000 per household in municipalities with populations under 500.

If the $1,000 support level were applied to the PLT area with its 43,300 households clustered in groups of several dozen or several hundred it would amount to some $43.3 million in government support. The difference between what larger centres and rural communities receive accounts for some of the support difference between municipal and non-municipal taxpayers, perhaps as much as $20 million in total of the $100 million in additional support identified.

Allowances for the absence of payment in lieu of property taxes for public lands and buildings and hydroelectric stations in PLT areas would account for more of the additional government support figure.

Although most major public buildings, for which larger payment in lieu of taxes amounts are paid, such as offices, staff dwellings, work centres, hospitals and schools are in municipalities, there are numerous buildings and work sites scattered throughout the unincorporated areas, as well as extensive acreages of Crown land. How much those would be worth in payment in lieu of taxes terms isn't known, but it would be substantial.

The province's hydroelectric station grant has a much higher value. It was instituted in 2001 when hydroelectric stations were exempted from property taxation by municipalities and municipalities were compensated with annual payments calculated on electrical generation and roughly equal to what they'd collected in property taxes prior to 2001. If the province included a power dam grant as part of its PLT collections it would conservatively amount to $50 million based on electrical generation charges used to calculate the $18 million paid to municipalities now, as many of the larger hydro-electric stations in the North are located in non-municipal areas.

While including a valuation for these government support mechanisms municipalities receive in the PLT revenues would improve the optics of and better explain the high level of provincial subsidization in PLT areas, it doesn't address the core issue of PLT revenues not increasing in step with rising costs in recent decades as compared municipal taxpayers.

Increasing PLT revenues
A key question for property owners, and the government, is how to generate an increase in PLT revenues. The simplest solution would be an across the board increase in PLT rates. However this would perpetuate inequalities now in the system.

A common complaint of those residential PLT payers who also pay education now is the

two-tier nature of the PLT. It was first imposed in 1998, through a conversion of education tax to an interim PLT, and in the 2008 move to current value assessment resulted in different rates for residential and farm properties paying education taxes, and those not paying education taxes.
About 30% of the residential PLT properties are outside of education tax zones and the rate difference is huge – a factor of 600%. For each $100,000 of assessment in education tax areas the residential PLT is $161.73, compared to $25.39 in non-school board areas.

The average dollar difference is $230 paid in PLT compared to $44 according to the Ministry of Finance, and helps explain the very low PLT average of $140 per property provided by MPAC for the PLT consultation sessions.

Moving to a single rate, if the current upper rate is used as the target, would generate an additional $2.5 million in PLT revenues. And the rate increase, while large in percentage terms, would only average $200 per property for the 13,000 occupied residential properties involved.

Commercial and industrial properties in the PLT area also enjoy very low tax rates. Within municipalities those property classes often pay taxes based on rates two to three times more than the residential rate. In PLT areas the commercial rate is one-third of the upper tier residential rate, resulting in a tax levy of $54.44 per $100,000 of assessment compared to $161.73. Industrial properties have even lower rates, paying $39.19 per $100,000 of assessment.

Increasing these non-residential rates to more closely parallel the tax ratios between property classes in municipal areas would generate another $1 million to $2 million in PLT revenues.

While pipelines contribute $2.9 million to the PLT revenues, rates for railway and utilities corridors are much lower in unincorporated areas than in municipal areas and generate far less revenue. The rates, set by provincial regulation, are charged on a per acre basis and in the case of electrical corridors the difference is dramatic, ranging from a low of $12.54 for municipalities in the Sudbury/Algoma districts to $122.15 in the three Northwestern Ontario districts. The rate in PLT areas for is $2.05.

Railroad corridor rates while they have a much smaller range for municipal purposes, from a low of $35.26 per acre in northwestern districts to a high of $75.66 in the Sudbury and Algoma districts, are also dramatically lower in PLT areas — a mere $0.09 an acre.

Raising the per acre corridor rates across the north to more reasonable levels would add considerably to PLT revenues.

Accurate assessments have a role in increasing PLT revenues too. Prior to the 2008 shift to current value assessments, many unincorporated properties, especially those outside of education tax areas hadn't had a site visit by assessors in years, decades even, meaning the value of new or extensively upgraded structures weren't reflected in property valuations.

MPAC representatives noted at the consultation session in Kenora they'd focused on non-education tax areas first in making site visits as part of updating assessments. Still, many in the PLT area have heard, or are aware of properties that still don't reflect their true current market value because MPAC hasn't yet made a site visit to verify property data in their files for the conversion to current value assessment.

One area resident at the Kenora consultation session noted he'd built a new house over a decade ago, and has since added an extensive garage and workshop to his own property. Neither is reflected in his current tax assessment.

To be fair to MPAC, making site visits has become more difficult in recent years. The increased use of computers to maintain files and calculate assessments has meant a dramatic decrease in staff. The Kenora office, for example, once had 13 staff available to make site visits and gather field information in addition to their in-office work, it now has four.

Still, assessments are being updated on an ongoing basis. The Kenora school board area experienced a roughly 36% increase in total residential assessment in the 2012 province-wide reassessment compared to the 2008 assessment total. The rising real estate value of waterfront property can explain some but not all of the increase.

In the Sudbury area the increase was 60%, far more than can be explained by rising property values or new construction over a four-year period, with updated and more accurate assessments being one reasonable explanation for the increase. The Sudbury increase means an additional $150,000 in overall annual PLT collections from 1,600 properties by 2016, after allowing for province-wide assessment related rate reductions.

The increased assessment in the Kenora area, with 4,300 properties involved, will result in a $250,000 increase in PLT revenue by 2016.

The Ministry of Finance could also increase PLT revenues considerably by changing the minimum tax provision in PLT legislation. Like the PLT rate prior to 2008, it hadn't changed in decades and wasn't changed in the 2008 reforms. It remains at $6 per property.

Meanwhile, the cost per property for administration of the PLT system has increased considerably. The Ministry of Finance spends $3.6 million on its own staffing costs related to the PLT, paying MPAC for assessment services and the City of Thunder Bay for collecting the tax. This is a $52.17 per property expense, and anyone paying less than that is not contributing to the cost of the services they receive, and also not contributing to service administrative costs.

Raising the minimum PLT to at least $55 would at least recoup administrative costs.

Something in the $75 to $100 range, which is comparable to what many roads boards set as a minimum tax, would also recoup a share of service costs.
Based on total property numbers and household numbers, a more realistic minimum tax would bring in $1 million to $2 million in additional PLT revenues.

Finally, government could allow 'assessment creep' to increase PLT revenues. That's taking place now. With the 2014 rate held at the 2013 level, overall PLT revenues this year will increase by roughly five per cent from the residential class, or about $350,000.

By using all, or a combination of these mechanisms, the Ministry of Finance could easily double its current PLT revenues without imposing a serious financial hardship on property owners.

Timing of any change

One final question for people in unincorporated areas and for the government is when any changes resulting from this PLT review will be implemented. Initial government announcements suggested changes could come as soon as the 2015 tax year. Ministry of Finance representatives at the consultation sessions said that was unlikely, the most they expected was some mention in the 2015 budget of how any reforms decided on would be implemented.

It is important to remember past PLT reforms have always taken several years from announcement through discussion and consultation to implementation. The 1998 education tax shift occurred after two years of review, and was 'fast-tracked' as it had been a key election promise in 1995. The 2008 reforms, implemented in 2009, were based on consultations held in 2002/2003 and new legislation passed in 2006.

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