

Effect of Increases in Property Values on Tax Burden

Letter

Attachment
Bluewater Tax comparison 2002-4
WRAFT - Nova Scotia caps assessment
WRAFT - retirees forced to sell
November 25, 2004

Mayor and Members of Council
The Corporation of the Municipality of Bluewater
14 Mill Street
Zurich, Ontario

Re: Effect of Increases in Property Values on Tax Burden

The longer-term interests of our Municipality are best served if the taxes necessary to finance necessary local expenditures are distributed among all ratepayers on as equitable a basis as possible.

The attached paper details the effect that major changes in “Current Value Assessments” (CVA) can have on the distribution of the municipal tax burden among Bluewater ratepayers and, for some property owners, on their ability to pay. The inherent flaws in the current provincial assessment system make this an issue with potential negative effects for **every Bluewater ratepayer**.

Since the creation of Bluewater, the primary impact to date of increased CVAs has been on lakefront properties in the Wards of Hay West, Stanley West and Bayfield, resulting in a shift of the property tax burden from the balance of the Municipality to shoreline property owners. However, should there be a decline in the CVA of Bluewater’s lakefront properties in a future year, there could be even greater increases in residential taxes in the Wards of Hay East, Hensall, Stanley East, and Zurich.

It is recognized that the underlying problem will require correction at the provincial level. A province-wide coalition, [“Waterfront Residents After Fair Taxation ” \(WRAFT\)](#), is currently working to ensure that provincial officials recognize both the scope and unfairness of the current situation.

However, **there are actions that a local municipal council could take to alleviate the extreme fluctuations** with the resultant instability of property taxes. Accordingly, we would request that Bluewater Council, prior to commencing its 2005 budget deliberations, investigate the various corrective measures identified in the paper, and consider adopting those measures that will assist in minimizing the effect of changes in CVA on the taxes levied on individual properties. BSRA would be pleased to provide any assistance in such a review, including information available through WRAFT.

We would request that this issue be placed on the agenda of the next Council meeting, and that BSRA be given the opportunity to make a brief presentation and to answer any questions that Councillors may have.

Sincerely,

John Gillespie
President

Attachment

Effect of Changes in Current Value Assessment (CVA) on the Distribution of Bluewater Property Taxes

Who pays Bluewater's taxes? (Data Source: Municipality of Bluewater 2004 budget)

- The portion of total Bluewater tax revenue from "**Residential**" properties has increased to **82.5 %**;

"Farmlands" – 9.65 %; *"Commercial"* – 4.96%; *"Industrial"* – 1.69%.

- Of Bluewater's total "**Residential**" tax revenue:
 - **Hay West** and **Stanley West** represent **46.5 %**
 - **Hay West, Stanley West** and **Bayfield** represent **68.1 %**
 - the other 4 wards combined represent only 31.9 %

Which segment of Bluewater has seen the largest CVA increases?

- Bluewater's **lakefront** property assessments have **increased by 75.19 %** from 1999-2003.
(Data source: MPAC via WRAFT)
- This is by far the largest increase within the "**Residential**" tax class.

Have other Tax Classes experienced similar effects?

- "**Residential**" properties have increased more than any other Bluewater tax class over this time period.
- Higher selling prices for some Huron County farms, partially driven by "offshore" purchasers, have resulted in increased CVA of "**Farmlands**", but to a lesser degree than lakefront property.

What factors contribute to this increase in Lakefront CVA?

- Obviously there is a limited **supply** of waterfront property in existence.
- Population demographics indicate a significant increase in **demand**, by the "baby boomer" generation.
- Value of the **Canadian Dollar** vs. US Dollar

Over the last several years, Ontario property values have been relatively cheap for prospective American purchasers. It can be documented that this has contributed to inflated selling prices and results in higher CVAs for all lakefront properties.

What is the effect when CVA increases are much greater in one part of the Municipality?

- The distribution of the entire municipal tax burden shifts to the geographic area or tax class that experienced the greater rise in assessed values.
- As a result, most **Bluewater lakefront properties experienced tax increases in 2004 of 25 – 50 %**, addition to significant tax increases in 2003.

What is wrong with this?

The fundamental principles of any fair taxation system are that taxes should be distributed equitably among taxpayers on the basis of either services provided or ability to pay.

“*Current Value Assessment*”, as the basis of distribution for taxes, reflects neither. Indeed, for the higher taxes that result from increased CVA, there are not more services provided to the three wards with lakefront properties. Nor can it be assumed that there is a greater ability to pay simply because the CVA of one’s residence has increased. The only gain accruing from higher property value occurs if you sell and move away, or die and the higher value becomes part of one’s estate. For the lakefront resident who desires to continue living there, a higher CVA is of no benefit; rather it is a liability throughout one’s lifetime since, under the present circumstances, it leads to higher taxes.

Simply put, **lakefront properties** in Hay West, Stanley West and Bayfield now **bear a disproportionate share of the entire municipal tax burden** – Bluewater, Huron County, and Education – as a result of dramatic increases in the CVA of waterfront properties since Bluewater was created.

Conversely, all other Bluewater ratepayers now pay a disproportionately smaller share of the tax load.

I’m not a lakefront ratepayer – Why should I worry?

The market value of Bluewater lakefront properties could be reduced by factors such as higher lake levels, higher Canadian dollar, overpricing, reduced demand, or changes in Canadian tax/estate laws.

Bluewater levies \$3.765 million in taxes to finance its current operations. However, if Bluewater lakefront CVA were to fall by only the amount it increased in the last reassessment, **all other Bluewater ratepayers would face tax increases in the range of 20-40%** to produce the same tax revenue in the subsequent year.

Are individual residents being hurt by the spike in property assessment?

Yes. The following examples illustrate the hardship being experienced by some lakefront property owners:

- Some individuals on fixed incomes are no longer able to retain the lakefront property that has been in their family for years; e.g., a widow who would have preferred to keep the “family” cottage where her grandchildren love to visit, but cannot afford the sharply increased property taxes.
- Some families with relatively modest incomes feel they can no longer afford to retain their lakefront cottage in light of their other expenses (principal residence, children’s college expenses, etc.). Although they prefer not to rent their cottage, in particular during the months of July and August, they feel forced to do so to offset the cost of rising taxes resulting from increased assessment.
- The reassessment-driven tax increases in 2003 and 2004 have reduced the discretionary income of all residents that could otherwise be spent within Bluewater.

Isn't this a Provincial Government problem?

Organizations such as [WRAFT \("Waterfront Residents After Fair Taxation"\)](#) are working to ensure that provincial officials recognize both the scope and unfairness of the current situation.

Although resolving the underlying problem on a province-wide basis will require correction at the provincial level, there are actions that a local municipal council could take to alleviate the extreme fluctuations with the resultant instability of property taxes.

What could Bluewater Council do to minimize the negative effect of major changes in CVA?

Bluewater will never become a true unified community unless there is a more equitable sharing the Municipal tax burden among all its ratepayers.

There are a number of ways that Bluewater Council could alleviate the negative effects of the current situation. These include:

- ***Limiting the % by which change in CVA can change Bluewater residential property taxes***

This technique may be the simplest and most effective way of eliminating major swings in individual property taxes as a result of reassessment. Although it does not prevent the eventual shift of tax burden to areas where CVA has increased relative to the balance of the Municipality, it does have the effect of slowing the rate of change.

Following extensive consultation, Nova Scotia this year enacted such legislation for the purpose of capping assessment increases for residential properties (see attached). The capped value will be escalated at a percentage per annum to be determined later this year by Nova Scotia Regulation.

To implement such a measure in Bluewater would require some modifications to computer tax notice software; however, such modifications are relatively simple programming changes.

- ***Introducing "Area Rating" by Ward***

An alternative method to distribute the cost of operating the municipality on a basis that is equitable for **all** its ratepayers would be to:

- allocate all Bluewater expenses **on a ward basis**; and
- calculate a **Ward Mill Rate** based on the **assessment in that Ward**.
This would reduce the unfairness of the current system which results in:
 - tax burden being shifted to **lakefront** properties as a result of reassessment; and
 - all other Bluewater ratepayers paying a disproportionately smaller share of the tax load.