



COUNTY OF WELLINGTON

COMMITTEE REPORT

To: Chair and Members of the Administration, Finance and Human Resources Committee
From: Ken DeHart, County Treasurer
Date: Thursday, January 16, 2020
Subject: Farm Property Class Tax Rate Programme

Background:

The Province of Ontario implemented changes to property assessment and introduced taxation reform which came into effect in 1998. Prior to this, farm properties were subject to taxation at the base residential tax rate and farmers applied annually to the Minister of Finance to be reimbursed 75% of the farm portion of taxes paid to the local municipality.

As part of assessment reform, the Province changed the method of delivering farmer's rebates by creating the Farm Property Class Tax Rate Programme under the jurisdiction of the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA). Under the new programme, rather than apply annually and wait for property tax rebates, delivery of the programme shifted to local municipal governments and onto the property tax system. Eligible farmland assessment values are now discounted by -75% of their full current value assessment (CVA) to produce a lower weighted assessment base which is used for tax rate setting purposes. With residential tax rates being the benchmark ratio of 1.0, farmlands have been set in legislation to have a 0.25 ratio or lower. The effect of the discounted weighted assessment shifts an increased burden of tax onto all other property classes in the County by way of increasing the benchmark tax rate. Doing so has a pronounced effect on the residential sector which comprises 78% of the County's levy base. By comparison, farmland taxes comprise 7% of the total levy base.

	2019 CVA	% raw CVA	WTD CVA	% Wtd CVA	2019 Levy	% of Levy
Residential	12,584,607,345	68.02%	12,584,474,157	77.91%	77,709,877	77.91%
Multi Residential	86,932,592	0.47%	165,171,925	1.02%	1,019,946	1.02%
Farmland	4,499,862,369	24.32%	1,124,965,592	6.96%	6,946,730	6.96%
Commercial	863,761,038	4.67%	1,287,867,708	7.97%	7,952,660	7.97%
Industrial	368,081,028	1.99%	882,959,280	5.47%	5,452,326	5.47%
Pipeline	41,303,954	0.22%	92,933,897	0.58%	573,872	0.58%
Managed Forest	55,959,714	0.30%	13,989,929	0.09%	86,389	0.09%
County Total	18,500,508,040	100.00%	16,152,362,486	100.00%	99,741,800	100.00%

Challenges facing Rural Municipalities

Shifting of farmland discounted assessment onto residential taxpayers is specific to rural municipalities. Schedule A shows the difference between raw (unweighted) assessment roll values and resulting weighted assessment in Wellington County as compared to a typical urban municipality. In 2019 the residential tax class comprised 68.02% of Wellington County's assessment base, but the residential class pays 77.91% of property taxes once tax ratios are factored in. The farmland ratio of 0.25 has the effect of increasing the residential tax burden by approximately 10% across the County.

Conversely, in an urban municipality with very little farm tax class, the residential assessment base of 78.50% is reduced to 66.27% of total weighted assessment used for tax rate setting purposes. A reduction of more than 12% off the residential tax burden. This causes Wellington County economic competitiveness issues for the County's southern municipalities that border a number of urban municipal centres. Tax policy treatment greatly favours urban municipalities in Ontario.

Since the cost of providing the Farm Property Class Tax Rate Programme was downloaded by the province in 1998; provincial funds have been allocated annually to rural municipalities to offset the tax loss. This was supposed to be a revenue neutral allocation. However, each year transfer amounts from the Ontario Municipal Partnership Fund (OMPF) continue to decline. The Table below shows that a total tax levy of \$34,669,691 was necessary in order to provide the farmland tax incentive rebate benefiting 5,807 farm property owners in Wellington. The OMPF allocation county-wide in 2019 was \$7,065,800 leaving a shortfall of more than \$27 million in levy which is shifted onto every other property owner in Wellington County. This translates to \$754 per property in the County or 15.7% of total taxes for the typical homeowner. This is a significant amount of additional property tax burden that our residents continue to bear annually and which are subject to increase depending on market value of farmlands.

In essence, County residents are providing the -75% rebate instead of the Province for the Farm Property Class Tax Rate Programme, creating significant financial hardship amongst our ratepayers and limiting the County's economic competitiveness with neighbouring jurisdictions.

WELLINGTON COUNTY - 2019 FARMLAND PROPERTIES
OMPF FUNDING TO MITIGATE COST OF FARM PROPERTY CLASS TAX REBATE

Municipality	Municipal Rebates	Municipal OMPF Grant	Municipal Levy Impact	County Rebate* Distribution	Total Additional Levy Required
Puslinch	\$ 232,040	\$ 415,700	\$ (183,660)	\$ 2,846,353	\$ 2,662,693
Guelph/Eramosa	\$ 1,137,235	\$ 490,300	\$ 646,935	\$ 3,120,713	\$ 3,767,649
Erin	\$ 890,468	\$ 593,300	\$ 297,168	\$ 2,852,697	\$ 3,149,866
Centre Wellington	\$ 1,987,127	\$ 319,600	\$ 1,667,527	\$ 5,553,231	\$ 7,220,758
Mapleton	\$ 5,235,570	\$ 837,400	\$ 4,398,170	\$ 1,961,338	\$ 6,359,507
Minto	\$ 1,446,483	\$ 1,604,600	\$ (158,117)	\$ 1,153,001	\$ 994,884
Wellington North	\$ 2,900,554	\$ 1,296,800	\$ 1,603,754	\$ 1,844,780	\$ 3,448,534
Wellington County	\$ 20,840,213	\$ 1,508,100	\$ 19,332,113		
Total	\$ 34,669,691	\$ 7,065,800	\$ 27,603,891	\$ 19,332,113	\$ 27,603,891

Additional levy required to provide farm rebate after OMPF grant

Total Properties **	36,607	Tax per property	\$754
Less # of Farms	5,807		
	30,800	Excluding farms	\$896
Population	97,610	Tax per resident	\$283

* County farm rebate distribution based on local municipal levy % share

** excludes special/exempt properties

Farm Application Deadline Requirements

Another challenge faced by rural municipalities is how the farm application and deadline requirements are administered by OMAFRA (now by AgriCorp). In any given year, many farm owners do not submit their applications within the specified deadline. The result is that many bona fide farm properties end up 'flipping' out of the discounted farm class and into the full residential tax class upon the next roll return. The assessment of these farm values are no longer discounted when calculating total weighted assessment, which is used for tax rate setting purposes.

This creates two distinct ongoing problems for rural municipalities. One is that the benchmark residential tax rate is lower than it otherwise would be; and two, upon approval of the late applications by OMAFRA, municipalities must refund the -75% difference in farm taxes retroactive to January of the current or sometimes even the preceding taxation year. There is no administrative or monetary penalty for late applications. Each year Wellington County finds approximately \$20,000,000 of farmland valuation excluded from the farmland discount programme due to late applications.

This year staff identified a major anomaly with farmland assessment loss of close to \$90,000,000. Upon enquiry, it was reasoned that the extremely high change in farm CVA was due to administrative changes as programme delivery shifted from OMAFRA to AgriCorp. County staff expect that most of the outstanding farm applications will be approved and revert back to the farm tax rate during 2020. Staff have included an additional \$300,000 in estimated property tax write-offs into the 2020 budget to set aside additional funds in preparation for the County's share of potential write-offs as tabled below:

2019 FARMLAND CVA CHANGE OVER TO RESIDENTIAL RT CLASS

(Between September 25 in-year growth and final November 2019 growth)

Possible write-off amounts IF all properties revert back to AGRICORP approved FTIP

	PUSLINCH	GET	ERIN	CTR WELL	MPLTN	MINTO	WN	COUNTY
Est Prop Count	-20	-24	-26	-18	-22	-19	-28	-157
Farm CVA Loss	8,500,000	17,500,000	13,000,000	10,000,000	19,000,000	5,000,000	16,500,000	89,500,000
Res Tax Rate	0.00167135	0.00260652	0.00295749	0.00321969	0.00476387	0.00544891	0.00481749	0.00617506
Res Taxes	14,206	45,614	38,447	32,197	90,514	27,245	79,489	552,668
Farm Tax Rate	0.00041784	0.00065163	0.00073938	0.00080492	0.00119097	0.00136223	0.00120437	0.00154376
Farm Taxes	3,552	11,404	9,612	8,049	22,628	6,811	19,872	138,167
Potential w/o *	(\$10,655)	(\$34,211)	(\$28,835)	(\$24,148)	(\$67,885)	(\$20,433)	(\$59,616)	(\$414,501)
							Grand Total*	(\$660,285)

* excludes Education Tax Component

Farmland Property Assessment Valuation

The Municipal Property Assessment Corporation (MPAC) is responsible for placing current market value assessment (CVA) on all properties in Ontario. The most recent province-wide reassessment updating the base year to January 1, 2016 was returned for the 2017 tax year. As mandated by the Province, any assessment increases are phased-in over a 4-year cycle. MPAC reported the average farmland increase province-wide was 64% and residential CVA increased by 18%. By comparison, Wellington County CVA has increased by 68% and 13% respectively.

In the 2016 Assessment Update Summary, MPAC reports they have strengthened the accuracy and equity of farm valuations by improved sales verification processes of bona fide farmer-to-farmer sales along with undertaking a comprehensive review of vacant farmland sales as far back as January 2008. They report that upward trends continue to increase provincially as demand for farmland outweighs the supply and non-agricultural buyers continue to purchase farmlands creating competition. Agri-Food Canada reported the net worth of an average farm was expected to reach \$2.8 million in 2017.

Staff conducted a preliminary review of open market farm sales in Wellington County during 2018 and 2019. The data reveals that the current 2016 base year CVA of farm properties sold continue to be under-assessed by 27.43%. Sale prices ranged from \$26,000 to \$4,200,000.

Wellington County	2019 Farm Sales	2018 Farm Sales	Total Sales
Number of valid farm sales	97	108	205
Total CVA of farm sales	90,515,500	89,366,400	179,881,900
Combined sale prices	130,333,790	117,533,356	247,867,146
Difference sales to assessment	39,818,290	28,166,956	67,985,246
As a percentage	30.55%	23.97%	27.43%

* source MPAC Municipal Connect

Assessment Act Considerations

Current value assessment is defined as “the amount of money the fee simple, if unencumbered, would realize if sold at arm’s length by a willing seller to a willing buyer.” For farm properties, the province has clearly indicated that farm properties are to be treated different from the concept of current value. Section 19(5) of the Assessment Act requires that current value of the land and buildings should only be used when sales are for farm-purposes only and reflect the productivity of the land for farming purposes.

MPAC assessment methods must only consider farmer-to-farmer sales. In this case, the Assessment Act requires MPAC to exclude any sales to persons whose principal occupation is other than farming. This has the effect of excluding any other type of buyer and highest and best-use considerations from current value assessment.

From a land productivity perspective, land classes are adjusted for their productivity. For example, Class 1 farmlands are the most productive for crops, while on the other end of the scale, Class 6 is for swamp and scrublands that are the least productive. Lands in Wellington County and in particular, the southern portion of the County sell for far more per acre than what farms are assessed at for farm purposes. Analysis undertaken with regard to current assessment appeals shows that the best lands (Class 1) are currently being assessed in the \$14,000 to \$16,000 per acre range for farms. Sales of larger land holdings are selling in the range of \$20,000 to \$25,000 per acre range.

The intent of Section 19(5) of the Assessment Act is to limit and protect farm property from current value considerations outside of farming. This means that generally speaking, farms are naturally under-assessed from general market considerations – providing favourable assessments to the farming community in comparison to true market value.

Other Assessment Considerations

- Farm owners who reside on the property do pay a residential tax component for their home plus one acre of land at the farmland rate. However, the valuation is based on a replacement cost method that produces a much lower value (\$223,125) than non-farm residences (\$424,187) as shown here on the average (County) property value and tax comparison.

Average 2019 Farm and Residential Value and Taxes

2019 farm house CVA	223,125	2019 Average Residential Property CVA	\$424,187
2019 Farmland CVA	901,900		
Average 2019 total farm CVA	\$1,125,025		
2019 farm house taxes	\$2,526		
2019 farmland taxes	\$2,553		
2019 total farm taxes	\$5,079	2019 Average residential taxes	\$4,803

- As seen above, while the average farm value is assessed at over 2.6x the value of the average residential property, overall taxes are comparable.
- According to MPAC's 2019 Market Change Profile report, of the 6,465 properties classified as farms, 1,892 are owned and/or occupied by non-farmers. Although the property owners are not engaged in farm activity or business, their properties are valued as if they are. These non-farmers benefit from lower residential structure values and lower land values, which translate to lower taxes simply by nature of leasing their land to a bona fide local farmer. This treatment can be perceived as rather unfair to typical residential property owners in Wellington County.
- Many owners of farmland also enjoy other property tax discounts if they are eligible to enter into either the Managed Forest Tax Incentive Programme (0.25 ratio) or the Conservation Land Programme which is fully exempt from property taxes.
- In order to receive the farm class tax discount, the owner must have a Farm License and be in the business of farming. Municipal taxes paid are then able to be written off as a business expense on annual income tax returns. Whereas residential property owners are not able to do so.

Impacts of Assessment Increases on the Farming Community

Being predominantly a rural community with strong roots planted in farm trades, Wellington County farmers observed significant increases in their farmland valuation. It is acknowledged that farmland values have increased significantly in the County of Wellington. In the 2012 base year valuation, farmland made up 19.8% of the County's assessment base and 5.4% of the taxable assessment base. For the 2016 base year valuation, farmland now makes up 25.1% of the Wellington County assessment base and 7.2% of the taxable assessment base.

Recently, groups such as the Christian Farmers Federation of Ontario (see correspondence received on this agenda) and the Ontario Federation of Agriculture began approaching local Councils to lower the farmland ratio below 0.25 in order to help offset property tax increases. Their efforts have been successful in some municipalities. Schedule B lists the municipalities that have implemented farmland ratio reductions in Ontario as reported to BMA Consultants in the 2019 Municipal Study Report.

When reviewing the list of municipalities on Schedule B, the majority of those municipalities have very little farmland valuation. Many of the urban municipalities that have granted farm ratio reductions have a much higher commercial and industrial base and farmland makes up a much lower percentage of their assessment base than Wellington County.

Many of the other Counties and rural municipalities that have granted ratio reductions (Brant, Chatham-Kent, Dufferin, Grey, Lambton and Oxford) are located further away from the GTA. These municipalities generally have lower residential assessment values and are not competing with GTA municipalities for business to the same extent as Wellington County.

Property Taxes as a Percentage of Income

- OMAFRA reported that in 2018, Wellington County farmers generated \$804,000,000 of revenue at the farm gate. The table below shows farm property taxes as a percentage of farm income to be 1.49%. Average household income in Wellington County for the same period was \$118,474. Average property tax as a percentage of residential income was significantly higher at 4.02%.

Average Farm and Residential Assessment and Taxation	2018
County average residential value	409,368
Total average property taxes *	4,764
Average income	118,474
Portion of residential income devoted to property taxes	4.02%
 Total farm taxes paid in Wellington County *	 11,971,488
County farmers income **	804,000,000
Portion of farm income devoted to property taxes	1.49%

* total taxes include County, local and Education

Closing Comments

Farmland values have been increasing significantly in the County of Wellington, much like other areas of the province. However, there does not appear to be an imbalance in the level of property tax burden shared by the local farming community in comparison to the average residential taxpayer in Wellington County. Under current legislation, farmland benefits from favourable property tax and assessment treatment.

The County's current assessment base cannot bear a further shift from farmland taxes onto other property types and maintain its economic competitiveness. Wellington County does not have a comparable commercial and industrial assessment base to neighbouring urban municipalities that would support such a shift without significantly burdening our residential and business class owners. Provincial grants such as the Ontario Municipal Partnership Fund, which were originally setup to compensate rural municipalities for the loss in farm taxes has been declining, leaving Wellington County taxpayers to support the industry without adequate province-wide cost sharing.

Wellington County is supportive of its local farming community. We recognize the importance of the agricultural industry on the County and in the Province of Ontario. Wellington supports the farming communities' interests in remaining economically competitive. The County is supportive of returning

the responsibility of funding the farm property class tax rebate programme back to the Province where it could be shared province-wide. Residents in urban municipalities, while retaining the benefits of cheap food and agricultural products, are not contributing financially to the economic competitiveness of the industry.

Recommendation:

That the Farm Property Class Tax Rate Programme report be received for information; and

That Wellington County support agricultural industry efforts in lobbying the Province to provide adequate funding to rural municipalities; and

That County Council pass a resolution in support of returning the responsibility of administering the Farm Property Class Tax Rate Programme back to the Province.

Respectfully submitted,

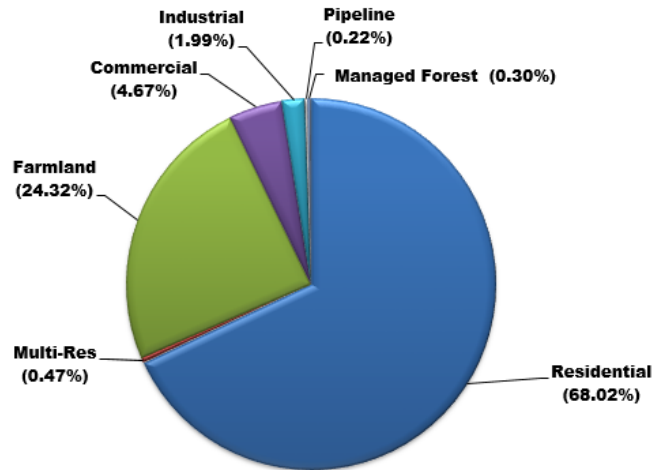
A handwritten signature in black ink, appearing to read 'Ken DeHart', with a stylized flourish extending to the right.

Ken DeHart, CPA, CGA
County Treasurer

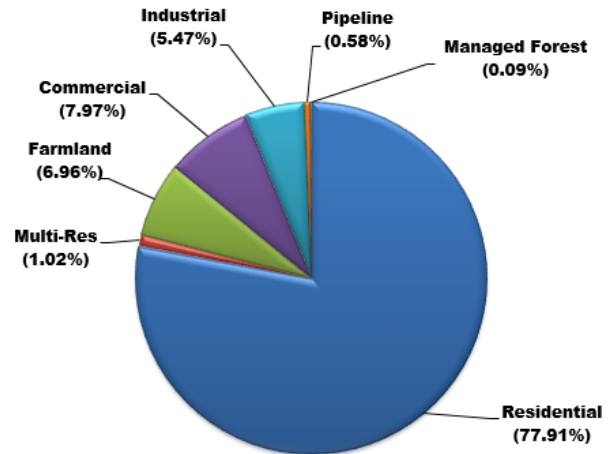
SCHEDULE A

Farm Property Class Tax Rate Programme

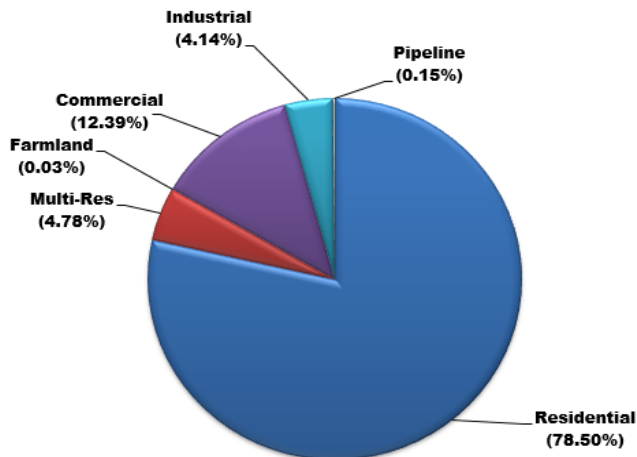
Unweighted Assessment by Property Tax Class 2019
(Share of Property Value - Wellington - Rural)



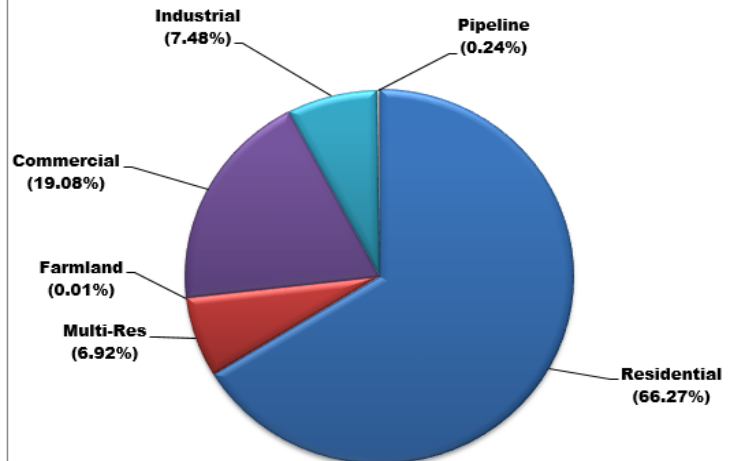
Weighted Assessment by Property Tax Class 2019
(Share of Property Taxes - Wellington - Rural)



Unweighted Assessment by Property Tax Class 2019
(Share of Property Value - Urban)



Weighted Assessment by Property Tax Class 2019
(Share of Property Taxes - Urban)



SCHEDULE B

Farm Property Class Tax Rate Programme

Municipalities with Farmland Ratio Reductions Implemented - 2019

Municipality *	Ratio	Farmland CVA **
Brant County	0.2400	1,319,886,818
Caledon	0.1708	998,099,123
Chatham-Kent	0.2200	5,281,633,220
Dufferin County	0.2300	1,174,945,084
Durham Region	0.2000	2,416,491,305
Greater Sudbury	0.2000	30,618,833
Grey County	0.2400	2,659,127,624
Halton Region	0.2000	971,078,709
Hamilton	0.1767	1,390,781,027
Kingston	0.2125	81,575,403
Lambton County	0.2260	4,794,630,528
London	0.1028	425,488,846
North Bay	0.1500	605,465
Ottawa	0.2000	1,561,813,865
Oxford County	0.2350	5,665,102,027
Prince Edward County	0.2319	401,646,726
Sarnia	0.2260	181,579,114
Average Ratio & CVA	0.2036	1,726,770,807
Wellington County	0.2500	4,464,961,956

* 2019 BMA Study Report - participating municipalities

** from MPAC Provincial Market Change Profile Report