10
MPAC REASSESSMENT OF EQUESTRIAN PROPERTIES

The Finance and Administration Committee recommends that:

1. **the presentation from Ed Hankins, Director, Policy, Risk and Treasury, be received;**
2. **the recommendation contained in the following report, February 28, 2005, from the Commissioner of Finance be adopted; and**
3. **the Commissioner of Finance report on the outcome of the assessment criteria review being conducted by the Municipal Property Assessment Corporation and the Minister of Finance, and make recommendations on an appropriate Regional response.**

1. RECOMMENDATIONS

It is recommended that this report be received for information.

2. PURPOSE

On February 17, 2005, Council received communication from the Ontario Equestrian Federation (OEF) regarding the reassessment of horse farms to the commercial property class, conducted by the Municipal Property Assessment Corporation (MPAC) in 2003 and 2004. The purpose of this report is to provide an overview of MPAC's reassessment process and to review the tax changes on the equestrian properties affected within York Region.

3. BACKGROUND

In 2003, MPAC initiated a review of equestrian properties, in an effort to address existing inconsistencies in the classification of horse riding establishments across Ontario. The inconsistent valuations resulted in some horse farm properties being assessed as farm, some as residential, and others as commercial on land and buildings employed in similar equine operations, causing substantial inequities in the taxation of equine properties. Subsequent to the inspections, MPAC has enforced a uniform method of assessment of equine properties and has reclassified any portions of properties used directly in horse riding operations (as defined under section 3.1) as commercial for the purpose of property assessment and taxation.

3.1. Legislative Provisions for the Assessment of Equestrian Properties

Traditionally, equine properties used in horse farm operations were assessed as farms and taxed at the residential property tax rate or at the farm tax rate for those properties that qualify for farm treatment under sections 8 and 8.1 of the *Assessment Act* (the Act). However, horse riding establishments that carry out operations that are commercial in nature and advertise as offering services perceived as commercial, such as riding lessons or boarding of horses, are assessed as commercial properties. MPAC began to strictly enforce this approach in 2003 and 2004.

As stated in MPAC's official letter of December 17, 2004 to equestrian associations, the definition of activities identified as commercial applies to all properties, or parts thereof, used directly in "providing riding lessons, training and boarding, and selling of horses, and that advertise as and operate as a business". Since these equine operations are commercial in nature and are not specified within the meaning of Ontario Regulation 282/98 of the Act, they fall into the default definition of the commercial class as "land and vacant land that is not included in any other property class", and are assessed on their current value in accordance with section 19(1) of the Act. The equestrian property owners and associations have objected to the classification of these equine operations as commercial properties.

3.1.2 Assessment Changes following MPAC's Review of Equestrian Properties

As advised by MPAC, in 2003 and 2004 close to 500 inspections of horse riding establishments across Ontario have been completed. In the process, between 120 and 130 new commercial portions of equestrian properties were identified as commercial, which will be reassessed retroactively to the time when the buildings were put in place, up to two years. Also, MPAC has increased the assessment values on an additional 50 previously assessed commercial portions of equestrian properties following the inspections. In York Region, specifically, there are appropriately 1,400 equine properties in total, seven of which have been reassessed by MPAC as part of their 2003/2004 inspections. Out of the seven affected properties across the region, two properties saw increases on their existing commercial assessments and five properties have become partially reclassified to the commercial class.

3.2 Current Status

The reclassification of horse riding establishments has resulted in an upsurge of stakeholder objections and assertive lobby efforts from the Ontario Equestrian Federation and the Association of Riding Establishments who launched a letter-writing campaign asking MPAC and the Province to reconsider how equestrian properties are assessed. On January 6, 2005, equestrian associations met with Ministry of Finance staff and discussed the conflicting opinions on the appropriate separation of agricultural and commercial activities within equestrian properties.

As a result, on February 3, the Minister of Finance directed MPAC to put on hold any further reclassifications of equestrian properties until a review of the applied definitions is conducted. The review is to be held in consultation with representatives from equestrian associations and Ministry of Finance, and will aim to develop appropriate and accurate criteria for determining the types of equestrian operations that determine farm, residential or commercial classification of properties. A joint committee has been formed – the ARE MPAC Committee – to assist MPAC in its review. The Minister of Finance has stated that he expects a report on the issue in March.

In addition, on February 25, King Township held a Question and Answer session allowing for further communication between the President of MPAC, Carl Isenburg, the Chair of the OEF, Leslie Brooks, and the region's equine property owners. The session was very effective in clarifying and highlighting some of the complex issues and concerns addressed by the industry's representatives. It was collectively agreed that there is an urgent need to receive clear legislative guidelines from the Province on the accurate definitions of commercial and agricultural activities that are to be applied in the assessment of equine operations in order to allow for consistent and transparent valuation of all equestrian properties in Ontario. It was proposed by the equine property owners that a viable compromise be developed that would be mutually acceptable to the provincial government, the equine industry, and MPAC.

3.3 Economic Significance of the Equestrian Industry in York Region

A study was conducted on the role of the equestrian industry in the Region and was presented in a report to the Economic Development Committee in 2000 as part of the York Region Horse Country Initiative. The results of the study indicated that the horse industry is a significant contributor to the economy of the Region. Based on 1998 data used in the study, the Region is home to the largest number of horses in Ontario, at almost 36% of the GTA's total horse population, and 1,400 properties with equine operations. The industry brings into the Region about $400 million in capital investment, approximately $40 million in revenues to local farms and stables, and about $37 million in direct expenditures to the local economy. The industry has also a great impact on the regional tourism, as 32% of the 300,000 riders who are non-owners come from outside the Region. In addition, the industry makes a significant contribution to the labour market by providing 6,500 full-time jobs within the Region per year, which amounts to over one-third of the industry's total labour force within the GTA. Consequently, according to the industry's projections of continued growth based on the expectations of breeders to expand the horse population of the Region, it can be assumed that the economic contributions of the industry continued in 2004 at similar levels to the 2000 Report, or were even greater.

4. ANALYSIS AND OPTIONS

There have been seven equestrian establishments affected in York Region by the assessment changes due to MPAC's recent inspections of equestrian properties, resulting in significant tax changes for those properties. These equine establishments are located across four municipalities within the Region - Town of Aurora, Town of East Gwillimbury, King Township, and Town of Whitchurch Stouffville, of which King Township is home to four of the affected properties.

4.1 Tax Changes due to Equestrian Property Reassessments

As mentioned above, seven properties within the Region were affected by either reclassification to the commercial class or assessment increases on their existing commercial portions. Table 1, illustrates the changes in assessment and taxes on those properties. It should be noted however, that all tax changes resulting from the reassessments of equine properties to the commercial class are subject to the capping and clawback provisions prescribed under provincial legislation. As such the taxation on the newly assessed commercial portions of properties is based on the average tax level of six comparable properties. Any tax increases on existing commercial portions are limited to a maximum of 5% of previous year's taxes, for all properties moving into capping prior to 2005, and for all properties assessed as commercial for the 2005 taxation year, the tax increases will be limited based on the new capping parameters adopted by the Region for 2005.

Table 1

Tax Impacts Due to Property Reassessments Based on 2001 (Pre-Inspection) and Adjusted 2003 (Post-Inspection) Assessments and 2004 Tax Rates

Property	Municipality	Classification of Property Portions	Assessment		Assessment Change (%)	Taxes (based on 2004 tax rates)		Tax Change ($)	Tax Change (%)
			Pre-Inspection ($ 000s)	Post-Inspection ($ 000s)		Pre-Inspection ($)	Post-Inspection ($)		
A	Aurora	Farm	4,618	5,433	18%	1,287	1,514	227	18%
		Residential	5,822	5,093	-13%	6,489	5,677	-813	-13%
		Commercial	0	1,914	*New*	0	5,113	5,113	*New*
		Total A	**10,440**	**12,440**	**19%**	**7,776**	**12,303**	**4,527**	**58%**
B	East Gwillimbury	Farm	0	9,620	*New*	0	2,745	2,745	*New*
		Residential	20,030	0	-100%	22,859	0	-22,859	-100%
		Commercial	0	11,400	*New*	0	30,818	30,818	*New*
		Total B	**20,030**	**21,020**	**5%**	**22,859**	**33,563**	**10,704**	**47%**
C	King	Farm	0	5,567	*New*	0	1,521	1,521	*New*
		Residential	6,660	4,108	-38%	7,280	4,491	-2,790	-38%
		Commercial	0	1,865	*New*	0	4,934	4,934	*New*
		Total C	**6,660**	**11,540**	**73%**	**7,280**	**10,946**	**3,665**	**50%**
D	King	Farm	8,681	3,019	-65%	2,372	825	-1,547	-65%
		Residential	7,049	13,360	90%	7,706	14,604	6,899	90%
		Commercial	0	930	*New*	0	2,460	2,460	*New*
		Total D	**15,730**	**17,309**	**10%**	**10,078**	**17,890**	**7,812**	**78%**
E	King	Farm	4,002	4,560	14%	1,094	1,246	152	14%
		Commercial	598	1,650	176%	1,582	4,365	2,783	176%
		Total E	**4,600**	**6,210**	**35%**	**2,676**	**5,611**	**2,935**	**110%**
F	King	Farm	10,548	12,330	17%	2,883	3,370	487	17%
		Residential	2,462	2,860	16%	2,691	3,126	435	16%
		Commercial	2,920	2,880	-1%	7,724	7,618	-106	-1%
		Total F	**15,930**	**18,070**	**13%**	**13,298**	**14,115**	**816**	**6%**
G	Whitchurch-Stouffville	Farm	0	2,110	*New*	0	558	558	*New*
		Residential	2,990	2,095	-30%	3,160	2,214	-946	-30%
		Commercial	0	1,275	*New*	0	3,317	3,317	*New*
		Total G	**2,990**	**5,480**	**83%**	**3,160**	**6,089**	**2,929**	**93%**
		Grand Total	**76,380**	**92,069**	**21%**	**67,127**	**100,516**	**33,388**	**50%**

The tax impacts were modelled based on 2004 tax rates and compare the taxes on reassessed properties based on assessment values prior to MPAC's inspections (i.e. 2001 CVA) and those values resulting from revaluations following the 2003/2004 inspections (i.e. 2003 CVA adjusted for changes on the 2004 and 2005 assessment rolls). The assessment increases observed range from 5 to 83 per cent. The affected properties face various degrees of tax changes, ranging between 6 to 110 per cent in total municipal and education tax increases as a result of their reassessments, amounting to total tax increases between $816 and $10,704. The impacts on some affected properties are magnified by the fact that MPAC makes reassessments of all newly assessed buildings retroactive to the time when the buildings were put in place, not exceeding two years.

4.2 Relationship to Vision 2026

Equestrian associations across York Region and Ontario emphasize the importance of the horse industry to the rural identity of the Region and the Province, and point to the commitment to supporting rural communities made by the provincial government in the 2004 “Ontario Rural Plan”. A similar commitment has been made by York Region in Goal 2 of Vision 2026, where an aim has been stated to sustain the Region’s agricultural base by recognizing the role of the agricultural industry and landscape in our heritage and economy.

5. FINANCIAL IMPLICATIONS

The reassessment of equestrian properties to the commercial class increases the total property tax revenues collected on the affected properties. The changes in assessments, on the seven properties within the region affected by reassessments to date, increase the total property tax revenues levied for regional purposes by just over $4,000. The tax increases on these properties will however be limited through the capping provisions in place for the protection of business properties. The impact on regional tax revenues may be further magnified depending on any future decisions the Minister of Finance will make regarding the continuation of reassessments on equestrian properties. It can be anticipated that a continuance of MPAC’s reassessments will cause additional properties from the regional total of 1,400 to qualify for commercial assessment and will further increase the total property tax revenue collected on equestrian properties by the Region, as subject to capping.

6. LOCAL MUNICIPAL IMPACT

The seven properties affected by the reclassification within the Region are located across four municipalities – Town of Aurora, Town of East Gwillimbury, King Township, and Town of Whitchurch-Stouffville. Equestrian lobby groups argue that the magnitude of the tax increases experienced by properties affected by the reassessments undermine the economic viability of the equine industry within York Region, and may force some facilities to limit or close down their operations. The potential closures of affected horse operations would have the effect of reducing the benefits to the local economies.

7. CONCLUSION

The reassessment of commercial portions of equine operations has, in some areas, substantially increased the property taxes payable by the owners. The associations representing the equine industry have successfully petitioned the Minister of Finance to direct MPAC to suspend any further reassessments until such time as a review of the assessment criteria is completed with input from the equestrian industry stakeholders. While only seven properties within York Region have initially been affected, the magnitude of the policy change, if continued, could affect as many as 1,400 properties.

The Senior Management Group has reviewed this report.