

## **Farm and Forest Rebates An Unfair Burden to Municipal Taxpayers**

### **Issue**

The Farmland Tax Program and the Managed Forest Tax Incentive Program were previously funded by the provincial government but are now mainly funded through the property taxes of the municipalities where these properties are located. Changing these programs from provincially-funded tax rebates to municipality-funded property tax discounts has resulted in municipal tax dollars subsidizing provincial programs. This is patently unfair to the taxpayers of rural municipalities, where the bulk of these properties are located.

### **Background**

Prior to 1998, municipalities taxed farm properties at the residential tax rate and, under the Farm Tax Rebate program, the Province rebated farmers directly for 75% of their property taxes. Since 1998, qualifying farm properties are taxed at 25% of the local residential tax rate. The Province's purpose for these rebates is to "help to ensure a viable agricultural industry across Ontario by preserving and maintaining land in active agricultural production." Although municipalities primarily finance both rebate programs, the eligibility criteria and approval of properties are directly under the Province's control.

Ontario farming activities have a major impact on our everyday lives with urban as well as rural residents wanting to maintain low-cost foods and protect forests. There are about 221,000 farmland and managed forest properties in Ontario with a current value assessment of over \$40 billion.

The current funding model results in the properties who are supposed to be benefiting from the rebate programs actually paying for their own assistance – defeating the Province's own purpose for the rebate programs.

This download cost municipalities over \$257 million in 2008 with the Ontario government reimbursing only \$50 million, resulting in a net loss to property taxpayers of \$207 million in one year alone. Approximately 335 of Ontario's 444 municipalities have farmland and managed forest properties while only 72 municipalities receive partial reimbursement from the Ontario government.

This financial impact on municipalities is increasing: from 2007 to 2010 this provincial funding has fallen by 6% while the farmland and managed forest phased-in assessments have increased by 3.5%. This lost tax revenue has increased property tax rates, with many municipalities as much as 20% higher than they would be with fair funding.

During 2011, the Eastern Ontario Warden's Inc. (EOWC) undertook several initiatives with regard to this issue and the financial sustainability of Eastern Ontario municipalities in general. In the summer of 2011, a meeting was held with representatives of the Ontario Federation of Agriculture (OFA), the result of which was a letter supporting the maintenance of the farm tax rebates and the position of the EOWC that rural taxpayers should not be subsidizing a provincially-mandated program.

Also in 2011, the EOWC commissioned a report on the matter, entitled "Farm Tax and Managed Forest Rebates – Municipal Shortfall Report" by Allan Chartered Accountants of Perth, which demonstrated the impact to rural taxpayers of the two programs. The view of the EOWC has been, and continues to be, that the Ontario Municipal Partnership Fund (OMPF) does not adequately capture the revenue lost as a result of these rebate programs.

Finally, the EOWC engaged Commonwealth Resources to complete a sweeping review of the financial sustainability of Eastern Ontario municipalities - the final report, entitled "Eastern Ontario Financial Sustainability Update Project" was released last week. Although the Farm Tax and Managed Forest Rebate programs are not the focus of the report, it is clear that the ability of Eastern Ontario municipalities to continue to fund basic infrastructure and services is in serious jeopardy. Clearly, given the enormous negative impact of the Farm Tax and Managed Forest Rebate program on rural municipalities, full provincial reimbursement of lost property tax revenue on farmland and managed forest properties would provide municipalities with an enhanced ability to fund necessary infrastructure and services.

The Province has committed to maintaining the on-going upload of some social service and court security costs. The Farm Tax and Managed Forest Rebate programs are no different and should be recognized for what they are – income-redistributive programs with province-wide significance that should not be financed from local property taxes. These are valuable programs and help to ensure the viability of Ontario's agricultural economy and preserve forests for future generations however the current funding model is punitive and is one of the factors contributing to the serious decline in the ability of municipalities to provide basic services.

### **Action Requested**

The Eastern Ontario Wardens' Caucus respectfully requests that the Provincial government calculate the Farmland and Managed Forest component of the OMPF so that all municipalities receive full provincial reimbursement of their lost property tax revenue on farmland and managed forest properties, while eligible landowners continue to enjoy the streamlined process and the 25% ratio currently in place.