COUNTY OF WELLINGTON

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January 24, 2020

Ms. Julia Douglas
Clerk
Standing Committee on Finance and Economic Affairs
Queen's Park, Whitney Block, Room B-304
Toronto, Ontario M7A 1A2
comm-financeaffairs@ola.org

RE: 2020 Pre-Budget Consultations

Dear Ms. Douglas:

The Corporation of the County of Wellington (Wellington County) is pleased to have the opportunity to provide input and recommendations for Ontario's 2020 Budget.

As background, Wellington County is located in southwestern Ontario, part of the Greater Golden Horseshoe, and is comprised of seven municipalities, including the Town of Erin, Town of Minto, Township of Wellington North, Township of Mapleton, Township of Centre Wellington, Township of Guelph/Eramosa and the Township of Puslinch. Among many notable attributes and industries, Wellington County is one of the top aggregate producing counties in Ontario.

Wellington County's recommendations are focused on a particular issue with respect to the aggregate industry: the assessment of these properties for property tax purposes. As will be explained in further detail below, the current formulation for assessing these properties is fundamentally unsound. As a result, Wellington County recommends:

1) The Ministry of Finance convene MPAC, the aggregate industry and relevant municipalities to engage in a process to derive a policy-driven solution to this long-standing issue.
2) In the alternative, the issue of valuation of aggregate sites should be an explicit and separate issue of focus in the upcoming MPAC review.

Assessment of Aggregate Properties Is a Long-Standing and Ongoing Issue for Ontario Municipalities

Aggregate sites are found in approximately 70% of all Ontario municipalities, in all parts of the province. And there have effectively been disagreements on this file since the current MPAC system was put in place in the 1990s. In the more than 20 years since, there have been thousands of assessment appeals, with mass province-wide aggregate assessment appeals from 2009 to 2016.

A settlement was reached on the legacy appeals from these years. For the 2017 taxation year and forward, a new assessment methodology was derived between MPAC the Ontario Stone, Sand & Gravel Association (OSSGA), with almost no input from the municipalities affected. As a result, this issue has re-emerged and there are hundreds of assessment appeals for 2017-2019 assessments. Wellington County alone has over 50 such appeals active at present. Millions of municipal tax dollars have been and are being devoted to the regular litigation of this issue.

Wellington County believes a permanent, policy-driven resolution can be found. We believe serious consideration that convenes all of the relevant parties can derive a legitimate and even-handed solution for taxpayers, municipalities and aggregate producers. In the absence of such a process, millions more municipal tax dollars will be burned litigating this issue. In particular, valuations for the 2020 assessment cycle will be issued by MPAC later this year, so there is a small window to resolve this issue before the next cycle of assessment appeals occur.

<u>The Current Assessment Methodology For Aggregate Sites is Contrary to the *Assessment Act*, As Well As The *Municipal Act* And Basic Property Assessment Approaches</u>

Following what is set out in the *Assessment Act*, properties in Ontario are assessed by MPAC based on standard appraisal theory to determine the current value of the property. The three standard approaches: a sales comparison approach, a cost approach or an income approach. In some specific classes of properties, there are specific legislative provisions establishing how they are to be assessed. In the absence of such legislative provisions, though, all properties are to be valued based on the current value of the property, using one of the three above approaches.

Aggregate producing properties are not an identified class of properties with a specific legislative provision establishing how they are to be assessed. So, these properties should be assessed according to the same approach as all other such properties. However, valuations of aggregate producing properties are done according to an MPAC policy (the methodology agreed to between MPAC and the aggregate industry, discussed above), with no apparent application of any standard valuation approach.

Based on this MPAC policy, aggregate producing properties in Wellington County, regardless of site quality, location or any other factor, are assessed at $9,200/acre. This valuation breaks down as:

- $5,000/acre as the value of permitting and site preparation; and
- $4,200/acre for the land (classified as class 5 agricultural land regardless of location)

Aggregate producing properties are thus assessed at the lowest valuation of any business property anywhere in the County.

Given the current use of these lands (mineral extraction), an income approach to establish market value would normally be the standard approach. Under the *Assessment Act*, the value of the “mineral” (aggregate) cannot be included. On this basis, MPAC has determined the income approach cannot be used and instead purports to rely on the cost approach to valuing these properties. Expert analysis, though, shows the MPAC policy violates the legislative requirements of this approach. For example:

- MPAC methodology ignores O.Reg. 282/98 under the *Assessment Act* by misclassifying what should be within the industrial property class within these properties (areas of mining activity and non-activity)
- MPAC methodology arbitrarily assigns a minimal land value to these properties, rather than valuing each property according to the normal factors that create value (location, access, site preparation, etc.)

- Expert analysis finds MPAC methodology "leads to a valuation that has no basis in the property being valued"
- MPAC methodology does not follow any market-based indicators and severely underestimates the value of these licensed properties

Expert analysis by independent international experts finds MPAC policy for aggregate producing properties does not represent the current value of these properties, does not comply with the legislated "current value" standard and "deviates significantly from basic rubrics for performing the cost approach to valuation."
At the same time, the methodology from the MPAC policy appears to put municipalities in a position where they are forced to commit the equivalent of a violation of s. 106 of the *Municipal Act*.

<u>The Current Assessment Methodology For Aggregate Sites Creates Inequities</u>

Based on an analysis of MPAC's approach by independent international experts, the current assessed values of aggregate producing properties are *inequitable* when compared to other property types including: residential, farm, commercial and industrial. For example, other industrial properties (which would appear to be the closest equivalent property type) valued according to normal MPAC legislative policies and procedures are assessed anywhere from $50,000/acre to $300,000/acre for the land value alone (compared to $4,200/acre under the MPAC policy for aggregate sites). This valuation does not account for site preparation and licensing costs or any other improvements to the properties.

To put this inequity in sharper contrast, there are two nearly identical adjacent properties in Wellington County. One property is an industrial property containing a large manufacturing facility. The other property is an aggregate site. Despite these properties being nearly identical in location, size and other relevant factors, the industrial property is valued at 10x the value of the comparable adjacent aggregate producing property.

Expert analysis by independent international experts values the average aggregate producing property in Wellington County at $69,000/acre (or about 7.5x the valuation derived by MPAC policy).

<u>The Current Assessment Regime Penalizes Taxpayers</u>

Since property taxation is zero-sum, this undervaluation of aggregate producing properties impacts all other taxpayers in Wellington County. For this reason, many single family-detached houses in Wellington County (of approx. 1.5 acres) pay more in property taxes than 100-acre aggregate sites. In effect, residents are subsidizing these industrial properties because of a flaw in provincial legislation and the MPAC assessment methodology. Average residential property taxes in southern parts of Wellington County (where the majority of aggregate sites in the County are found) are about 28% higher than those in neighbouring municipalities.

Because of the current assessment regime, all taxpayers in Wellington are subsidizing the aggregate industry. The property tax system is not intended to subsidize or incentivize any one industry; to do so would return us to the early 1990's, an era that saw a number of Ontario municipalities face significant financial pressures.

Conclusion

Based on everything discussed above, the County of Wellington recommends:

1) The Ministry of Finance convene MPAC, the aggregate industry and relevant municipalities to engage in a process to derive a policy-driven solution to this long-standing issue.
2) In the alternative, the issue of valuation of aggregate sites should be an explicit and separate issue of focus in the upcoming MPAC review.

Wellington County believes there are many possible legislative, regulatory or policy changes that are possible to achieve a permanent solution to this issue. We are eager to work toward a permanent, policy-driven solution that is agreeable to and fair for all relevant parties – municipalities, residents and aggregate producers.

Sincerely,

Kelly Linton
Warden